AUDIT COMMITTEE
SUPPLEMENTARY AGENDA

14 May 2024

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

5 EXTERNAL AUDIT REPORT (Pages 3 - 284)

Report to follow if avaialbale.

7 HEAD OF ASSURANCE ANNUAL REPORT 2023/24 (Pages 285 - 310)

Report attached.

Zena Smith
Head of Committee & Election Services

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Havering
LONDON BOROUGH

AUDIT COMMITTEE 14th May 2024

Subject Heading:	Annual Statement of Accounts 2020/21 & External Audit Reports To Those Charged With Governance
SLT Lead:	Kathy Freeman, Strategic Director of Resources
Report Author and contact details:	Heather Salmon, Head of Finance Telephone: 01708 432151 E-mail: heather.salmon@havering.gov.uk
Policy context:	Audit Committee responsible for approving accounts
Financial summary:	There are no financial implications arising directly from this report.

The subject matter of this report deals with the following Council Objectives

People - Things that matter for residents
Place - A great place to live, work and enjoy
Resources - A well run Council that delivers for People and Place - X

SUMMARY

The Council's audited Statement of Accounts is required to be published following the conclusion of the external audit. The draft accounts were published on the Council website on 27 July 2021. This report presents the audited 2020/21 Statement of Accounts, the 2020/21 External Audit Results Reports for Havering Council and Havering Pension Fund, and the 2020/21 Annual Governance Statement.

The External Audit Results Reports includes recommendations to those charged with governance.

RECOMMENDATIONS

The Committee is asked to:

1. Consider the contents of this report and the Statement of Accounts (Appendix A), alongside the External Audit Results Reports (Appendix B) and any verbal updates by the External Auditor under the agenda item, following their examination of the Council's accounts.
2. **Approve** the audited Statement of Accounts for the financial year ended 31st March 2021, and to delegate authority to the Section 151 Officer in consultation with the Chair of the Audit Committee to approve any further audit adjustments that might arise before release of the audit opinions.
3. **Approve** the draft Letters of Management Representation (included in the ARR) for Havering Council and Havering Pension Fund, and to delegate authority to the Section 151 Officer and Chair of the Audit Committee to sign on behalf of the organisation once the audit opinions are provided by the auditor.
4. **Approve** the audited 2020/21 Annual Governance Statement (Appendix C), signed by the former Leader and the Chief Executive confirming the governance arrangements that were in place during 2020/21.

REPORT DETAIL

1. Introduction

The Council is required to prepare annual financial accounts covering the period from 1 April to 31 March. These accounts are required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Accounts and Audit Regulations 2015 require that the authority prepare and publish its approved draft and audited accounts by 31 May and 31 July respectively however, due to disruption caused by the COVID 19 pandemic, legislation was passed in 2021 to delay the statutory publication date until 31 July 2021 and the audit opinion until the 30 September 2021.

Despite the council publishing the draft accounts before the deadline of 31 July 2021 the statutory deadline of 30 September 2021 for publishing audited accounts was not met. This was, in part, due to the sector wide audit issues and delays. Audits were affected by a variety of pressures including the impact of COVID-19, additional audit requirements in the revised NAO Code of Audit Practice 2020, retention of experienced staff and increased regulatory focus, especially in relation to infrastructure assets. Only 9% of audit opinions for 2020/21 accounts were issued by the revised target date of 30 September 2021.

2. Statement of Accounts 2020/21 and Audit Results Reports

The Council published its draft accounts on its website on 27 July 2021. These were approved for issue by the then Chief Operating and Section 151 Officer and presented to the Audit Committee on 28 October 2021.

Between Monday 2 August 2021 and Monday 13 September 2021 the Statement of Accounts and supporting documentation were made available for public inspection. The relevant statutory public notice was published on the Council's website.

The audited Statement of Accounts for the year ended 31 March 2021 are appended to this report at Appendix A. The Auditor's draft Audit Results Reports for 2020/21, for both the council and the pension fund, are shown in Appendix B. The Auditor will attend the Audit Committee meeting to present their findings and also update the Committee on its assessment of going concern and value for money.

Whilst the audit is not 100% complete, at the time of writing it is substantially complete subject to quality assurance work and review. It is anticipated that the final audit opinions will be issued soon after the Audit Committee meeting on 14 May 2024. The final opinion cannot be issued until Ernst and Young (EY) have completed their assessment of the Council's updated going concern response. Due to the current financial situation and recent request to the Department for Levelling Up, Housing and Communities for a Capitalisation Direction, EY will now have to undertake additional testing to provide assurance of the Council's going concern position. Delegated authority is sought to allow the Section 151 Officer in consultation with the Chair of the Audit Committee to approve any further audit adjustments required prior to issuing the opinion.

The Statement of Accounts (including the Pension Fund) is expected to receive an unqualified final audit opinion from the Council's auditors, Ernst and Young LLP.

The audited 2020/21 Statement of Accounts and Annual Governance Statement will be published at the earliest opportunity following the issue of the audit opinions.

It is a requirement of the International Auditing Standards for the Auditors to request a letter from the Council that sets out management representations for the main accounts and the Pension Fund. The Audit Results Report includes drafts of these letters that will be signed on behalf of the organisation by the Council's Section 151 Officer and Chair of the Audit Committee.

3. Annual Governance Statement 2020/21

The Annual Governance Statement 2020/21 is attached at appendix C. It was approved by the Leader and Chief Executive of the Council on 30 July 2021. Under the Accounts and Audit Regulations 2015 publication of the annual governance statement follows the same timetable as the financial statements.

In February 2024, recognising that many authorities have at least one set of unaudited financial statements for prior years, as a result of delays completing local audits, CIPFA issued guidance to affected local authorities in England on the publication of the annual governance statement.

The Annual Governance Statement 2020/21 has been audited and the committee are asked to approve it in accordance with the regulations.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from this report.

Legal implications and risks:

There are no legal implications arising from this report other than those referenced within the body of the report.

Human Resources implications and risks:

There are no direct Human Resources implications in this report.

Equalities implications and risks:

There are no direct equalities implications in this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:
(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.
Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.
The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Climate Change implications and risks:

None arising directly from this report.

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Appendix A

Statement of Accounts 2020/21

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Dear residents,

It is quite clear that we have had one of the most challenging years we have ever seen. Who was to know that we would experience the challenges of the Covid Pandemic? This means the focus of the Council has been on helping the residents of our Borough cope with extremely difficult circumstances. This included the rising rate of infections, lockdowns, impact to jobs and wages, isolation, increased care needs and much much more.

I would say however, that the Council, and its staff, have gone above and beyond to respond to these difficult circumstances, and despite all this have continued to deliver vital front line services.

In previous budgets it was agreed to increase our investment in our roads and pavements. This will continue with an additional £10million of capital expenditure to make sure the road and pavement improvement programme continues over the next two years. So far 60 miles of the worst roads and pavements have been improved since 2019, and this money makes sure that more residents will benefit from these improvements.

There will be an extra £5m for new CCTV cameras across the Borough to replace the currently aging system. And funding of £300,000 will continue for six dedicated police officers to continue to respond to Havering specific issues.

It has been great to see that the new Harrow Lodge leisure centre in Hornchurch has opened and for this year the budget proposals includes the necessary funding to open a new multimillion pound leisure centre in the South of the Borough at Rainham in 2022.

The Council will still deliver weekly rubbish collections and street cleaning will be maintained at the current levels after seeing investment in the last budget.

We know the parks in the Borough are very important to our residents, especially during the pandemic offering somewhere for residents to enjoy and get some much needed respite. They will see continued investment of £2 million. Last year two new green flags were won and the Council will make sure that the Borough's parks and playing fields will remain great places for people to enjoy and exercise in.

Our communities in the Borough will also see additional support which will see four new Local Area Coordinators being recruited for the Harold Hill, Rainham and South Hornchurch areas.

The Council will continue to offer free parking on Sundays, free parking in on-street bays in Romford, Havering and Rainham, a 20% discount for all those using the online parking app and free parking to our key worker heroes.

We will look at maintaining our status as one of the most efficient in the country and we will continue with the transformation of how the Council delivers services to the Borough's communities with improved technology to offer 24/7 online access for residents. This includes continued improvement in technology so Council staff can better support residents. The Council will also look at how it uses it buildings and front line services such as libraries to make it easier for residents to access services.

So it has been a challenging year for us, but I am pleased to say that our hard work over the years has paid off, and despite the challenge of dealing with Covid 19, the Council is in a good place to keep supporting residents making sure they get the services they need.

Andrew Blake-Herbert,

Chief Executive, London Borough of Havering

2020/21: An Overview

Introduction

Jane West,
Chief Operating Officer,
London Borough of
Havering

The Council's Statement of Accounts represent the financial performance of the past year and the overall financial position of the authority but it is not the whole story. It does not explain how we got here, where we want to go and how we plan to get there. It is also important to understand how service performance has driven income and expenditure and led to the end of year financial position. This narrative report will attempt to give you some insights into what it all means through linking financial facts to other data sources and our corporate objectives that are set by councillors.

The Corporate plan for 2020/21 explained how we planned to make a difference to the lives of people who live, work and learn in Havering. The plan informed the allocation of resources through our revenue budget and capital investments and created the basis for the planning of services across the Council.

However, the Covid-19 pandemic knocked the 2020/21 Corporate Plan and Budget completely off course just a month after they had been approved by Full Council in February 2020. From 24 March 2020 and throughout 2020/21, the Council managed its services through its emergency planning arrangements referred to as Gold/Silver/Bronze and enacted a wide range of business continuity plans. The Council reacted swiftly and robustly to a series of new challenges to shield and support our most vulnerable citizens. Over 10,000 residents were supported through over 17,000 phone calls, 2,700 residents were supported through the Havering Volunteer Centre who were delivering food, pharmacy items and doing odd jobs as necessary. The Council provided more than 850 food parcels and managed the distribution of PPE across care homes, funeral directors and the Council itself.

The Council had to adapt its ways of working firstly through the lockdown period and then as the recovery period commenced. The majority of staff worked from home using the new Smart Working equipment that was rolled out over 2019 and early 2020. Councillors also adopted the Smart Working equipment as all Member meetings moved onto Zoom. The Council ramped up its communications to residents to support them through the crisis, electronically and through social media, including online public meetings. Many services from social work to business support through to music school lessons moved online.

New COVID responsibilities were transferred to local government by central government including:

- Roles in infection control across care settings
- Provision of temporary body storage facilities
- Providing testing and vaccination sites
- Running local testing facilities
- Track and trace responsibilities
- The policing of compliance with COVID rules in businesses, workplaces and other public settings
- The distribution of grants to small businesses
- Emergency payments to people on low incomes who need to self-isolate.

Funding was provided by central government for some but not all of this activity.

Demand for Council services also changed dramatically. Many face to face services had to close down for periods during the year or change how they operated e.g. children's centres, registrars, libraries, sports centres, community centres.

In the first months of the pandemic, activity had to stop on legal enforcement e.g. debt enforcement as the courts were only dealing with limited, mainly criminal cases. As shops, hospitality and leisure facilities were closed and people were told to stay at home except for essential journeys, there was little demand for parking facilities in the borough.

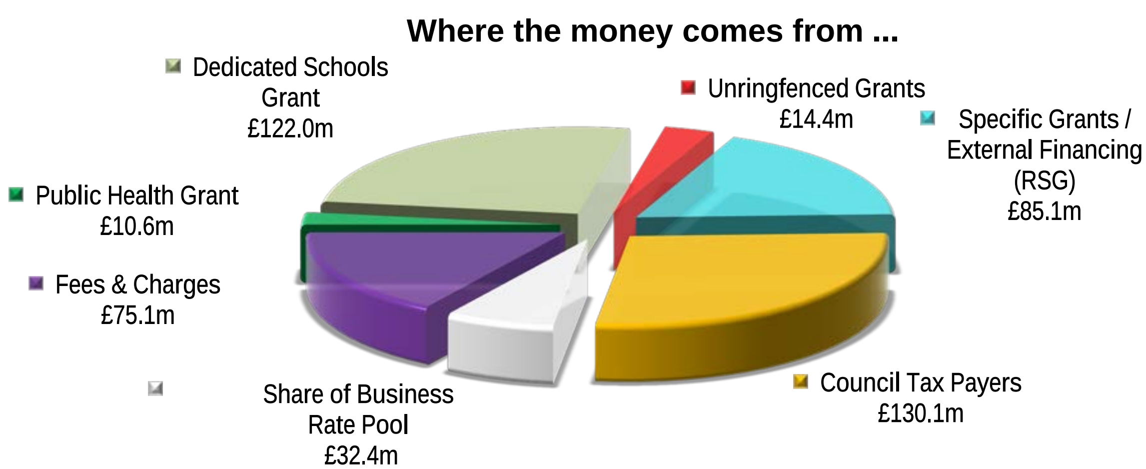
Most services restarted over the summer of 2020 but reduced capacity due to social distancing rules dampened demand while costs have increased due to the need for PPE and physical adjustments to protect staff and residents.

The second four week lockdown in November 2020 again closed down or radically changed services and hit economic activity across the borough. Activities apart from hospitality reopened on 2 December only to be shut down again on 20 December as London and much of the South East was moved into new restrictions that resembled the November lockdown e.g. the closure of non-essential shops, all hospitality, indoor entertainment, gyms and personal services such as hairdressers and nail bars. The Council's leisure centres had to close and Romford Market had to move to essential goods only. The libraries continued to provide click and collect plus access to Wi-Fi and computers although the five smaller ones were closed and were used as community testing sites.

A new period of national lockdown began on 5 January 2021 in response to rising pressure on the NHS and continued for the rest of the financial year. The government's message was for people to stay at home, protect the NHS and save lives. This led to the continued closure of businesses across the borough and the closure of schools except for vulnerable children and the children of key workers. It also led to the Council's remaining open libraries having to close.

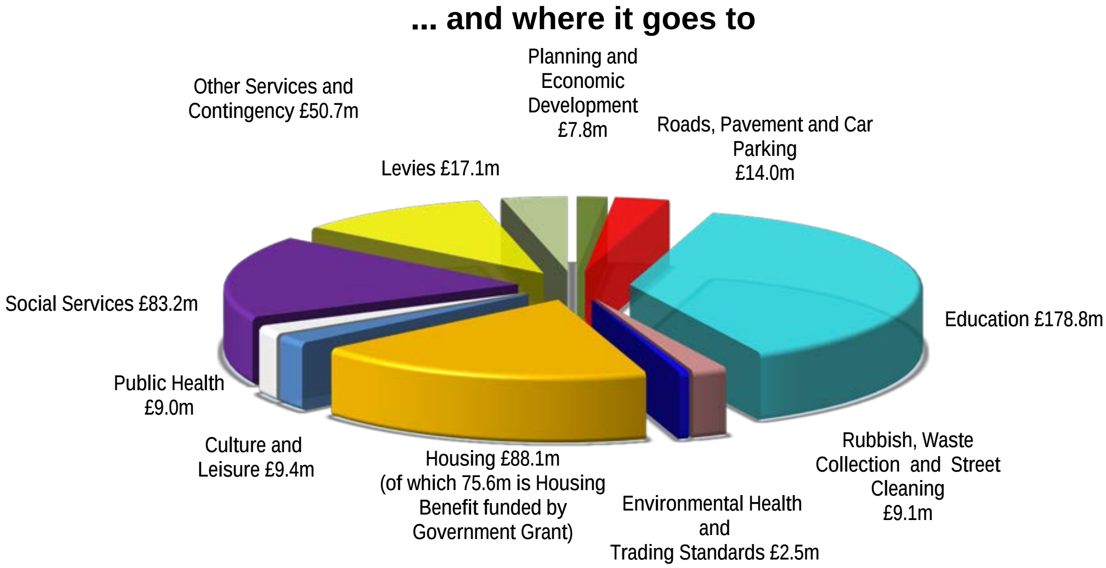
In summary, the Council faced huge expenditure pressures and loss of income as a direct result of the pandemic. The Council will continue to face financial pressures over the medium term to support the community through future waves of the pandemic.

The Government has provided a wide range of financial support during 2020/21 but this has been insufficient to fully meet the financial pressures the Council faced, leading to an overspend in the year of £2.651m. The financial picture reflected in these 2020/21 accounts is very different from any experienced before.



Cash In and Cash Out

Understanding the financial picture requires an understanding of where we receive our income and how we spend it. Approximately half of the monies, such as Dedicated Schools Grant (£122m) are tied to a specific purpose, in this instance education with the vast majority being passported to schools directly. These grants must only be spent on specific activity. The services for which there are no specific grants, such as highways and a lot of social care spends, is funded by the council tax, non-ringfenced grants, fees and charges and business rates income. General Fund income totals nearly £470m but demand is continually rising, particularly in adult social care and children's services. Living longer is obviously a good thing but social care and health spend is rising inexorably and this is why Havering is always searching for new ways to generate resources to pay for services that residents demand. The chart below shows where Havering's funding was allocated in 2020/21.



Pooling of Business Rates

The Council continued to be a member of the London wide business rates pool in 2020/21. The scheme was designed to share the benefits of business rates growth locally, however the impact of COVID has led a major reduction in rates collectable. The London Pool will not continue into 2021/22 but may restart once the impact of COVID has passed. -

The recent Covid-19 virus has also led to reductions in collectable NNDR income for 2020/21 due to additional allowances to businesses. Additional Government s31 grants have been received to offset the reductions in collectable NNDR.

Medium Term Financial Strategy 2020-24

The Council prides itself on its record of creating balanced budgets, delivering challenging savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to build the foundations enabling a robust budget to be set for 2021/22 despite the Covid-19 pandemic.

In March 2021 full Council agreed a balanced budget for 2021/22. The budget was set fully taking account of the COVID pandemic. The Government has announced further financial support for local authorities in 2021/22 to meet the costs of COVID and the budget has been set with the assumption that this will cover the costs and lost income incurred by the Council. This will be closely monitored during the year and it is hoped and if it is apparent that costs exceed the funding provided by central government then the Council will lobby for further allocations to meet this cost.

In setting the 2021/22 budget the Council has also continued to develop its medium term financial strategy for future years. The plan makes assumptions about future pressures such as demographic growth, inflation and future government funding as well as including the full year effect of saving proposals already developed.

The March budget report included a snapshot of the medium term financial strategy but the plan is in reality a live document which is continually updated as new information becomes available. The Council has an annual process which commences during the spring and summer using the medium term financial strategy to establish the extent of savings and efficiencies that will be needed to balance the following year's budget.

The table below sets out the medium term financial strategy set out in the March 2021 budget report to Council

Description	2021/22	2022/23	2023/24	3 Year Plan
	£m	£m	£m	£m
Corporate Pressures	11.221	9.233	6.731	27.185
Savings proposals unachievable in 20/21 due to COVID	7.207	0.000	0.000	7.207
Demographic Pressures	3.131	5.026	4.923	13.080
Inflationary Pressures	3.436	2.537	2.557	8.530
TOTAL PRESSURES	**24.995**	**16.796**	**14.211**	**56.002**
Projected Changes in Government Grants	-2.012	5.505	0.000	3.493
Savings Proposals	-17.133	-3.354	-1.227	-21.714
Social Care Precept (3.0%)	-3.900	0.000	0.000	-3.900
Council Tax increase (1.5%)	-1.950	0.000	0.000	-1.950
NET POSITION	**0.000**	**18.947**	**12.984**	**31.931**

The 2021/22 budget included a package of £17.1m of savings which had been developed and reviewed throughout the budget process. A number of these savings proposals were carried forward from 2020/21 as they had been delayed in implementation due to the COVID pandemic. The Council will closely monitor the progress on these savings as part of the monthly revenue monitoring process in 2021/22. The budget also included a full appendix setting out the proposed fees and charges for the year. It is recognised that some income from fees and charges will not be received due to the pandemic and the Government has included a compensation grant to cover the majority of the first three months losses.

The Council's financial position has changed in a way nobody could have imagined prior to the pandemic. The Government have provided additional general grant to help authorities but the outlook and financial recovery is likely to be slow with further pressures and risks during this process. There are also opportunities and the Council as part of its recovery plan is reviewing the way it provides all services to ensure a continued high quality service, efficiency and changed delivery methods where appropriate. It is expected this review will identify efficiency possibilities particularly through the Council's digital offer and the amount of building space occupied in the future.

The Medium Term Financial Position continues to be directly impacted by the following items:

- Demographic Pressures

The Council continues to experience demographic pressures particularly across social care but also across other services as the population increases each year. The Government has promised a long term solution for social care for many years but there has still been no formal announcements as to when this review will happen.

- Inflation

Staff pay awards are negotiated nationally and so the Council needs to plan assuming rises will be agreed. The Council also plans for contractual inflation on our main contracts and social care providers.

- Government funding

The Government is expected to announce a one year spending review this autumn with a multi-year spending review in 2022. This will inform the local government settlement in December. The MTFS also plans for the impact of the fair funding review which is now expected in 2022 as well.

- The continued impact of the COVID pandemic

The Government have provided funding to largely cover the immediate costs of the pandemic. There is however likely to be financial impact for a long time to come through business closure, reduced capacity at leisure centres, hidden demand in children’s social care and a number of other areas. The Council is planning for the impact of all these events in its recovery strategy but it remains to be seen how long the impact on the Council will last. The pandemic may also delay the achievement of savings and efficiencies which are dependent on services returning to pre COVID levels.

- The revenue cost of the capital programme

The Capital programme will bring long term financial benefits particularly through the successful completion of the Council’s ambitious regeneration programme. The IT programme will also upgrade the Council’s digital offer and enable efficiencies in the medium term. In the short term however there are borrowing and repayment costs which are fully factored into the Council’s medium term financial planning. The Capital programme is reviewed quarterly as part of the Council’s monitoring process each year.

The Council will only use general balances and earmarked reserves as a last resort to finance in year overspends. In setting the 2021/22 budget and medium term financial strategy the Council has included planned contributions to enable the target of £20m in general balances to be reached. The Council will continue to review all expenditure and income streams to improve the position and will engage with central government at every available opportunity to demonstrate the need for further funding, particularly as a result of Covid-19.

Earmarked reserves, as detailed in Note 10 of the accounts, have been established to meet planned projects. These Earmarked Reserves are being reviewed to ascertain what can be made available to mitigate any revenue overspend in 2021/22.

Earmarked Reserves Position

	Balance as at 31 3 2019	Movement In-Year	Balance as at 31 3 2020	Movement In-Year	Balance as at 31 3 2021
	£000	**£000**	**£000**	**£000**	**£000**
General Fund Earmarked Reserves	60,523	(6,355)	54,168	17,623	71,791
Schools Balances[1]	8,587	(5,298)	3,289	3,522	6,811
Total Earmarked Reserves	**69,110**	**(11,653)**	**57,457**	**21,145**	**78,602**

[1] In line with the Council's financial strategy, a considerable degree of professional judgement has gone into determining the level of reserves required to be held by the Council and how reserves are utilised. Amongst the earmarked reserves are specific ones put aside to manage known major contractual and legal liabilities in the medium term. In 2020/21 the level of earmarked reserves has increased by £21m, this is mainly due to Government grant to fund the Council's £18.3m share of the deficit on the Collection Fund that will be payable in later years. The Collection Fund deficit has arisen due to an increase in NNDR reliefs awarded due to COVID restrictions.

Against the Council's challenging financial background, it will be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

Havering's Balance Sheet

As can be seen below, Havering has a strong balance sheet with a debt to equity ratio consistently below 50%. Nonetheless, only by careful management is it able to undertake carefully considered capital investments across the Borough by increasing the level of borrowing and it still needs to take into account the cost of that borrowing and the payback period.

	31/03/2019	31/03/2020	31/03/2021
	£'000s	£'000s	£'000s
Long-term assets	1,287,416	1,375,218	1,561,586
Current assets	218,779	225,817	187,025
Current liabilities	(79,898)	(142,179)	(123,570)
Long-term liabilities	(773,064)	(676,705)	(828,984)
Net Assets	**653,233**	**782,151**	**796,057**
funded by:			
Usable reserves	219,246	201,450	208,999
Unusable reserves	433,987	580,701	587,058
Total Reserves	**653,233**	**782,151**	**798,537**
Borrowing	211,512	274,164	276,366
Debt to Equity Ratio	32.4%	35.1%	34.6%

Before, we get into the detail of the financial performance, here is just a brief look back at past year achievements and highlights, linked to the core priorities for 2020/21, despite the Covid-19 pandemic:

Communities

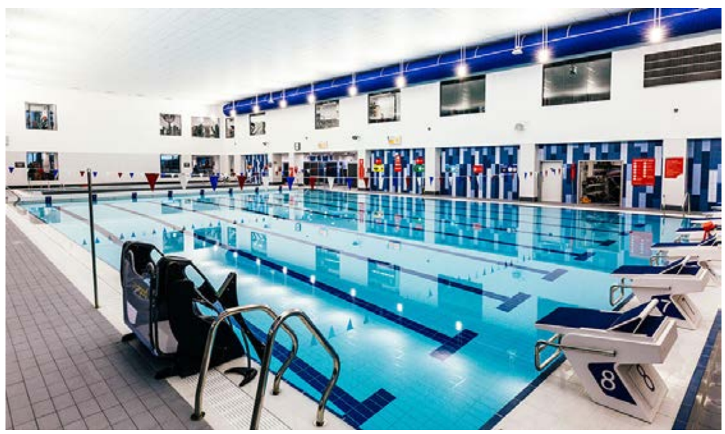
The capital programme is delivering new builds and rebuilds of schools:

- A new primary school is under construction in central Romford and
- Another at Drapers Academy in Gooshays Ward has been established,
- In addition, Mawneys Primary School in Brooklands Ward has been re-built with modern up to date accommodation for the children.

Children's Services has demonstrated substantial improvement since their last Ofsted inspection in 2016 through its innovation programme, coproduction with young people and vision to deliver the best outcomes for children and families.

Places

We secured a record number of green flags for 14 parks in the Borough. Langtons Garden is the latest to be awarded a Green Flag by environmental charity Keep Britain Tidy, with the other 13 retaining their Green Flag status. The Council continued to keep its parks open during the Covid-19 pandemic.



Work was completed on the new Harrow Lodge sports centre in Hornchurch to replace the previous dated centre which has been demolished. This follows the creation of the Sapphire Ice and Leisure complex two years previously as well as substantial refurbishment of the Council's Central Park Leisure Centre. The new centre at Harrow Lodge boasts a 25m eight lane swimming pool, a 20m wide learning and diving pool with movable floor to change the depth, a 100+ station health and fitness suite, exercise studios and top-class changing facilities.

Covid has impacted all events and therefore they have been scaled down to comply with regulations. The Council still observed Armed Forces Day, Pride Week and Windrush Day.

Opportunities

The Council is committed to building more affordable homes and increasing social housing in the Borough. This includes:

- 12 Estates: Havering Council and joint venture partner Wates Residential have begun work on a project to build around 3,000 high quality homes for local people across 12 of Havering Council's estates. As part of the project, the Council is investing in education, training and skills in support of their commitment to deliver a Borough-wide legacy.

- Rainham and Beam Park: Joint venture project with Notting Hill Genesis will deliver over 1,000 homes, transform the A1306 into a new green space and improve transport links in the south of the Borough.

- Bridge Close: The Council plans to regenerate an industrial area in Romford with affordable homes, a new school and health centre. The project also includes a new pedestrian bridge with direct access to Romford station and the regeneration of a stretch of the River Rom.

Connections

The Council is working on economic recovery following the impact of Covid19.

Throughout the pandemic, Havering Council has distributed over £60 million in Government grant money to businesses across the borough.

Havering's Discretionary Grant Scheme has provided vital funds to a wide range of local businesses that have been affected by COVID-19, according to those most in need.

Funding from the European Regional Development Fund has also supported businesses throughout the pandemic and helped ensure high streets can re-open safely.

There has been a delay in CrossRail and it is expected to be open in 2022. The regeneration in Beam Park includes the addition of a new C2C station which will improve access to London for future and current residents.

Revenue Outturn

The Outturn position for the Council in 2020/21 was fundamentally affected by the COVID pandemic. As such the presentation of the outturn is separated into sections showing additional COVID expenditure, lost income as a result of COVID and Business as Usual (BAU) outturn including undelivered savings. The final outturn was a £2.651m overspend against a final net budget of £193.088m. The table below breaks this outturn between the impact of COVID and Business as Usual.

Financial Position	£m
COVID Expenditure for the year	7.590
Income loss for the year	16.015
Gap in 2020/21 MTFS savings delivery	6.602
Business As Usual Net Position	(0.802)
Total Pressures	**29.405**
Government Support including food supply	(19.563)
Value of Government support on loss of income	(6.000)
Corporate Underspends	(1.191)
Remaining Gap	**2.651**
Required use of reserves and balances	(2.651)
TOTAL	**0.000**

The pandemic has fundamentally affected all aspects of Council business. The Government has provided a series of support packages that designed to enable councils to both deliver key frontline services and provide additional physical and financial support to the community. The Council has provided support to all areas of the community and has continued to deliver all key services throughout the pandemic

The £2.651m overspend is analysed by service in the following table:

Directorate	Revised Budget	Final Outturn	Final Outturn Variance
	£m	£m	£m
Public Health	0.122	0.119	-0.003
Children's Services	43.548	48.375	4.827
Adult Services	63.718	66.383	2.665
Neighbourhoods	11.501	18.728	7.227
Housing	4.245	4.315	0.070
Regeneration Programme Delivery	6.148	6.256	0.108
oneSource Non-Shared	-3.752	-0.274	3.478
Chief Operating Officer	9.121	14.159	5.038
oneSource shared	4.044	6.272	2.228
Net Service Total	**138.695**	**164.333**	**25.638**
Corporate Budget	54.392	56.968	2.576
Government Grant Support	0.000	-25.563	-25.563
Net Controllable Budget	**193.087**	**195.738**	**2.651**

The table below then shows the impact of COVID on these outturn figures

Directorate	Additional COVID Expenditure	Lost Income	BAU/Unachieved Savings	Outturn Variance
	£m	£m	£m	£m
Public Health	0.000	0.000	-0.003	-0.003
Children's Services	0.512	4.176	0.139	4.827
Adult Services	1.768	0.327	0.570	2.665
Neighbourhoods	1.219	5.762	0.246	7.227
Housing	0.600	0.000	-0.530	0.070
Regeneration Programme Delivery	0.091	0.017	0.000	0.108
oneSource Non-Shared	0.627	2.460	0.391	3.478
Chief Operating Officer	2.773	2.425	-0.160	5.038
oneSource shared	0.000	0.848	1.380	2.228
Net Service Total	**7.590**	**16.015**	**2.033**	**25.638**
Corporate Budgets	0.000	0.000	2.576	2.576
Government Grant Support	0.000	0.000	0.000	-25.563
Net Outturn	**7.590**	**16.015**	**4.609**	**2.651**

Neighbourhoods

The Neighbourhoods portfolio outturn position was an overspend of £7.227m primarily due to the impact of the COVID pandemic. The main reasons for the variances were:

Additional COVID expenditure:

- Additional public realm staffing and vehicle costs to maintain social distancing in waste services
- Additional mortuary costs
- Additional enforcement costs to ensure COVID compliance

Reduced Income:

- Loss of parking income throughout the year
- Reduced season ticket sales as people work from home
- Reduced Highways income from cross over works
- Reduced registrars income through closure during lockdown periods and cancellation and delays to ceremonies

Housing Services (General Fund)

The outturn position was an overspend of £0.070m. There were additional COVID costs as a result of a higher number of homeless people requiring temporary accommodation and support. This was offset by a number of variances resulting in a BAU underspend to largely offset the additional COVID costs.

Adult Social Care (ASC)

The Adult Social Care (ASC) directorate outturn position for 2020/21 was an overspend of £2.665m which again was largely due to additional costs of the COVID pandemic.

Additional COVID expenditure

- Additional support costs to providers particularly during the first lockdown when services were extremely stretched

- Payments to day care and other providers during closure to ensure sustainability of these services

In line with the NHS Discharge Guidance, actual expenditure incurred during the pandemic on new and increased packages of care following a discharge from hospital, was recharged to the NHS, over and above the costs the LA would normally incur in a non-Covid period.

Public Health

Spend is funded directly by the Public Health Grant and Havering always spends in accordance with the Grant requirements and operates within budget.

The Authority has been allocated £7.289m for the Contain Outbreak Management Fund (COMF) in 2020/21 to fund a wide variety of activities across public health.

The following table shows the outturn position for this fund

Contain Outbreak Management Fund

	Budgeted Amount	Outturn 2020/21	Carry Forward
Income			
Total Grant	-7,289,175	-4,258,267	-3,030,908
	-7,289,175	-4,258,267	-3,030,908
Expenditure			
Phase 1	2,855,000	1,357,774	1,497,226
Phase 2	535,000	778,952	-243,952
Phase 3	3,119,079	2,121,542	997,537
Lateral Flow Testing Contingency	1,000,000	0	1,000,000
To be allocated	-219,904	0	-219,904
	7,289,175	4,258,268	3,030,907

Children's Services

Children's services overspent by £4.827m at year end primarily due to lost income through closure of services during the pandemic.

The Catering Service returned a significant loss of income due to reduced sales of catered meals in schools associated with school closures and reduced numbers in schools. The Adult College also experienced significant loss of income due to reduced fees and grants associated with current course closures, and reductions in provision.

The service also incurred additional costs due to the pandemic on staffing and safety measures in SEN (Special Educational Needs) transport and social care to ensure COVID compliance was maintained for all clients.

Chief Operating Officer

The Chief Operating Officer service recorded an overspend of £5.038m almost entirely as a result of the pandemic.

At the start of the lockdown there was a significant cost to provide food supplies to vulnerable people and also to ensure that there was an adequate supply of PPE.

The Council's leisure centres were closed during lockdown and even when they were able to open they operated with reduced capacity to ensure that COVID social distancing rules were complied with. The result of this financially was that the Council provided additional support to the leisure provider SLM and also did not receive the concession fees normally due for the year.

One Source

One Source lost income as a result of the pandemic due primarily to reduced income from enforcement during lockdown. The service also had a number of overspends due to staffing pressures and delayed delivery of savings. The service is working hard in 2021/22 to deliver these savings and return to a balanced position.

Capital Outturn

Capital expenditure forms a large part of the Council's spending on the provision of services. The Council's capital programme is designed to maintain and enhance its assets and support the future growth and development of the Borough.

In 2020/21, there was £117.694m of capital expenditure; this has resulted in notable capital outcomes, which are outlined below:

- An additional 1,395 primary school and 900 additional secondary school places across the Borough. There were 40 additional special educational needs and disabilities (SEND) places for pupils with an EHCP (Education and Health Care Plan).
- £0.712m has been spent on enhancing ICT Infrastructure.
- The purchase of 14 low emissions buses/coaches.
- A new leisure centre at Harrow Lodge opened and the construction of a leisure centre in Rainham is ongoing.
- As part of the highways improvement programme: resurfacing/improvement works have been completed on 16 miles of roads and 11 miles of pavements (38 sites) within the Borough
- In Housing, 278 properties have been added to the Council's housing stock and a further £20.9m spent on improving the existing housing stock
- Over £2m has been spent on capital works across the Borough's schools.
- Mercury Land Holdings have completed and let the North Street and Crow Lane development schemes creating 78 new private rented homes and 10 homes for sale.
- The Council has purchased the partner's 50% equity stake in the Bridge Close Regeneration (Joint Venture), taking on responsibility for the direct delivery of the scheme until a new partner is established.

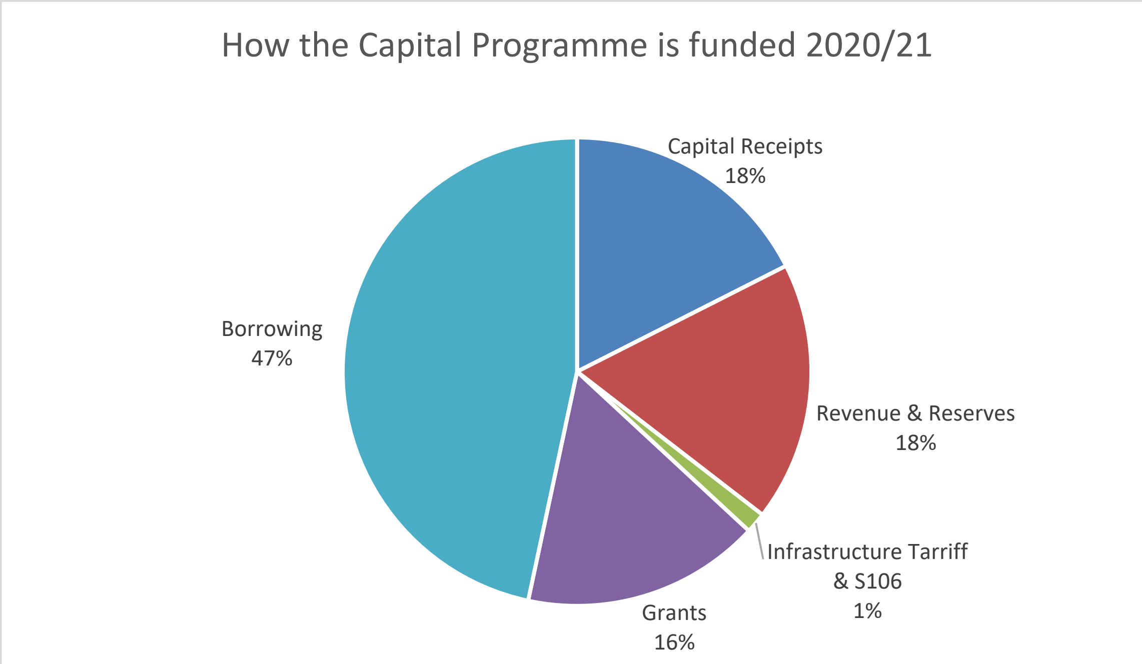
Actual capital spend at the end of the financial year 2020/21 was £117.694m financed from a variety of sources as set out below.

		Financing				
Services	**2020/21 Capital Expenditure £m**	**Capital Receipts £m**	**Revenue and reserves £m**	**Infrastructure Tariff and S106 £m**	**Grants £m**	**Borrowing £m**
Adults Services	1.410	0.052	0.000	0.000	1.358	0.000
OneSource	16.965	3.510	0.000	1.184	11.240	1.031
Neighbourhoods	13.864	0.068	0.471	0.214	0.389	12.722
Regeneration Programme	19.261	0.001	0.216	0.288	1.245	17.511
Chief Operating Officer	5.641	0.061	0.000	0.000	0.000	5.580
Housing Services	59.155	16.798	19.574	0.000	4.724	18.059
Children's Service & Schools	1.398	0.148	0.839	0.000	0.410	0.001
Grand Total	**117.694**	**20.638**	**21.100**	**1.686**	**19.366**	**54.904**

Sources of Funding

The use of resources to finance capital spend is changing over time as less and less capital receipts are being generated from the sale of assets and greater reliance, particularly for the large regeneration schemes, is being placed on the use of borrowing.

The Council's Capital funding in 2020/21 is illustrated below.



Capital Programme

The Council is required by statute (The Prudential Code for Capital Finance in Local Authorities) to agree and set the capital programme and associated capital strategy. The capital programme agreed by Members over the next 5 years amounts to £1,436m and is set out in the table below:

Summary of Capital Programme	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**Total £m**
Adults Services	2.132	0.023	0.000	0.000	0.000	0.000	**2.155**
Asset Management	11.220	6.128	0.007	0.000	0.000	0.000	**17.355**
Registration & Bereavement Services	5.850	0.000	0.000	0.000	0.000	0.000	**5.850**
Children Services	0.042	0.005	0.000	0.000	0.000	0.000	**0.047**
Customer, Communications & Culture	8.577	3.235	4.721	0.000	0.000	0.000	**16.533**
Environment	20.463	13.800	1.800	1.000	0.000	0.000	**37.063**
ICT Infrastructure	11.142	8.044	8.242	4.930	3.630	2.830	**38.818**
Finance	7.000	0.000	0.000	0.000	0.000	0.000	**7.000**
Regeneration Programme	141.957	153.067	82.470	21.305	15.779	20.737	**435.315**
Total GF Capital Programme	**208.383**	**184.302**	**97.240**	**27.235**	**19.409**	**23.567**	**560.136**
HRA	142.970	174.740	167.649	205.093	185.994	0.000	**876.446**
Total Capital Programme	**351.353**	**359.042**	**264.889**	**232.328**	**205.403**	**23.567**	**1,436.582**

Historically, the Council managed the cash flow of its capital expenditure prograolgamme largely via the use of capital receipts. However with receipts reducing the Council plans to use prudential borrowing within the Treasury Management Strategy for prioritised schemes.

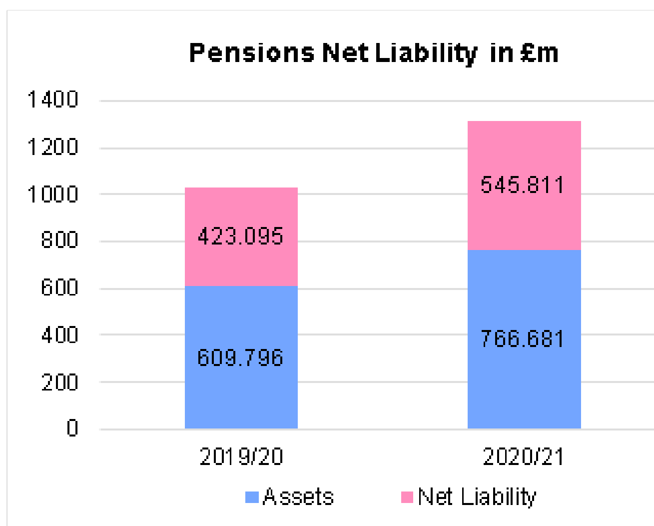
Treasury Management

The Council held approximately £110 million in cash and investments on average during the course of the financial year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given the Council's gross expenditure is approximately £568.5 m, this represents over two months of expenditure.

The primary objective of the Authority's investment strategy is to minimise risk. The credit ratings of the banks and market information are monitored regularly by officers who are involved in the investment process while deposits are restricted to a limited number of institutions meeting the Authority's lending criteria. Total cash, cash equivalents and investments held by the Authority at 31 March 2021 amounted to £117.8m (£183 m at 31 March 2020). The average yield from the Authority's cash investments for 2020/21 was 0.79% (1.07% for 2019/20). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates. The impact of the UK's exit from the European Union continues with uncertainty around its impact on borrowing and investment rates as well as general inflation. The Council will however continue to take steps within its Treasury Management Strategy to mitigate associated risks.

Historically, the Council managed the cash flow of its capital expenditure programme largely via the use of capital receipts. However, as can be seen by the capital programme above with its £1.436 billion budget, the capital ambition of the Council will exceed the potential capital receipts available. The Council plans to use prudential borrowing within the Treasury Management Strategy for prioritised schemes. Over the next couple of years, the Treasury return will fall and the cash and cash equivalents will be reduced to working capital.

Pension Fund



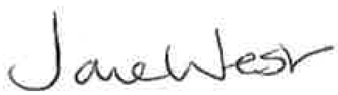
The Council participates in the Local Government Pension Scheme (LGPS) for the majority of its staff. The net estimated pension liability for Havering using "IAS19" is £545.8 m as at 31st March 2021 compared with £423.1m as at 31st March 2020.

Estimation of liability is based on a number of judgements relating to the discount rate used, salary increases, changes in retirement age, longevity, interest rates, inflation and expected returns on assets. Also, it has taken into account the impact of the recent McCloud ruling and GMP equalisation.

The Pension Fund's net assets increased significantly in 2020/21, from £609.8m to £766.7m due to investment market increases in 2020/21, but the liability increased even more from £1,032.9m to £1,312.5m due to a lower net discount rate and higher estimates of future salary and pension increases. It remains to be seen what long term impact on the fund Covid-19 will have.

The net liability is the additional amount that the Council will have to set aside or generate through investment returns to fund the pension entitlements that have been built up to date by members of the Pension Fund. The most important thing to note is that the actuaries reviewed our position as at 31 March 2019 and came to the conclusion that the Council had a viable long-term solution to reducing the Pension Fund deficit to zero. The next Triennial Review will take place in 2022. Nonetheless, it is important to note that interest rates remain at historically low levels and represent a significant influence of the valuation of pension fund liabilities. Further information on the basis of the IAS19 disclosure is included at Note 42.

Jane West



Chief Operating (Section 151) Officer

London Borough of Havering

Date: 28 July 2021

Explanation of Accounting Statements

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used a glossary of the terms is set out on pages 154 to 157 at the end of the document.

The key financial statements set out within this document include:

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

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

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

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

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

- **Expenditure Funding Analysis (EFA) –** This is a note to the accounts and shows how annual expenditure is used and funded from resources and accounted under local government statute as opposed to how it would accounted by private sector bodies under generally accepted accounting practices.

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

- **Collection Fund –** The Authority is responsible for collecting council tax and non-domestic rates, and to keep a separate account to detail the amounts owing to and from the Council, the GLA and the MHCLG.

- **Pension Fund –** The Pension Fund Accounts show the contributions from the Authority, participating employers and employees for the purpose of paying pensions. The Fund is separately managed by the Authority, acting as trustee, and its Accounts are separate from those of the Authority.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Executive.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

The Chief Finance (Section 151) Officer's Responsibilities

The Chief Finance (Section 151) Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts the Chief Finance (Section 151) Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Chief Finance (Section 151) Officer has also:

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

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Cllr Julie Wilkes
Chairman, Audit Committee
XX May 2024

Kathy Freeman
Chief Finance (Section 151) Officer
XX May 2024

Independent Auditor's Report To The Members Of London Borough Of Havering

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Independent Auditor's Report To The Members Of London Borough Of Havering

Group Movement in Reserves Statement 2020/21

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 and the group, 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 group 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.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	LBH Unusable Reserves	Authority's Share of Reserves of Subsidiaries / Joint Ventures	Total inc Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	**12,287**	**69,110**	**4,907**	**54,881**	**30,915**	**47,146**	**219,246**	**433,987**	**(976)**	**652,257**
Movement in reserves during 2019/20										
(Deficit)/surplus on provision of services	(14,543)		24,187				9,644		(630)	9,014
Other comprehensive expenditure and income								119,276		119,276
Total comprehensive expenditure and income	**(14,543)**	**0**	**24,187**	**0**	**0**	**0**	**9,644**	**119,276**	**(630)**	**128,290**
Adjustments between accounting basis and funding basis under regulations	2,901		(18,872)	(5,662)	(9,182)	3,377	(27,438)	27,438	0	0
Net (decrease)/increase before transfers to earmarked reserves	**(11,642)**	**0**	**5,315**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**(630)**	**128,290**
Transfers to/(from) Earmarked Reserves	12,042	(11,652)	(390)				0	**0**		0
Decrease/increase in Year	**400**	**(11,652)**	**4,925**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**(630)**	**128,290**
Balance at 31 March 2020	**12,687**	**57,457**	**9,832**	**49,219**	**21,732**	**50,523**	**201,450**	**580,701**	**(1,606)**	**780,545**
Movement in reserves during 2020/21										
(Deficit)/surplus on provision of services	(9,718)		43,644				33,926		7,795	41,721
Other comprehensive expenditure and income							0	(20,021)	(125)	(20,146)
Total comprehensive expenditure and income	**(9,718)**	**0**	**43,644**	**0**	**0**	**0**	**33,926**	**(20,021)**	**7,670**	**21,575**
Adjustments between accounting basis and funding basis under regulations	28,854		(36,191)	(11,755)	(8,354)	1,067	(26,379)	26,379	0	0
Net (decrease)/increase before transfers to earmarked reserves	**19,136**	**0**	**7,453**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**6,358**	**7,670**	**21,575**
Transfers to/(from) Earmarked Reserves	(20,887)	21,144	(257)				0	0	0	0
(Decrease)/Increase in Year	**(1,751)**	**21,144**	**7,196**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**6,358**	**7,670**	**21,575**
Balance at 31 March 2021	**10,936**	**78,600**	**17,028**	**37,464**	**13,377**	**51,590**	**208,999**	**587,059**	**6,060**	**802,118**

Authority Movement in Reserves Statement 2020/21

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.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019	**12,287**	**69,110**	**4,907**	**54,881**	**30,915**	**47,146**	**219,246**	**433,987**	**653,233**
<u>Movement in reserves during 2019/20</u>									
Deficit/surplus on provision of services	(14,543)		24,187				9,644		9,644
Other comprehensive expenditure and income							0	119,276	119,276
Total comprehensive expenditure and income	**(14,543)**	**0**	**24,187**	**0**	**0**	**0**	**9,644**	**119,276**	**128,920**
Adjustments between accounting basis and funding basis under regulations (Note 9)	2,901		(18,872)	(5,662)	(9,182)	3,377	(27,438)	27,438	0
Net decrease/increase before transfers to earmarked reserves	**(11,642)**	**0**	**5,315**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**128,920**
Transfers to/from Earmarked Reserves (Note 10)	12,042	(11,652)	(390)				0		0
Decrease/increase in Year	**400**	**(11,652)**	**4,925**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**128,920**
Balance at 31 March 2020	**12,687**	**57,457**	**9,832**	**49,219**	**21,732**	**50,523**	**201,450**	**580,701**	**782,151**
<u>Movement in reserves during 2020/21</u>									
(Deficit)/surplus on provision of services	(9,718)		43,644				33,926		33,926
Other comprehensive expenditure and income							0	(20,021)	(20,021)
Total comprehensive expenditure and income	**(9,718)**	**0**	**43,644**	**0**	**0**	**0**	**33,926**	**(20,021)**	**13,905**
Adjustments between accounting basis and funding basis under regulations (Note 9)	28,854	0	(36,191)	(11,755)	(8,354)	1,067	(26,379)	26,379	0
Net (decrease)/increase before transfers to earmarked reserves	**19,136**	**0**	**7,453**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**6,358**	**13,905**
Transfers to/from Earmarked Reserves (Note 10)	(20,887)	21,144	(257)				0		0
(Decrease)/Increase in Year	**(1,751)**	**21,144**	**7,196**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**6,358**	**13,905**
Balance at 31 March 2021	**10,936**	**78,602**	**17,028**	**37,464**	**13,378**	**51,590**	**208,999**	**587,059**	**796,058**

Group Comprehensive Income and Expenditure Statement 2020/21

The Group Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2019 – 31 March 2020				1 April 2020 – 31 March 2021		
£000 Gross Expenditure	£000 Gross Income	£000 Net		£000 Gross Expenditure	£000 Gross Income	£000 Net
			Gross expenditure, gross income and net expenditure of continuing operations			
35,930	(4,166)	31,764	Corporate Budgets	33,397	(2,410)	30,987
43,629	(26,801)	16,828	Neighbourhoods	44,302	(22,666)	21,636
42,609	(65,153)	(22,544)	Housing	26,107	(65,693)	(39,586)
4,021	(2,540)	1,481	Regeneration Programme Delivery	8,157	(3,366)	4,791
81,451	(19,197)	62,254	Adult Services	90,171	(25,580)	64,591
212,404	(147,390)	65,014	Children's Services	205,731	(151,409)	54,322
10,257	(10,654)	(397)	Public Health	15,588	(19,710)	(4,122)
82,095	(74,444)	7,651	oneSource Non-Shared	83,769	(69,118)	14,651
24,012	(4,012)	20,000	oneSource Shared	24,790	(6,309)	18,481
536,408	**(354,357)**	**182,051**	**Cost of services**	**532,012**	**(366,261)**	**165,751**
		12,703	Other operating expenditure			16,225
		12,348	Financing and investment income and expenditure			7,122
		(216,116)	Taxation and non-specific grant income			(230,819)
		(9,014)	**(Surplus)/Deficit on provision of services**			**(41,721)**
		8,555	(Surplus)/Deficit on revaluation of property, plant and equipment assets			(99,572)
		(127,831)	Actuarial losses/(gains) on pension assets / liabilities			119,718
		(119,276)	**Other comprehensive income and expenditure**			**20,146**
		(128,290)	**Total comprehensive income and expenditure**			**(21,575)**

* The Comprehensive Income and Expenditure Statement has been restated to show the Housing Directorate separate.

Balance Sheet as at 31 March 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority and the group. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 is those that the Authority 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'.

31 March 2020 Authority £000	31 March 2020 Group £000		Notes	31 March 2021 Authority £000	31 March 2021 Group £000
1,245,262	1,256,770	**Property, plant and equipment**	14	1,432,160	1,446,115
132	132	**Heritage assets**	15	2,319	2,319
67,242	109,907	**Investment property**	16b	64,552	112,505
1,085	1,085	**Intangible assets**	17	621	621
13,000	13,000	**Long term investments**	18	0	0
21,992	178	**Long term investments in subsidiaries and joint ventures**	16d	17,525	0
		Long term investments in joint ventures		1,674	1,674
26,505	232	**Long term debtors**	19	42,735	5,078
1,375,218	**1,381,304**	**Long-term assets**		**1,561,586**	**1,568,312**
142,800	142,800	**Short-term investments**	18	110,276	110,276
389	389	**Inventories**		400	400
55,878	53,579	**Short-term debtors**	19	68,488	64,784
26,750	27,860	**Cash and cash equivalents**	20	7,861	12,788
-	-	**Assets held for sale**	21	-	-
225,817	**224,628**	**Current assets**		**187,025**	**188,248**
(38,907)	(38,086)	**Short-term borrowing**	18	(12,242)	(12,240)
(103,272)	(110,050)	**Short-term creditors**	22	(111,328)	(111,963)
(142,179)	**(148,136)**	**Current liabilities**		**(123,570)**	**(124,203)**
		Long-term creditors			
(9,089)	(9,089)	**Provisions**	23	(10,955)	(12,075)
(235,234)	(235,780)	**Long-term borrowing**	18	(264,124)	(264,124)
(423,095)	(423,095)	**Other long-term liabilities**	42	(545,811)	(545,946)
(9,287)	(9,287)	**Capital grants receipts in advance**	35b	(8,094)	(8,094)
(676,705)	**(677,251)**	**Long-term liabilities**		**(828,984)**	**(830,239)**
782,151	**780,545**	**Net assets**		**796,057**	**802,118**
201,450	199,844	**Usable reserves**	24	208,999	205,921
580,701	580,701	**Unusable reserves**	25	587,058	596,197
782,151	**780,545**	**Total Reserves**		**796,057**	**802,118**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Authorised for Issue
Kathy Freeman

Chief Financial (Section 151) Officer
London Borough of Havering
Date: XX May 2024

Cash Flow Statement as at 31 March 2021

The Cash Flow statement shows the changes in cash and cash equivalents of the Authority and the Group during the reporting period. The statement shows how the Authority / 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 Authority / 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 Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2019/20 Authority £000	2019/20 Group £000		Note	2020/21 Authority £000	2020/21 Group £000
9,644	9,014	Net surplus on the provision of services		33,928	39,006
62,264	77,306	Adjust net surplus or deficit on the provision of services for non-cash movements	26	4,070	1,110
(44,360)	(44,360)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(35,287)	(35,287)
27,548	**41,960**	**Net cash flows from Operating Activities**		**2,711**	**4,829**
(90,090)	(103,658)	Investing activities	27	(23,825)	(22,126)
62,628	62,628	Financing activities	28	2,226	2,226
86	**930**	**Net increase /(decrease) in cash and cash equivalents**		**(18,888)**	**(15,071)**
26,664	26,930	Cash and cash equivalents at the beginning of the reporting period	20	26,750	27,860
26,750	**27,860**	**Cash and cash equivalents at the end of the reporting period**	**20**	**7,862**	**12,789**

Authority Comprehensive Income and Expenditure Statement 2020/21

The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2019 – 31 March 2020					1 April 2020 – 31 March 2021		
£000 Gross Expenditure	£000 Gross Income	£000 Net		Notes	£000 Gross Expenditure	£000 Gross Income	£000 Net
			Gross expenditure, gross income and net expenditure of continuing operations				
35,930	(4,166)	31,764	Corporate Budgets		33,397	(2,410)	30,987
43,629	(26,801)	16,828	Neighbourhoods		44,302	(22,666)	21,636
42,609	(65,153)	(22,544)	Housing		25,863	(65,693)	(39,830)
3,565	(1,510)	2,055	Regeneration Programme Delivery		7,448	(1,692)	5,756
81,451	(19,197)	62,254	Adult Services		90,171	(25,580)	64,591
212,404	(147,390)	65,014	Children’s Services		205,731	(151,409)	54,322
10,257	(10,654)	(397)	Public Health		15,588	(19,710)	(4,122)
82,095	(74,444)	7,651	oneSource Non-Shared		83,769	(69,118)	14,651
24,012	(4,012)	20,000	oneSource Shared		24,790	(6,309)	18,481
535,952	**(353,327)**	**182,625**	**Cost of services**		**531,059**	**(364,587)**	**166,472**
		12,688	Other operating expenditure	11			16,162
		11,159	Financing and investment income and expenditure	12			15,377
		(216,116)	Taxation and non-specific grant income	13			(231,939)
		(9,644)	**(Surplus)/Deficit on provision of services**				**(33,928)**
		8,555	(Surplus)/Deficit on revaluation of property, plant and equipment assets	25a			(99,572)
		(127,831)	Actuarial losses/(gains) on pension assets / liabilities	25e			119,593
		(119,276)	**Other comprehensive income and expenditure**				**20,021**
		(128,920)	**Total comprehensive income and expenditure**				**(13,907)**

* The Comprehensive Income and Expenditure Statement has been restated to show the Housing Directorate separate.

Notes to the Core Financial Statements

1. Accounting Policies

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories 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. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure 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; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de-minimis for 2020/21 remains at £50,000.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months 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 that are repayable on demand and form an integral part of the Authority'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, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

Within the accounts the Comprehensive Income and Expenditure Statement has been restated to comply with the CIPFA code; 'Telling the story'. This is to improve the presentation and transparency of the Council's financial statements.

v. Charges to Revenue for Non-Current Assets

Services 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; and
- amortisation of intangible non-current assets attributable to the service.

The Authority 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 equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Central Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority’s General Fund. Therefore, 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.

The Balance Sheet includes the Authority’s share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals. Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. 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 Authority to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the

Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Authority to 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

Employees of the Authority are members of three separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service Pension Scheme, administered by the National Health Service; and
- the Local Government Pension Scheme, administered by the Authority.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the Teachers' and National Health Service schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. Those schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the Teachers' and National Health Service Pensions Scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.
- The assets of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price; and
    - property – market value.

The change in the net pension liability is analysed into the following components:

- Service cost 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 Authority – 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 of the period – taking into account any changes in the 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 paid to the London Borough of Havering 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 Authority 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 are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are 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 authorised for issue. 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; and

- 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 notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective 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 Authority 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.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

x. Foreign Currency Translation

Where the Authority 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. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of 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. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable 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.

All Town and Country Planning Act 1990 (as amended) Section 106 contributions, because of their complex nature and numerous legal conditions, are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund and Housing Revenue Account balances 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.

Non Ring-fenced Grants

These are allocated by Central Government directly to local authorities as additional revenue funding. They are not ring-fenced and are credited to the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group, which provides a cleaner, safer, more secure business environment and promotes the interests of the business community within the BID. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) on the balance sheet. The Authority has similar arrangements for the Romford Town Centre BID, which went live during 2018/19.

xii. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayor's chains, which are worn on ceremonial duties and various items with civic insignia. They are valued based on manufacturing costs and do not include any element for rarity or collectable value, retail mark-up or VAT.

Heritage Buildings

The Authority owns one building that meets the definition of a heritage asset and this is Upminster Windmill. The building has been valued by professional valuers who have stated that the most appropriate means of valuing this building is by its historic cost.

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

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority 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 Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority 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 Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, 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

The Authority has a small number of inventories. These are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned predominantly using the first in first out (FIFO) costing formula.

xv. 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. 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 Investment Income line 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.

xvi. Interests in Companies and Other Entities

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

The Group's financial statement incorporate the financial statements of the London borough of Havering and its subsidiaries prepared as at the year end date. As part of the consolidation process, Havering has aligned the accounting policies of the subsidiaries with those of the Council and made consolidation adjustments where necessary. It has consolidated the financial statements of the subsidiaries with those of the Council on a line by line basis; eliminated in full balances, transactions, income and expenses between the Council and the partnerships.

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority, the London Borough of Newham and the London Borough of Bexley to share back office operations. In 2020, the London Borough of Bexley withdrew all back office operations from oneSource and the London Borough of Newham withdrew its Professional Accountancy Services. It is governed by a joint committee and is not deemed to meet the definition of joint control; hence the assets, liabilities, income, expenditure and cash flows of the joint committee are not consolidated into the Authority's group accounts. Instead, the Authority accounts for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows, in its single entity financial statements. Cost and savings are shared between the three authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. Leases

All current 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 fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

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 Authority as Lessor

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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 those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received

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 Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (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.

Finance costs are excluded in valuations for all assets.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

- works to buildings £5,000
- infrastructure £5,000
- office and information technology £5,000
- other furniture and equipment £5,000

There are no de minimis limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUVSH);
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- 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 – current 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 fair value are re-valued as a minimum every five years, with high value assets being re-valued annually, to ensure their carrying amount is not materially different from their fair value at the year end. In addition, an independent review is carried out annually. 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); and
- 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

Development Costs

General Feasibility studies are automatically treated as revenue, unless in very rare circumstances when they lead to the creation of an asset. This is because they are typically an options review of what schemes may or may not be considered for the capital programme. They do not in and of themselves produce an asset. There would need to be an accompanying business case justification as to why this expenditure could be capitalised and as such, this would normally only occur in relation to large-scale regeneration schemes.

The watershed moment between the feasibility and the development stage, when concrete designs are reviewed is normally the point at which expenditure may be considered for capitalisation. The Council's policy at this stage is to treat the expenditure as capital and then if the scheme did not go ahead or was stopped at an early stage without producing any assets, would treat the expenditure as an abortive revenue cost. This policy could be broadly described as *capitalising at risk* and all schemes that were cancelled without producing an asset would need to be reviewed for the potential for these abortive costs.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset 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); and
- 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 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 not charged in the year of acquisition but is charged in full during the year of disposal.

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 a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

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

Major components which have materially different asset lives will be identified in respect of:

- new capital expenditure as it arises; and

- existing assets as they become subject to revaluation.

Assets will not be valued on a componentised basis in the following circumstances on the basis that the impact upon asset valuation and depreciation is not material to the accounting disclosures:

- capital expenditure of less than £300,000 per scheme; and
- assets valued at less than £3,000,000.

As a consequence of the application of this policy the Authority has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an on-going basis to ensure that the carrying value of assets is not materially affected.

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.

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 revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, 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.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to noncurrent 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. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account.

Annual Minimum Revenue Provision Statement

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum provision since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's (DCLG) Guidance on Minimum Revenue Provision issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements); will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority 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 Authority 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 now 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 Authority settles the obligation.

Contingent Liabilities

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

xxii. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves created by appropriating amounts out of the General Fund Balance in the Movement in Reserves 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. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xxiii 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 Authority 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.

xxiv. Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Schools' transactions, cash flows and balances are therefore recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

xxv. VAT and Tax Duty

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. If any tax duty is payable on goods purchased from EU, this will be part of the purchase cost and is not recoverable from HMRC.

xxvi. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] 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 authority 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 authority 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.

The authority 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 authority'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 authority 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.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority 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 not yet adopted. The following key accounting policy changes has been identified:

Disclosure requirements are expected to be included in a subsequent edition of the Code. Changes in the 2021/22 Code of practice that will be introduced in future versions of the accounts include :–

• Definition of a Business: Amendments to IFRS3 Business Combinations

• Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS7

• Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS16

3. Critical Judgements in Applying Accounting Policies, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

In applying the accounting policies, the Authority 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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision; and
- the statement of accounting policies incorporates a number of de minimis thresholds below which certain low value transactions are not recognised in strict accordance with the Code of Practice. These thresholds have been selected for the purpose of reducing the volume and complexity of financial

transactions without materially altering the accounting disclosures. The areas most affected by this policy relate to the recognition of pensions liabilities, fixed assets, leases and accruals.

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

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

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
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. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Assets have been valued by the Authority's external valuers on the basis of a five year rolling valuation programme. In the current economic climate, the Balance Sheet valuation of £1,432m may be subject to fluctuations.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Assets would increase by £884k for every year that useful lives had to be reduced. If the asset valuation of all property plant and equipment were to fall by 1% a reduction in value of £14.32m would arise. This would normally be reversed to the Revaluation Reserve. Where revaluation losses exceed unrealised gains, the net loss would be charged to the Consolidated Income and Expenditure Statement and subsequently written off to the Capital Adjustment Account.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for *similar* assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in	The authority uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial asset

	determining the fair value of the authority's assets and liabilities is disclosed in notes 14 and 16 below.	
Provisions	The Authority has made a provision of £3.5m for the settlement of insurance claims based upon an actuarial assessment of the current level of liability.	An increase over the forthcoming year of 10% in the value of claims to be settled would have the effect of adding £0.35m to the provision required.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £122.8m. However, the assumptions interact in complex ways. During 2020/21, the Authority's actuary advised that changes in actuarial assumptions gave rise to a loss of £119.6m (compared to a gain of £143.9m in 2019/20) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2021, the Authority had a gross debtor's balance of £103.1m. A review of significant balances suggested that an impairment of doubtful debts of 35% (£36.1m) was appropriate. However, in the current economic climate it may not be certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a 25% increase in the amount of the impairment of doubtful debts would require an additional £9.0m to be set aside as an allowance.
NNDR Appeals	At 31 March 2021, the Authority made a provision for £7.4m in respect of appeals which are still outstanding, based on the previous success rate on appeals.	In the event that the outcome of appeals increases by 25% than the anticipated percentages this would result in additional cost of £1.85m.

4. Material Items of Income and Expense

A net revaluation gain of £22.378m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2020/21. With the exception of movements in Investment properties revaluation gains are normally credited to the Revaluation Reserve except where, as in this case, the revaluation gain reverses a previous loss charged to the CI&ES. By way of comparison, the revaluation gain credited to the CI&ES in 2019/20 was £9.7m. Further information is provided at note 39.

A net disposals gain of £2.2m has been debited to the CI&ES in 2020/21. This is a result of gains from the sale of GF and HRA assets. This is compared to corresponding gain of £6.2m in 2019/20.

From 2016/17, the Authority included Mercury Land Holdings, a wholly owned subsidiary within the accounts. Mercury Land Holdings have subsequently set up a separate subsidiary called Mercury Land Holdings Design and Build and this has been consolidated within the Mercury Land Holdings company accounts. Mercury Land Holdings consolidated accounts has been consolidated into the Authority's group accounts. During the year, the Council maintained its investment in Mercury Land Holdings of £12.3m and increased its loans by £9.3m to £36.1m.

From 2019/20, the Authority included the 50% of its joint ventures within the group accounts. These joint ventures are to provide housing in the Borough. During 2020/21, the Council oversaw the buy-out of the remaining 50% share of the Bridge Close LLP.

5. Authorisation of the Statement of Accounts

The Statement of Accounts was authorised for issue on the date the Chief Operating Officer certified that the accounts give a true and fair view of the financial position of the Authority at the year-end; and its income and expenditure, see the “Statement of Responsibilities for the Statement of Accounts”. This is the date up to which events after the balance sheet date have been considered.

6. Events after the Balance Sheet Date

No material post balance sheet events requiring adjustment to the 31st March 2021 balance sheet has been identified. However the effect of the COVID19 virus continues to have a major impact on the day to day running of the Council.

7. Expenditure and Funding Analysis 2020/21

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

1st April 2019 - 31st March 2020					1st April 2020 - 31st March 2021			
Net Expenditure Chargeable to the General Fund and HRA Balances	**Adjustments between Funding and Accounting Bases**	**Other Adjustments**	**Net Expenditure in the CI&ES**	**Service**	**Net Expenditure Chargeable to the General Fund and HRA Balances**	**Adjustments between Funding and Accounting Bases**	**Other Adjustments**	**Net Expenditure in the CI&ES**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
47,636	(34,773)	18,901	**31,764**	Corporate Budgets	42,913	(20,734)	8,809	**30,988**
13,486	8,248	(4,906)	**16,828**	Neighbourhoods	18,728	8,195	(5,288)	**21,635**
(968)	(19,718)	(1,858)	**(22,544)**	Housing	4,315	(38,668)	(5,477)	**(39,830)**
1,654	56	345	**2,055**	Regeneration	6,256	50	(550)	**5,756**
61,133	698	423	**62,254**	Adult Services	66,383	1,051	(2,843)	**64,591**
39,482	25,135	396	**65,013**	Children's Service	48,375	11,595	(5,648)	**54,322**
11	42	(450)	**(397)**	Public Health	119	122	(4,363)	**(4,122)**
(1,201)	1,824	7,028	**7,651**	oneSource Non-Shared	3,851	7,202	3,597	**14,650**
2,485	1,093	16,422	**20,000**	oneSource Shared	6,272	1,394	10,816	**18,482**
163,718	**(17,395)**	**36,301**	**182,624**	**Net Cost of Services**	**197,212**	**(29,793)**	**(947)**	**166,472**
(169,043)	1,424	(24,649)	(192,268)	Other Income and Expenditure	(202,657)	22,456	(20,198)	(200,400)
(5,325)	**(15,971)**	**11,652**	**(9,644)**	**(Surplus) or Deficit**	**(5,445)**	**(7,337)**	**(21,145)**	**(33,928)**
17,196				Opening General Fund and HRA Balance	**22,521**			
5,325				Less/Plus Surplus or Deficit on General Fund and HRA Balance in Year**	5,445			
22,521				**Closing General Fund and HRA Balance at 31 March 2021**	**27,966**			

2018/19 restated to reflect Housing as a separate Directorate.

*This represents the movement in Earmarked Reserves. See Note 10.

** For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement.

7a. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note 2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Corporate Budgets	(7,146)	4,142	(17,730)	(20,734)
Neighbourhoods	9,686	(1,173)	(317)	8,195
Housing	(38,122)	(353)	(194)	(38,668)
Regeneration Programme Delivery	92	(42)	0	50
Adult Services	1,909	(720)	(138)	1,051
Children's Services	15,593	(2,814)	(1,184)	11,595
Public Health	188	(66)	0	122
oneSource Non-Shared	8,290	(913)	(175)	7,202
oneSource Shared	2,787	(1,184)	(210)	1,394
Net Cost of Services	**(6,724)**	**(3,123)**	**(19,948)**	**(29,795)**
Other income and expenditure from the Expenditure and Funding Analysis			19,981	19,981
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(6,724)**	**(3,123)**	**33**	**(9,814)**

Adjustments between Funding and Accounting Basis 2019/20

(This has been restated to be aligned to the authority's internal financial reporting structure)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note 2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Corporate Budgets	(35,626)	3,681	1,349	(30,596)
Neighbourhoods	6,796	1,455	(3)	8,248
Housing	(19,148)	(590)	21	(19,717)
Regeneration Programme Delivery	0	55	0	55
Adult Services	83	610	5	698
Children's Services	16,512	4,566	(117)	20,961
Public Health	0	40	0	40
oneSource Non-Shared	1,165	647	12	1,824
oneSource Shared	0	1,080	12	1,092
Net Cost of Services	**(30,218)**	**11,544**	**1,279**	**(17,395)**
Other income and expenditure from the Expenditure and Funding Analysis		1,424		1,424
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(30,218)**	**12,968**	**1,279**	**(15,971)**

Note 1 Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from the income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2 Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

• **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

• For **Financing and investment income and expenditure** –- the net interest on the defined benefit liability is charged to the CIES.

Note 3 Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7b. Segmental Income

Income received on a segmental basis is analysed below:

2019/20 £000	Income from Services	2020/21 £000
4,166	Corporate Budgets	2,410
26,801	Neighbourhoods	22,666
65,153	Housing	65,693
1,510	Regeneration Programme Delivery	1,692
19,197	Adult Services	25,580
147,390	Children’s Services	151,409
10,654	Public Health	19,710
74,444	oneSource Non -Shared	69,118
4,012	oneSource Shared	6,309
353,327	**Total income analysed on a segmental basis Net Cost of Services**	**364,586**

8. Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

2019/20 £000	Expenditure/Income	2020/21 £000
	Expenditure	
199,861	Employee benefits expenses	207,450
325,068	Other services expenses	328,655
11,340	Depreciation, amortisation, impairment	769
20,745	Interest payments	17,851
17,773	Precepts and levies	17,085
1,106	Payments to Housing Capital Receipts Pool	1,243
(6,191)	(Gain)/Loss on the disposal of assets	(2,166)
569,702	**Total expenditure**	**570,887**
	Income	
(121,564)	Fees, charges and other service income	(106,972)
(5,226)	Interest and investment income	(3,647)
(163,915)	Income from council tax and non-domestic rates	(164,324)
(288,641)	Government grants and contributions	(329,871)
(579,346)	**Total income**	**(604,814)**
(9,644)	**Surplus or Deficit on the Provision of Services**	**(33,927)**

9. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The following sets out a description of the reserves against which the adjustments are made.

General Fund Balance: The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year. For housing authorities the balance is not available to be applied to funding HRA services.

Housing Revenue Account Balance: The Housing Revenue Account (HRA) balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Authority's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve: The Authority maintains a Major Repairs Reserve (MRR), through which depreciation on HRA assets is reversed out and applied to the financing of capital expenditure. The MRR is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the extent to which the MRR has yet to be applied at the year end.

Capital Receipts Reserve: The Capital Receipts Reserve 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.

Capital Grants Unapplied: The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2020/21	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(2,770)	(353)				3,123
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97					(97)
Neutralisation of charges to HRA in respect of Bridge Close soft loan notes		(2,477)				2,477
Transfer to negative DSG reserve	(2,366)					2,366
Council tax and NNDR (transfers to or from Collection Fund)	(17,615)					17,615
Holiday pay (transferred to the Accumulated Absences Reserve)	(2,299)	(194)				2,493
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(7,223)	12,492			(20,433)	15,164
Total Adjustments to Revenue Resources	**(32,176)**	**9,468**	**0**	**0**	**(20,433)**	**43,141**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	765	12,752	(13,517)			0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(502)	251	251			0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,243)		1,243			0
Posting of HRA resources from revenue to the Major Repairs Reserve		8,888		(8,888)		0
Use of Capital Receipts To Repay Debt	(3,140)		3,140			0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	6,828					(6,828)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,858					(3,858)
Total Adjustments between Revenue and Capital Resources	**6,566**	**21,891**	**(8,883)**	**(8,888)**	**0**	**(10,686)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure			20,638			(20,638)
Use of the Major Repairs Reserve to finance capital expenditure				17,242		(17,242)
Application of capital grants to finance capital expenditure	(3,244)	4,930			19,366	(21,052)
Cash payments in relation to deferred capital receipts		(98)				98
Total Adjustments to Capital Resources	**(3,244)**	**4,832**	**20,638**	**17,242**	**19,366**	**(58,834)**
Total Adjustments	**(28,854)**	**36,191**	**11,755**	**8,354**	**(1,067)**	**(26,379)**

Comparative figures for 2019/20 are as follows:	Usable Reserves					
2019/20	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(12,134)	590				11,544
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97					(97)
Available for sale financial instruments (transferred to the Available for Sale Financial Instruments Account)						0
Council tax and NNDR (transfers to or from Collection Fund)	(1,424)					1,424
Holiday pay (transferred to the Accumulated Absences Reserve)	70	(21)				(49)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(2,549)	(7,201)			(24,660)	34,410
Total Adjustments to Revenue Resources	**(15,940)**	**(6,632)**	**0**	**0**	**(24,660)**	**47,232**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,284	10,548	(13,832)			0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(157)	157			0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,106)		1,106			0
Posting of HRA resources from revenue to the Major Repairs Reserve		8,815		(8,815)		0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2,194					(2,194)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,604	6,336				(8,940)
Total Adjustments between Revenue and Capital Resources	**6,976**	**25,542**	**(12,569)**	**(8,815)**	**0**	**(11,134)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure			18,231			(18,231)
Use of the Major Repairs Reserve to finance capital expenditure				17,997		(17,997)
Application of capital grants to finance capital expenditure	6,063				21,283	(27,346)
Cash payments in relation to deferred capital receipts		(38)				38
Total Adjustments to Capital Resources	**6,063**	**(38)**	**18,231**	**17,997**	**21,283**	**(63,536)**
Total Adjustments	**(2,901)**	**18,872**	**5,662**	**9,182**	**(3,377)**	**(27,438)**

10. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21. A HRA earmarked reserve is included for completeness.

	Balance as at 31 3 2019	Transfers from/to Revenue	Transfers between reserves	Balance as at 31 3 2020	Transfers from/to Revenue	Transfers between reserves	Balance as at 31 3 2021
	£000	£000	£000	£000	£000	£000	£000
General Fund / Housing Revenue Account Earmarked Reserves							
Corporate Transformation reserve	**6,664**	(4,548)	0	**2,116**	(979)	0	**1,137**
Business Risk reserve	**16,922**	(6,148)	0	**10,774**	402	0	**11,176**
Covid - Clinically & Extremely Vulnerable (CEV) and Contains Outbreak Management Grant (COMF)	**0**	0	0	**0**	3,031	0	**3,031**
Business Rates reserve	4000	283	0	**4,283**	16,791	0	**21,074**
Regeneration	1500	(914)	0	**586**	1,922	0	**2,508**
ICT Refresh	1000	0	0	**1,000**	0	0	**1,000**
oneSource reserve	**868**	(413)	0	**455**	0	0	**455**
Insurance reserve	**7,189**	220	0	**7,409**	(256)	0	**7,153**
Reserves for future capital schemes	**10,906**	(3,602)	0	**7,304**	(1,988)	0	**5,316**
Legal reserve	**178**	0	0	**178**	0	0	**178**
Crematorium and Cemetery reserves	**861**	(34)	(49)	**778**	(120)	0	**658**
Social Care reserve	**22**	63	0	**85**	(34)	0	**51**
Troubled Families reserve	**721**	(196)	0	**525**	(155)	0	**370**
Public Health reserve	**1,215**	270	0	**1,485**	1,110	0	**2,595**
Whole life costing Transport Fleet reserve	**515**	0	0	**515**	(33)	0	**482**
Emergency assistance scheme	**691**	1,401	0	**2,092**	(509)	0	**1,583**
SLM Funding 2017/18 - 2022/23	**1,280**	106	0	**1,386**	(657)	0	**729**
Other reserves	**2,970**	7,207	0	**10,177**	(903)	0	**9,274**
HRA Major works	**3,021**	0	0	**3,021**	0	0	**3,021**
Total General Fund / Housing Revenue Account Earmarked Reserves	**60,523**	**(6,305)**	**(49)**	**54,169**	**17,622**	**0**	**71,791**
Schools Balances							
General Balances	**1,559**	(452)	0	**1,107**	(690)	0	**417**
Schools Balances	**4,563**	(1,346)	0	**3,217**	2,477	0	**5,694**
Centrally held schools balances (Note 34)	**2,465**	(3,500)	0	**(1,035)**	1,735	0	**700**
Total Schools Balances	**8,587**	**(5,298)**	**0**	**3,289**	**3,522**	**0**	**6,811**
Total Earmarked Reserves	**69,110**	**(11,603)**	**(49)**	**57,458**	**21,144**	**0**	**78,602**

General Fund Earmarked Reserves

Corporate Transformation and oneSource Reserves – These reserves will continue to be used to fund strategic projects and the transformation agenda.

Business Risk Reserve – After a strategic review of the earmarked reserves, the Senior Leadership Team de-committed various other earmarked reserves and reprioritised the funds to the Business Risk Reserve.

COVID - Clinically & Extremely Vulnerable (CEV) and Contains Outbreak Management (COMF) Grants Reserve – This funding is provided specifically to manage the containment of the pandemic. The reserve balance will be used alongside the 2021/22 COMF allocation to fund the Outbreak Control Service and associated initiatives to contain the outbreak in line with grant conditions. The use of this grant will be specifically monitored by MHCLG as part of the monthly COVID reporting process.

Business Rates Reserve – This reserve has been created to manage the risks and uncertainties around London wide business rate pooling. The risk of non-collection and successful business rate appeals can have fundamental impact on the Council's budget.

Regeneration Reserve – This is earmarked for the Council's masterplan regeneration projects across the borough, including the Romford masterplan.

ICT Refresh – This has been earmarked for the Council's Transitional Shift in operating models.

oneSource Reserve – This is earmarked to contribute to future projects and service improvement across all oneSource services.

Insurance Reserve – In accordance with the Accounting Code of Practice, the Authority's insurance fund has been split between a provision for liabilities which are likely to be incurred and a reserve for possible future liabilities that are "incurred but not reported" at this stage.

Reserves for future Capital Schemes – These reserves are set aside for capital schemes where expenditure has yet to be incurred. The reserves are a mixture of revenue contributions, internal leasing arrangements and various invest to save schemes.

Legal Reserve – This reserve provides funding for legal cases.

Crematorium and Cemetery Funds – These funds have existed for many years to maintain cemeteries and to help finance improvements at the crematorium. They consist of a fund created by fees, and a Cemetery Memorial Fund.

Social Care Funding – This is support for Social Care funding which local authorities receive from the NHS; it was agreed to carry forward unspent monies to be spent on the programmes jointly agreed by both parties as part of the S256 agreement.

Troubled Families – This is to contribute towards the funding of the Troubled Families programme.

Public Health Reserve – This reserve arose out of a transfer of Primary Care Trust funding for Drugs and Alcohol Action Team services and underspends against the Public Health grant. The intention is to use the reserve for Public Health initiatives.

Whole Life Costing Vehicle Fleet Reserve – This reserve funds whole life costing in the vehicle and plant system.

Emergency Assistance Scheme - The EAS is for assistance for extreme hardship in emergency situations. It is for vulnerable residents and customers experiencing hardship or In need of support.

SLM Funding 2017/18-2022/23 - This reserve will be required until 2022/23 and aims to smooth out the overall impact of the leisure management contract on the revenue account as the five leisure centres reach business maturity at different stages.

Other Reserves – This encompasses a range of several smaller reserves including Covid 19 funding, Library Book Fund, Health and Safety reserve, and provision to fund potential claims arising from building works.

Schools Balances

General Balances – This is income that has accumulated over a number of years from schools buying back services from the Authority. The funds are being reinvested back into the development of support services provided to schools.

Schools Balances – These are balances that have been allocated to schools and are carried forward to the following financial year.

Centrally Held Schools Balances – The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). Details of the deployment of DSG receivable for 2020/21 are shown at Note 34. An overdrawn balance on the DSG account of £2.366m has been transferred to a unusable negative reserve in accordance with new guidance to separate the balance from the Council General Fund.

11. Other Operating Expenditure

2019/20 £000		2020/21 £000
17,773	Levies	17,085
1,106	Payments to the Government Housing Capital Receipts Pool	1,243
(6,191)	(Gain) / Loss on the disposal of non-current assets	(2,166)
12,688	**Total**	**16,162**

12. Financing And Investment Income And Expenditure

2019/20 £000		2020/21 £000
7,790	Interest payable and similar charges	8,201
12,955	Pensions net interest on the net defined benefit liability	9,650
(3,873)	Interest receivable and similar income	(3,647)
(4,360)	Income and expenditure in relation to investment properties (note 16)	(4,107)
(1,353)	Changes in the fair value of investment properties	2,803
0	Changes in the fair value of Bridge Close purchased loan notes	2,477
11,159	**Total**	**15,377**

13.Taxation And Non-Specific Grant Income

2019/20 £000		2020/21 £000
(124,429)	Council tax income	(127,680)
(39,486)	National non-domestic rates income [1]	(36,644)
(21,477)	Non ring-fenced government grants	(45,496)
(30,724)	Capital grants and contributions	(22,119)
(216,116)	**Total**	**(231,939)**

[1] includes s31 Government grant included within NNDR income to fund NNDR reliefs

14. Property, Plant and Equipment

Movements in Balances 2020/21

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2020	**564,782**	**493,422**	**19,644**	**5,396**	**774**	**61,968**	**1,145,986**
Additions	42,513	5,356	3,462	-	-	27,927	**79,258**
Revaluation increases/(decreases) to :							
Revaluation Reserve	6,616	80,479	-	-	(97)		**86,998**
Revaluation gains to the CI&ES	23,010	(1,101)	-	-	-	-	**21,909**
Derecognition - Disposals	(4,797)	(3,612)	-	-	-	-	**(8,409)**
Derecognition - other	-	-	-	-	-	-	**0**
Reclassifications & Transfers	12,539	5,987	-	(1,829)	1,118	(17,869)	**(54)**
At 31 March 2021	**644,663**	**580,531**	**23,106**	**3,567**	**1,795**	**72,026**	**1,325,688**
Accumulated Depreciation and Impairment							
At 31 March 2020	**-**	**893**	**9,242**	**279**	**-**	**-**	**10,414**
Depreciation Charge	8,460	5,090	755	79	-	-	**14,384**
Depreciation written out upon Revaluation:							
Revaluation Reserve	(5,360)	(5,064)	-	-	-	**-**	**(10,424)**
CI &ES	(3,100)	(173)	-	-	-	**-**	**(3,273)**
De-recognition - disposals	-	-	-	-	-	**-**	**0**
Reclassifications	-	18	-	(33)			**-15**
At 31 March 2021	**0**	**764**	**9,997**	**325**	**0**	**0**	**11,086**
Net book value at 31 March 2021	**644,663**	**579,767**	**13,109**	**3,242**	**1,795**	**72,026**	**1,314,602**
Net book value at 31 March 2020	**564,782**	**492,529**	**10,402**	**5,117**	**774**	**61,968**	**1,135,572**

14. Property, Plant and Equipment

Movements in Balances 2019/20

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Gross Book Value	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 March 2019	**555,066**	**473,184**	**15,881**	**177,626**	**4,609**	**615**	**29,491**	**1,256,472**
Additions	31,037	5,298	3,763	19,153	15	-	46,797	**106,063**
Revaluation increases/(decreases) to :								
Revaluation Reserve	(25,830)	4,951	-	-	772	145		**(19,962)**
Revaluation gains to the CI&ES	2,766	3,080	-	-	-	14		**5,860**
Derecognition - Disposals	(5,661)	(6)	-	-	-	-		**(5,667)**
Derecognition - other	-	-	-	-	-	-		**0**
Reclassifications & Transfers	7,404	6,915	-	-	-	-	(14,320)	**(1)**
At 31 March 2020	**564,782**	**493,422**	**19,644**	**196,779**	**5,396**	**774**	**61,968**	**1,342,765**
Accumulated Depreciation and Impairment								
At 31 March 2019	**-**	**1,272**	**7,901**	**81,156**	**510**	**2**	**-**	**90,841**
Depreciation Charge	8,290	4,974	1,341	5,933	112	1	**-**	**20,651**
Depreciation written out upon Revaluation:								
Revaluation Reserve	(6,023)	(5,038)	-		(343)	(3)	**-**	**(11,407)**
CI &ES	(2,267)	(315)	-		-	-	**-**	**(2,582)**
De-recognition - disposals	-	-			-	-	**-**	**0**
Reclassifications	-	-	-		-	-	**-**	**0**
At 31 March 2020	**0**	**893**	**9,242**	**87,089**	**279**	**0**	**0**	**97,503**
Net book value at 31 March 2020	**564,782**	**492,529**	**10,402**	**109,690**	**5,117**	**774**	**61,968**	**1,245,262**
Net book value at 31 March 2019	**555,066**	**471,912**	**7,980**	**96,470**	**4,099**	**613**	**29,491**	**1,165,631**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2021/22.

31 March 2020 £000		31 March 2021 £000
	Fund	
5,668	Arts, culture, sport and leisure	7,427
12,000	Roads, footways and bridges	1,081
26,118	Education capital schemes	10,046
39,559	Town centre and environmental Improvements	170,687
3,836	Office accommodation, equipment, ICT and vehicles	625
2,650	Other smaller General Fund schemes	5,413
89,831	**Total General Fund commitments**	**195,279**
76,363	Housing Revenue Account	136,865
166,194	**Total commitments**	**332,144**

Revaluations

The following statement shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The valuations are reviewed in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies. Valuations are carried out by our external valuers, Wilks Head and Eve, and by the Authority's Property Strategy Manager on the basis of a five year rolling programme; the most recent of which was carried out on 31 March 2021.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Carried at historical cost	-	-	13,109	117,558	3,242	-	72,026	**205,935**
Valued at fair value as at:								
31 March 2021	644,663	544,815	-	-	-	1,795	-	**1,191,273**
31 March 2020	-	10,164	-	-	-	-	-	**10,164**
31 March 2019	-	10,438	-	-	-	-	-	**10,438**
31 March 2018	-	13,777	-	-	-	-	-	**13,777**
31 March 2017	-	573	-	-	-	-	-	**573**
Total cost or valuation	**644,663**	**579,767**	**13,109**	**117,558**	**3,242**	**1,795**	**72,026**	**1,432,160**

14.a Highways Infrastructure Assets

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

Movement on Balances

	2019/20	2020/21
	£000	£000
Net Book Value (modified historical cost)		
at 1 April	**96,470**	**109,690**
Additions	19,153	13,687
Derecognition	-	(16)
Depreciation	(5,933)	(5,803)
Impairment	-	-
Oher Movement in Costs	-	-
at 31 March	**109,690**	**117,558**

Reconciliation of Highways and Other PPE assets to Balance Sheet figure

	31 March 20	31 March 21
	£000	£000
Net Book Value (modified historical cost)		
Infrastructure Asset	109,690	117,558
Other PPE Assets	1,135,572	1,314,602
Total PPE Assets	**1,245,262**	**1,432,160**

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

15. Heritage Assets

Carrying value of heritage assets held by the Authority

Cost or Valuation	Civic Regalia £'000	Heritage Buildings £'000	Total Assets £'000
31 March 2017	**80**	**24**	**104**
Depreciation	0	(1)	(1)
Revaluation	30	0	30
31 March 2018	**110**	**23**	**133**
Depreciation	0	0	0
Revaluation	0	0	0
31 March 2019	**110**	**23**	**133**
Depreciation	0	(1)	(1)
Revaluation	0	0	0
31 March 2020	**110**	**22**	**132**
Depreciation	0	(1)	(1)
Revaluation	0	2,150	2,150
Transfers	0	38	38
31 March 2021	**110**	**2,209**	**2,319**

16. Investment Properties and Joint Ventures Investment

a) The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2019/20 £000		2020/21 £000
4,677	Rental income from investment property	4,470
(317)	Direct operating expenses arising from investment property	(363)
4,360	**Net gain**	**4,107**

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

b) The following table summarises the movement in the fair value of investment properties over the year.

2019/20 £000		2020/21 £000
50,990	**Opening Balance**	**67,242**
1,353	Revaluation gains/(loss) from fair value adjustment	(2,803)
14,899	Additions	113
0	Assets reclassified	0
0	Disposal of investment properties	0
67,242	**Balance at the end of the year**	**64,552**

The valuation of the Authority's investment property portfolio in 2020/21 was undertaken by Wilks Head & Eve who provide specialist valuations advice and who have extensive experience in the property sector.

c) Investments within the group balances

Mercury Land Holding hold £47.953m in investment properties that on an open market value for existing use basis.

The Council has three property joint ventures of which the Council holds a stake of property under development. At 31 March 2021, the Council share of the developments under construction were: 100% of Bridge Close (£11.7m), 50% of Rainham & Beam Park (£1.6m) and 50% of Havering & Wates (12 Estates) (£5.5m). These are shown under property, plant & equipment until complete.

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2021 and 2020 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2021 £000
Office units	0	3,484	0	3,484
Commercial units	0	61,068	0	61,068
Total	**0**	**64,552**	**0**	**64,552**

2020 Comparative Figures

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2020 £000
Office units	0	3,651	0	3,651
Commercial units	0	63,591	0	63,591
Total	**0**	**67,242**	**0**	**67,242**

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

Highest and Best Use of Investment Properties

In estimating the fair value of the authority’s investment properties, the highest and best use of the asset has been used.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation Process for Investment Properties

The fair value of the authority’s investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The authority’s valuation experts work closely with property services and the capital finance manager reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

d) Investment in Subsidiaries and Joint Ventures

2019/20 £000	Investments in subsidiary companies and Joint Ventures:	2020/21 £000
12,024	Opening Balance	21,992
-	Reclassification	(3,272)
9,968	Additions*	479
21,992	Closing Balance	19,199

£2.164m of Investment in the Havering and Wates joint venture at 31 March 2020 have been reclassified as long-term investments in subsidiaries and joint ventures during 2020/21 to acknowldge repayment at end of joint venture.

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Corporation of incorporation	Class of shares	Holding	Principal activity
Mercury Land Holding	England	Ordinary	100%	Development of the building project
Bridge Close	England	Ordinary	100%	Development of the building project

Joint Ventures

The following are joint ventures of the Council:

Name	Corporation of incorporation	Class of shares	Holding	Principal activity
Havering & Wates	England	Ordinary	50%	Development of the building project
Rainham & Beam Park	England	Ordinary	50%	Development of the building project

17. Intangible Assets

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

The maximum life attributed to software assets is currently five years on the grounds that it is a reasonable estimate of the life of computer systems and is the life applied to computer hardware for depreciation purposes.

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

2019/20 £000	Intangible fixed assets software and system development	2020/21 £000
2,989	Gross carrying amounts	2,989
(1,421)	Less accumulated amortisation	(1,904)
1,568	**Net carrying amount at start of year**	**1,085**
0	Additions – purchases	19
0	Disposals	0
(483)	Less amortisation for the period	(483)
1,085	**Net carrying amount at end of year**	**621**
	Comprising:	
2,989	Gross carrying amounts	3,008
(1,904)	Less accumulated amortisation	(2,387)

18. Financial Instruments

(a) Financial Instruments - Classification

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, 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 Authority 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 is potentially unfavourable to the Authority.

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

- long-term loans from the Public Works Loan Board and commercial lenders
- short-term loans from other local authorities or public sector bodies
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority 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 Authority during the year are held under the following classifications. Financial assets are classified into one of three categories. Financial assets held at amortised cost. Fair Value through (FVOCI) and Fair Value through profit and loss (FVTPL). All the Authority's financial assets have been assessed to be held at amortised cost**, except for pre-buy out Bridge Close loan notes (held at Fair Value through profit and loss)**; these represent loans and loan-type arrangements where repayments or interest and principal takes place on set dates and at specified amounts. Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses (ECL) model. Changes in loss allowances (including balances outstanding at the dates of derecognition of an asset) are debited / credited to the Financing and investment income and expenditure lines in the CIES.

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
- fixed term deposits and reverse repurchase agreements with banks and building societies
- loans to other local authorities
- loans to small companies
- trade receivables for goods and services delivered

(b) Financial Instruments - Balances

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

31 March 2020		Financial Liabilities	31 March 2021	
Long-Term £000	**Short-Term £000**		**Long-Term £000**	**Short-Term £000**
		Loans at amortised cost:		
		PWLB		
228,234		- Principal borrowed	257,124	1,110
	425	- Accrued interest		573
		Market Loan		
7,000		- Principal borrowed	7,000	
	93	- Accrued interest		93
		Other Loans		
	38,366	- Principal borrowed		10,466
	23	- Accrued interest		0
235,234	**38,907**	**Total borrowing ***	**264,124**	**12,242**
		Liabilities at amortised cost:		
		Trade payables		
0	58,356	- Trade Creditors		51,418
0	**58,356**	**Included in creditors**	0	**51,418**
235,234	**97,263**	**Total financial liabilities**	**264,124**	**63,660**

* The total short-term borrowing includes £0.666m (2019/20: £0.519m) representing accrued interest on long-term borrowing (PWLB £573k & LOBO Market Loan £93k)

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

31 March 2020		Financial Assets	31 March 2021	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
10,000	142,800	- Principal at amortised cost		110,000
	789	- Accrued interest		276
3,000		- Other investment principal at amortised cost	16,973	
		- Other investment principal at fair value	2,226	
	113	- Accrued interest		
13,000	**143,702**	**Total Investments ***	**19,199**	**110,276**
		Loans and receivables:		
	10,895	- Cash (including bank accounts)		7,861
	15,850	- Cash equivalents at amortised cost		
	5	- Accrued interest		
0	**26,750**	**Total cash and cash equivalents**	**0**	**7,861**
		Loans and receivables		
		- Loans at fair value	10,255	
		- Loans at amortised cost	32,480	
26,505	39,426	- Trade receivables		52,070
26,505	**39,426**	**Included in debtors**	**42,735**	**52,070**
39,505	**209,878**	**Total financial assets**	**61,934**	**170,207**

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

31 March 2020		Financial Assets	31 March 2021	
Long-Term £000	**Short-Term £000**		**Long-Term £000**	**Short-Term £000**
		Loans and receivables:		
10,000	142,800	- Principal at amortised cost		110,000
	789	- Accrued interest		276
3,000		- Other Principal at amortised cost		
	113	- Accrued interest		
13,000	**143,702**	**Total investments**	**0**	**110,276**
		Loans and receivables:		
	12,005	- Cash (including bank accounts)		12,788
	15,850	- Cash equivalents at amortised cost		
	5	- Accrued interest		
0	**27,860**	**Total cash and cash equivalents**	**0**	**12,788**
		Loans and receivables		
232	37,127	- Trade receivables	5,078	48,366
232	**37,127**	**Included in debtors**	**5,078**	**48,366**
13,232	**208,689**	**Total financial assets**	**5,078**	**171,430**

(c) Financial Instruments - Gains and Losses
Gains and losses in 2020/21 were as follows:

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

	Financial Liabilities		Financial Assets		2020/21 Total
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	
	£000	£000	£000	£000	£000
Interest expense	8,201				8,201
Interest payable and similar charges	**8,201**	**0**	**0**	**0**	**8,201**
Interest income			(3,647)		(3,647)
Increases in fair value					0
Interest and investment income	**0**	**0**	**(3,647)**	**0**	**(3,647)**
Changes in value of investment properties				2,803	2,803
Changes in value of purchased loan notes				2,477	2,477
Income and expenditure relating to investment properties				(4,107)	(4,107)
Pensions Net Interest		9,650			9,650
Impact in Other Comprehensive Income *	**0**	**9,650**		**1,173**	**10,823**
Net gain (loss) for the year	**8,201**	**9,650**	**(3,647)**	**1,173**	**15,377**

* Not financial instruments but included to reconcile to note 12

Gains and losses in 2019/20 were as follows:

	Financial Liabilities		Financial Assets		2019/20
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	Total
	£000	£000	£000	£000	£000
Interest expense	7,790				7,790
Interest payable and similar charges	**7,790**	**0**	**0**	**0**	**7,790**
Interest income			(3,873)		(3,873)
Increases in fair value					0
Interest and investment income	**0**	**0**	**(3,873)**	**0**	**(3,873)**
Changes in value of investment properties				(1,353)	(1,353)
Income and expenditure relating to investment properties				(4,360)	(4,360)
Pensions Net Interest		12,955			12,955
Impact in Other Comprehensive Income *	**0**	**12,955**	**0**	**(5,713)**	**7,242**
Net gain (loss) for the year	**7,790**	**12,955**	**(3,873)**	**(5,713)**	**11,159**

(d) Financial Instruments - Fair Values

Financial assets classified as available for use are carried in the Balance Sheet at fair value. For most assets, including bonds the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows as at 31 March 2021. LINK, the Council's adviser have provided the fair value calculations.

Financial assets classified as loans and receivables and all non-derivative 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 2021, using the following methods and assumptions:

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been calculated using the PWLB new market loan discount rate. This involves using level two inputs.
- The fair values of Public Works Loan Board (PWLB) loans are calculated using the premature repayment rate published by the PWLB at 31st March 2021.
- No early repayment or impairment is recognised for any financial instrument;
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices;
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments;
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness;

31 March 2020				31 March 2021	
Balance Sheet £000	Fair Value £000		Fair Value Level	Balance Sheet £000	Fair Value £000
		Financial liabilities held at amortised cost:			
228,234	348,464	- Long-term loans from PWLB	2	257,124	347,906
7,000	15,985	- Long-term LOBO loans	2	7,000	13,215
38,366	42,306	- Other Short-term loans	2	11,576	11,523
541	541	- Accrued interest		666	666
274,141	**407,296**	**Total**		**276,366**	**373,310**
58,356	58,356	Liabilities for which fair value is not disclosed		51,418	51,418
332,497	**465,652**	**Total Financial Liabilities**		**327,784**	**424,728**

31 March 2020			Fair Value Level	31 March 2021	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Recorded on balance sheet as:			
58,356	58,356	- Short-term creditors		51,418	51,418
38,907	42,848	- Short-term borrowing		11,576	11,523
235,234	364,450	- Long-term borrowing		264,124	361,120
332,497	**465,654**	**Total Financial Liabilities**		**327,118**	**424,061**

The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

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

31 March 2020			Fair Value Level	31 March 2021	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Financial assets held at amortised cost:			
		Loans & Receivables			
10,000	10,205	- Long-term loans to local authorities	2	0	0
26,505	26,087	- Long-term other loans	2	32,480	32,387
0	0	- Long-term other loans at fair value	3	10,255	10,255
90,000	90,398	- Short-term loans to local authorities	2	75,000	75,373
52,800	53,089	- Short-term bank deposits	2	35,000	35,014
3,000	3,315	- Unrated Corporate Bonds	2	0	0
		- Covered Bond	1		
902	902	- Accrued interest		276	276
		Cash and Cash equivalents			
26,745	26,745	- Cash equivalents at amortised cost	2	7,861	7,861
5	5	- Accrued interest	2	0	0
209,957	**210,746**	**Total**		**160,872**	**161,166**
39,426	39,426	Assets for which fair value is not disclosed *		52,070	52,070
249,383	**250,172**	**Total Financial Assets**		**212,942**	**213,236**
		Recorded on balance sheet as:			
26,505	26,087	- Long-term debtors		42,735	42,642
13,000	13,520	- Long-term investments		0	0
40,328	40,328	- Short-term debtors		52,070	52,346
142,800	143,487	- Short-term investments		110,276	110,387
26,750	26,750	- Cash and cash equivalents		7,861	7,861
249,383	**250,172**	**Total Financial Assets**		**212,942**	**213,236**

The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

(e) Financial Instruments - Risks

The Authority has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in 2017 and came into effect from 1 April 2018).

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

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

The main risks covered are:

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

  Re-financing risk: the possibility that the Authority might be requiring, to renew a financial instrument on maturity at disadvantageous interest rates or terms.

Credit Risk: Investments

The Authority manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Authority has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Authority has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of 10% of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). The Authority also sets limits on investments in certain sectors.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £35.0m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2021 that this was likely to crystallise.

The Annual Investment Strategy (details of which are available on the Council's web site) requires the Authority to maintain a counterparty list that follows the criteria set out in the Treasury Management Practices. Creditworthiness is assessed by the use of credit rating provided by Fitch, Moody's and Standard and Poor ratings to assess an institution's long and short-term financial strength. Other information provided by Brokers, Advisers and Financial and economic reports is also collated and assessed to produce rating parameters to monitor each individual institution. Credit watches and outlooks from credit rating agencies, credit default to give early warning of likely changes in credit ratings and sovereign ratings. Only highly quality rated counterparties are included on the lending list.

The ECL (expected credit loss) is immaterial as larger proportion of investments are made to local authorities which have government support. Local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparties for a financial asset is central government or a local authority for which relevant statutory provision prevent default.

The table below summarises the credit risk exposures of the Authority’s investment portfolio by credit rating:

31 March 2020		Credit Rating	31 March 2021	
Long-term	Short-term		Long-term	Short-term
£000	£000		£000	£000
0	15,850	AAA	0	0
0	0	AA+	0	0
0	0	AA	0	0
0	0	AA-	0	0
0	22,800	A+	0	15,000
0	30,000	A	0	20,000
0	0	A-	0	0
10,000	90,000	Unrated local authorities	0	75,000
3,000	0	Unrated Corporate Bonds	0	0
13,000	**158,650**	**Total Investments**	**0**	**110,000**

Credit Risk: Receivables

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 Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2020/21 is £50,000.

The Authority’s credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Authority’s potential maximum exposure credit risk, based on the experience gathered over the last five financial years on the level of default on trade debtors, adjusted for current market conditions. Only those receivables meeting the definition of a financial asset are included.

Credit risk exposure 31 March 2020 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2021 £000
0	Capital	1,689	0	0	0
5,723	Housing	8,765	67	78	6,806
359	Social Services	9,068	10	5	478
6,294	Parking	7,214	80	93	6,721
0	Other local authorities	84	0	0	0
0	Health authorities	5,182	0	0	0
1,907	Other sundry debtors	33,582	9	10	3,276
14,283	**Total**	**65,584**	**28**	**26**	**17,281**

Liquidity Risk

The Authority has ready access to borrowings from the Public Works Loan Board, other local authorities, banks and corporates There is no perceived significant risk that the Authority will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourable interest rates.

Refinancing Risk

The Authority approved Treasury and investment strategies are set to avoid the risk of refinancing on unfavourable terms. The treasury team address the operation risks within approved parameters.

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

31 March 2020 £000	Time to maturity (years)	31 March 2021 £000
38,366	Not over 1	11,576
1,110	Over 1 but not over 2	0
0	Over 2 but not over 5	4,029
73,065	Over 5 but not over 10	85,561
66,099	Over 10 but not over 20	49,574
30,000	Over 20 but not over 30	30,000
32,960	Over 30 but not over 40	32,960
25,000	Over 40	55,000
7,000	Uncertain date	7,000
273,600	**Total**	**275,700**

The Authority has £7m of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Authority will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Authority is likely repay these loans. The next option date after 31st March 2021 was 18th May 2021 and as expected not taken. The last maturity date is 18th November 2065.

Market Risks: Interest Rate Risk

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

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall

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 income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

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

	2020/21 £000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Impact on comprehensive income and expenditure	0
Decrease in fair value of loans and receivables *	(412)
Decrease in fair value of fixed rate borrowing liabilities *	(40,444)

* Borrowings are not carried at fair value, so nominal gain and losses on fixed rate borrowings would not impact on comprehensive income and expenditure. The Authority has no investments in call accounts with falling interest rates at 31 March 2021.

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

19. Debtors

Short-Term Debtors

31 March 2020 £000					31 March 2021 £000			
Gross	Impairment Allowance		Net		Gross	Impairment Allowance		Net
				Collection Fund Debtors				
14,662	(7,764)	*	6,898	Council Tax payers	16,687	(10,684)	*	6,003
1,319	(677)	*	642	Business Rate payers	882	(482)	*	400
0	0			**Other Debtors**				
6,113	0	*	6,113	Government departments	7,766	0	*	7,766
3,369	0		3,369	Capital	1,689	0		1,689
8,866	(6,723)		2,143	Housing	8,765	(6,806)		1,959
10,415	(7,616)	*	2,799	Housing Benefit	9,925	(7,676)	*	2,249
8,017	(359)		7,658	Social Services	9,068	(478)		8,590
6,862	(6,294)		568	Parking Enforcement	7,214	(6,721)		493
767	0		767	Other local authorities	84	0		84
1,943	0		1,943	Health authorities	5,182	0		5,182
2,683	0		2,683	Mercury Land Holdings	4,074	0		4,074
22,202	(1,907)		20,295	Other sundry debtors	33,275	(3,276)		29,999
87,218	**(31,340)**		**55,878**	**Total Short-Term debtors**	**104,611**	**(36,123)**		**68,488**

* These debtors are not included in Note 18(b), Financial Instruments (balances), as they do not meet the definition of a financial asset.

Government departments, capital, and other local authorities do not have an impairment allowance applied.

Debtors for Local Taxation

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

31 March 2020 £000	Age of Debtors	31 March 2021 £000
4,088	Less than 1 year	5,142
2,599	Between 1 and 2 years	3,282
1,847	Between 2 and 3 years	1,992
7,447	More than 3 years	7,153
15,981	**Balance at end of the year**	**17,569**

Long-Term Debtors

31 March 2020 £000		31 March 2021 £000
24,108	Mercury Land Holdings	32,386
0	Bridge Close Regeneration LLP*	4,783
2,164	Wates JV*	5,472
233	Other	94
26,505	**Total Long-Term Debtors**	**42,735**

* Wates JV investment reclassified as long-term debtor during 2020/21. Bridge Close investment allocated between investment, long-term debtors and capital adjustment account during 2020/21.

20. Cash and Cash Equivalents

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

2019/20 £000		31 March 2021 £000
5,959	Bank current accounts	744
15,855	Short-term deposits with banks – call accounts	0
4,936	Schools – under the LMS cheque book scheme	7,117
26,750	**Total cash and cash equivalents**	**7,861**

21. Assets Held for Sale

The following table summarises the movement in the fair value of assets held for sale over the year.

2019/20 £000		31 March 2021 £000
1,826	**Opening Balance**	**0**
0	Revaluation gains from fair value adjustments	0
0	Assets reclassified	0
(1,826)	Disposals	0
0	**Balance at end of the year**	**0**

22. Short-Term Creditors

2019/20 £000		31 March 2021 £000
	Collection Fund creditors	
6,475	Council Tax payers *	7,704
2,608	Business Rates payers *	1,033
3,870	Greater London Authority *	3,160
3,650	Central Government (NNDR)*	7,635
	Other Creditors	
1,842	Central Government *	20,394
4,567	HMRC *	4,137
21,904	Pension Fund *	15,847
13,337	Capital creditors	2,451
36,349	Other sundry creditors	41,648
8,670	Income in advance	7,319
103,272	**Total**	**111,328**

* These creditors are not included in Note 18(b), Financial Instruments, as they do not meet the definition of a financial liability.

23. Provisions

2020/21	Self Insurance £000	Collection Fund £000	Other Provisions £000	Total £000
Balance at 31 March 2020	**2,943**	**6,146**	**0**	**9,089**
Additional provisions made in year	605	1,261		**1,866**
Amounts used in year				**0**
Transfer to revenue				**0**
Balance at 31 March 2021	**3,548**	**7,407**	**0**	**10,955**

Self-Insurance Provision
The Authority's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Authority's public and employer's liability, property and motor vehicle insurance policies. It is not possible to determine the precise timing of the settlement of claims relating to this provision. The excess levels at 1 July 2019 were; public and employer's liability (£125,000), motor vehicles (£25,000) and property (£50,000).

Collection Fund Provision
As part of the changes in business rate retention, the Authority is required to create a provision in respect of outstanding appeals. These appeals are currently with the Valuation Office Agency for review and, as a result, it is not possible to determine the precise timing of the settlement of claims relating to this provision. Based on estimates on the likely settlement year, we could assume that 20% (£4.94 million will be settled within the next financial year, but this is a very high-level estimate. Only the Authority's 30% share of the appeals is recorded within the provision note.

24. Usable Reserves

31 March 2020 £000		31 March 2021 £000
12,687	General Fund balance	10,936
57,457	Earmarked Reserves	78,602
9,832	Housing Revenue Account balance	17,028
50,523	Capital Grants Unapplied	51,590
49,219	Capital Receipts Reserve	37,464
21,732	Major Repairs Reserve	13,378
201,450	**Total usable reserves**	**208,998**

25. Unusable Reserves

31 March 2020 £000		31 March 2021 £000
393,756	Revaluation Reserve	489,322
615,623	Capital Adjustment Account	674,082
(475)	Financial Instruments Adjustment Account	(2,856)
(423,095)	Pension Reserve	(545,811)
166	Deferred Capital Receipts Reserve	69
(1,485)	Collection Fund Adjustment Account	(19,100)
0	Dedicated School Grant Reserve (see note 34)	(2,366)
(3,789)	Accumulated Absences Account	(6,282)
580,701	**Total unusable reserves**	**587,058**

a) Revaluation Reserve

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

- revalued 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 Capitals Adjustment Account.

31 March 2020 £000		31 March 2021 £000
406,796	**Balance at 1 April**	**393,756**
(8,555)	Net gain/(deficit) on revaluation of fixed assets	99,572
(4,481)	Excess of Fair Value Depreciation over Historical costs depreciation	(4,005)
(4)	Removal of Revaluation balance upon sale	0
0	Other Adjustments	0
393,756	**Balance at 31 March**	**489,323**

b) Financial Instruments Available for Sale Reserve

This reserve is used for the accounting entries for a covered bond and Floating Rate Notes that were purchased in 2015/16 and 2016/17 respectively which were valued on the balance sheet at fair value. No differences in value were credited to the Comprehensive Income and Expenditure Statement in 2020/21 or 2019/20. Any sum charged to the Comprehensive Income and Expenditure Statement is subsequently transferred out through the movement in reserves statement and recorded in the Financial Instruments Available for Sale Reserve in accordance with statutory requirements.

c) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and 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 Authority as finance for the costs of acquisition, construction and enhancement.

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

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

2019/20 £000		2020/21 £000
570,839	**Balance at 1 April**	**615,623**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(20,652)	Net charges for depreciation of non-current assets	(20,187)
8,443	Net charges for impairment of non-current assets	25,181
0	Net charges for de-recognition of non-current assets	0
0	Mitigation of PPP Capitalised	0
(483)	Amortisation of intangible assets	(483)
(7,544)	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	(11,002)
	Adjusting amounts written out of the Revaluation Reserve	
4,481	Excess of Fair Value Depreciation over Historical costs depreciation	4,005
4	Removal of Revaluation balance upon sale	0
0	Other	0
(15,751)	**Net written out amount of the cost of non-current assets consumed in the year**	**(2,486)**
	Capital financing applied in the year:	
18,231	Use of the Capital Receipts Reserve to finance new capital expenditure	20,638
17,997	Use of the Major Repairs Reserve to finance new capital expenditure	17,242
27,347	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	21,052
2,194	Statutory provision for the repayment of debt	3,688
0	Use of Capital Receipts to repay debt	3,140
8,940	Capital expenditure charged against the General Fund and HRA balances	3,858
74,709	**Capital financing applied in year**	**69,618**
(15,527)	**Revenue expenditure funded from capital under statute**	**(5,870)**
1,353	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**(2,803)**
615,623	**Balance at 31 March**	**674,082**

d) 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. The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2019/20 £000		2020/21 £000
(572)	**Balance at 1 April**	(475)
97	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	97
0	Reduction in value of Bridge Close LLP soft loans	(2,478)
(475)	**Balance at 31 March**	**(2,856)**

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

2019/20 £000		2020/21 £000
(539,382)	**Balance at 1 April**	**(423,095)**
127,831	Actuarial gains or (losses) on pensions assets and liabilities	(119,593)
(45,066)	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	(37,885)
33,522	Employer's pensions contributions and direct payments to pensioners payable in the year	34,762
(423,095)	**Balance at 31 March**	**(545,811)**

f) 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 Authority 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.

2019/20 £000		2020/21 £000
244	**Balance at 1 April**	**166**
(78)	Transfer to the Capital Receipts Reserve upon receipt of cash	(97)
166	**Balance at 31 March**	**69**

g) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Additional NNDR reliefs have led to a large decrease in collectable NNDR 2020/21, this has led to a large collection fund deficit reflected in the Collection Fund Adjustment Account - Government grant will fund this shortfall.

2019/20 £000		**2020/21 £000**
(61)	**Balance at 1 April**	**(1,485)**
(1,424)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(17,615)
(1,485)	**Balance at 31 March**	**(19,100)**

h) 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. The COVID restrictions have led to officers rolling over high annual leave balances at 31 March 2021 and this has caused the increase in the account.

2019/20 £000		**2020/21 £000**
(3,837)	**Balance at 1 April**	**(3,789)**
3,837	Settlement or cancellation of accrual made at the end of the preceding year	3,789
(3,789)	Amounts accrued at the end of the current year	(6,282)
48	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,493)
(3,789)	**Balance at 31 March**	**(6,282)**

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
12,209	12,219	Depreciation, impairment and downward revaluation	(4,994)	(4,984)
483	483	Amortisation	483	483
24,303	30,327	Movement in creditors	8,056	1,794
(77)	1,628	Movement in debtors	(11,168)	(11,607)
(7,435)	20	Movement in long-term debtors	(12,889)	(2,976)
(4)	(4)	Movement in inventories	(11)	(11)
11,544	11,544	Movement in pension liability	3,123	3,133
(616)	(616)	Increase / (decrease) in provisions	1,866	1,866
7,544	7,474	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	11,002	5,373
14,313	14,231	Other non-cash items charged to the net surplus or deficit on the provision of services	8,602	8,039
62,264	**77,306**	**Net cash flows from operating activities**	**4,070**	**1,110**

Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities:

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
(30,724)	(30,724)	Capital grants credited to the Consolidated Income and Expenditure Statement	(22,119)	(22,119)
(13,636)	(13,636)	Proceeds from sale of fixed assets	(13,168)	(13,168)
(44,360)	**(44,360)**	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**(35,287)**	**(35,287)**

27. Cash Flow Statement – Investing Activities

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
(136,489)	(136,489)	Purchase of property, plant and equipment, investment property and intangible assets	(98,928)	(98,928)
(188,790)	(217,230)	Purchase of short-term and long-term investments	(183,016)	(181,709)
13,636	13,636	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,168	13,168
26,427	41,299	Capital grants received	20,884	20,884
195,126	195,126	Proceeds from short-term and long-term investments	224,067	224,459
(90,090)	**(103,658)**	**Net cash flows from investing activities**	**(23,825)**	**(22,126)**

28. Cash Flow Statement – Financing Activities

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
180,623	180,623	Cash receipts of short-term and long-term borrowing	63,286	63,286
(117,995)	(117,995)	Repayments of short-term and long-term borrowing	(61,060)	(61,060)
62,628	**62,628**	**Net cash flows from financing activities**	**2,226**	**2,226**

29. Trading Operations

2019/20 (Surplus)/ Deficit £000		2020/21 Income £000	2020/21 Expenditure £000	2020/21 (Surplus)/ Deficit £000
	a) Open Air Market			
166	The Authority operates an open air market three days a week	(159)	589	430
	b) Other Trading Accounts			
(518)	Highways	(2,757)	2,418	(339)
(198)	Schools/Welfare Catering	(2,309)	5,995	3,686

Impact of COVID19 pandemic on Trading Accounts - The unprecedented restrictions caused by COVID19 have had a detrimental effect on trading operations. To ensure these trading areas return to a stable trading position once COVID19 restrictions are lifted, the Council has funded 2020/21 deficits to ensure these areas start 2021/22 with the same trading balances as at 31st March 2020. Government COVID grants to the Council have covered 71.25% of these deficits.

Open Air Market -The Market trading results have impacted due to COVID19 pandemic restrictions requiring the closing of the market for most of 2020/21.

Highways – Actual surplus income has reduced by £0.178m in comparison to 2019/20. It was anticipated that the 2020/21 programme would be impacted by further delays, the COVID19 pandemic and the subsequent withdrawal of TFL funded schemes. The aspiration for 2021/22 is to return to “business as usual” and regain this surplus.

Schools/Welfare Catering - COVID19 restrictions and resulting school closures caused the service to have a £3.686m deficit in 2020/21. In adddition the Council received £290,920 of Covid furlough income centrally for catering staff.

30. Pooled Budgets

Mental Health

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000, a partnership arrangement was established with the North East London Foundation Trust (NELFT). The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners (although NELFT became the host partner from January 2011). This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services, for Adults with Mental Health (MH) issues who qualify for such provision. The pooled budget is accounted for under a joint arrangement

2019/20 £000		2020/21 £000
	Funding	
1,485	Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust	1,361
88	Recharges (excluded from the Pooled Budget)	94
1,328	Non Pooled Budget codes	1,730
2,901	**Total funding**	**3,185**
2,977	**Final outturn**	**2,813**

Adult Services – Better Care Fund

Under the National Health Services Act 2006 section 13Z (2) and 14Z (3) & Local Government Acts 1972 & 2000, a partnership arrangement was established with NHS Havering Clinical Commissioning Group (CCG).

The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners, out of which payment was made towards expenditure incurred in the exercise of prescribed local authority functions and prescribed NHS functions through joint commissioning arrangements.

The agreed Pooled budget between LBH and the CCG is split into three main parts which are activities relating to Capital, Commissioned services and items charged with LBH revenue costs.

The pooled budget is accounted for under a joint arrangement.

Expenditure in 2020/21 was as follows:

Section 75 Joint Pooled Budget between LBH and CCG	2020-21 CCG	2020-21 LBH	2020-21 Total	2019-20 CCG	2019-20 LBH	2019-20 Total
Funding						
Capital						
Disability Facility Grant Allocation		1,813	1,813		1,813	1,813
Revenue						0
Social Care/ iBCF		6,624	6,624		5,619	5,619
Winter Pressures Grant					1,006	1,006
Minimum CCG Contribution	19,292		19,292	18,248		18,248
Additional Contribution		873	873		874	874
Total	**19,292**	**9,310**	**28,602**	**18,248**	**9,312**	**27,560**
Expenditure						
Capital						
Disability Facility Grant Allocation		1,813	1,813		1,813	1,813
Revenue						
Social Care/ iBCF		6,624	6,624		5,619	5,619
Winter Pressures Grant			0		1,006	1,006
Minimum CCG Contribution	11,516	7,776	19,292	11,202	7,046	18,248
Additional Contribution		873	873		874	874
Total	**11,516**	**17,086**	**28,602**	**11,202**	**16,358**	**27,560**

Comparative figures for 2019/20 are as follows:

Section 75 Joint Pooled Budget between LBH and CCG	Budget 2019/20 £000	Actual 2019/20 £000	BCF Funding Outturn 19-20 £000
LBH Funding - Capital			
Disability Facility Grant Allocation	1,813	1,316	(497)
Net Pooled Capital	**1,813**	**1,316**	**(497)**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**11,202**	**11,202**	**0**
Revenue - CCG / LBH			
Minimum CCG Contribution - Expenditure	**7,920**	**7,920**	**0**
CCG Minimum contribution representing ex256 monies	4,959	4,959	
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	1,259	1,259	
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	172	172	
CCG contribution to Care Act	656	656	
LBH Additional Contribution	874	874	
Net Pooled Revenue	**19,122**	**19,122**	**0**
Total Pooled	**20,935**	**20,438**	**(497)**

31. Members' Allowances

Payments in year were £983,156 including expenses (£951,150 in 2019/20). Additionally, payments to co-opted members totalled £1,468 (£1,585 in 2019/20).

32. Officers' Remuneration

The number of employees (including teaching staff) whose remuneration, excluding employer pension contributions, was £50,000 or more, in bands of £5,000 was:

			2019/20			2020/21		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	24	45	**69**	47	90	**137**
£55,000	-	£60,000	16	24	**40**	23	52	**75**
£60,000	-	£65,000	16	18	**34**	16	23	**39**
£65,000	-	£70,000	10	17	**27**	15	13	**28**
£70,000	-	£75,000	9	11	**20**	12	14	**26**
£75,000	-	£80,000	9	7	**16**	3	15	**18**
£80,000	-	£85,000	3	4	**7**	8	4	**12**
£85,000	-	£90,000	2	2	**4**	2	10	**12**
£90,000	-	£95,000	2	3	**5**	2	2	**4**
£95,000	-	£100,000	1	1	**2**	1	4	**5**
£100,000	-	£105,000		3	**3**	2	2	**4**
£105,000	-	£110,000		1	**1**	1	2	**3**
£110,000	-	£115,000		3	**3**		3	**3**
£115,000	-	£120,000			**0**			**0**
£120,000	-	£125,000		1	**1**			**0**
£125,000	-	£130,000		1	**1**		1	**1**
£130,000	-	£135,000			**0**			**0**
£135,000	-	£140,000		2	**2**		1	**1**
£140,000	-	£145,000			**0**			**0**
£145,000	-	£150,000			**0**		3	**3**
£150,000+				3	**3**		4	**4**
			92	**146**	**238**	**132**	**243**	**375**

The table includes staff for whom additional disclosures are required, as set out below (Senior Officers Remuneration).

Senior Officers Remuneration

The following table sets out the remuneration disclosures for Senior Officers in accordance with regulation 7 of the Accounts and Audit (England) Regulations 2011. Under the revised regulations, the definitions of Senior Officers which are relevant to the Authority are:

a) the designated head of paid service, a statutory chief officer or non-statutory chief officer of a relevant body as defined under the Local Government Act 1989; or

b) any person having responsibility for the management of the relevant body, to the extent that the person has the power to direct or control the major activities of the body, in particular activities involving the expenditure of money whether solely or collectively with other persons.

This has been determined to mean the Authority's Chief Executive and Senior Leadership Team.

The relevant proportion of the Authority's contribution to the Local Government Pension Scheme which can be related to the Senior Officer is included in the table as required by the regulations.

Post Holder Information	**Notes**	**Salary** **£**	**Other payments** **£**	**Total Remuneration excluding pension contributions 2020/21** **£**	**Employer's pension contribution** **£**	**Total Remuneration including pension contributions 2020/21** **£**
Chief Executive - Andrew Blake-Herbert		183,732		**183,732**	28,662	**212,394**
Chief Operating Officer - Jane West		159,216		**159,216**		**159,216**
Director of Neighbourhoods		145,774		**145,774**	22,741	**168,515**
Director of Children's Services		145,967		**145,967**	22,771	**168,738**
Director Adult Services - Barbara Nicholls		154,860		**154,860**	24,158	**179,018**
Director of Public Health		112,326		**112,326**	18,961	**131,287**
Director of Housing		146,064		**146,064**	22,786	**168,850**
Director of Regeneration	1	58,454	187,200	**245,654**		**245,654**
Total		**1,106,393**	**187,200**	**1,293,593**	**140,079**	**1,433,672**

Note 1 The Director of Regeneration post at 0.4 full time equivalent has an equivalent full-time annualised salary of £146,135. The other payment of £187,200 was to the Director's employing company rather than to the Director for the remaining 0.6 FTE.

In addition to this, Simon Pollock, the Executive Director of oneSource, again a shared appointment between Havering, Newham and Bexley Council, was paid £150,495. These costs are the full cost between the three Boroughs. Further details on the OneSource cost sharing arrangement is reported under note 36, Related Parties.

The comparative figures for 2019/20 are as follows:

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2019/20 £	Employer's pension contribution £	Total Remuneration including pension contributions 2019/20 £
Chief Executive - Andrew Blake-Herbert	1	177,204	17,551	**194,755**	27,644	**222,399**
Chief Operating Officer - Jane West	1	154,956	2,399	**157,355**	-	**157,355**
Director of Neighbourhoods	2	57,490	369	**57,859**	8,968	**66,827**
Director of Children's Services	3	120,376	334	**120,710**	18,779	**139,489**
Previous Director of Children's Services	3	77,483	334	**77,817**	12,223	**90,040**
Director Adult Services		146,466	668	**147,134**	22,849	**169,983**
Director of Public Health		109,320	-	**109,320**	15,720	**125,040**
Director of Housing	4	66,763	369	**67,132**	10,415	**77,547**
Director of Regeneration	5	50,591	156,000	**206,591**	-	**206,591**
Total		**960,649**	**178,024**	**1,138,673**	**116,598**	**1,255,271**

Note 1 As part of his Electoral duties, the Chief Executive received a sum of £17,551 and as part of her Electoral duties, the Chief Operating Officer received a sum of £2,399.

Note 2 The Director of Neighbourhoods commenced post on 1st November 2019.

Note 3 The previous Director of Children's Services left on 30th September 2019. The new Director commenced post on 1st October 2019.

Note 4 The Director of Housing commenced post on 7th October 2019.

Note 5 The Director of Regeneration commenced post on 1st May 2019, at 0.4 FTE and has an equivalent full-time annualised salary of £137,976. The other payment of £156,000 was to the Director's employing company rather than to the Director for the remaining 0.6 FTE.

* In addition to the above, the Executive Director of oneSource, again a shared appointment between Havering, Newham and Bexley Council, was paid £120,214. These costs are the full cost between the three Boroughs. Further details on the OneSource cost sharing arrangement is reported under note 36, Related Parties

33. External Audit Costs

The following fees relating to external audit and inspection were included in the 2020/21 accounts:

2019/20 £000		2020/21 £000
146	Fees payable with regard to external audit services carried out by appointed auditor	117
5	Certification of grant claims (housing benefit subsidy claim, capital pooling receipts and teachers pension)	31
57	Amounts relating to prior year Statement of Accounts 2018/19 & 2019/20 scale fee variation and extra fees	218
(14)	Audit fees refunded by the PSAA (Public Sector Audit Appointments Ltd.)	0
194	**Total for year**	**366**

34. Dedicated Schools Grant

The Authority's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. An overdrawn balance on the DSG account of £2.366million has been transferred to a negative useable reserve in 2020/21 to emphasise the balance is separate from Council general fund balances.

Details of the deployment of DSG receivable for 2020/21 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2020/21 before academy and high needs recoupment			231,953
Less academy and high needs figure recouped for 2020/21			(108,299)
Total DSG after academy and high needs recoupment for 2020/21			**123,654**
Plus: brought forward from 2019/20			(1,034)
Less: Carry-forward to 2021/22 agreed in advance			701
Agreed initial budgeted distribution for 2020/21	**37,885**	**84,034**	**121,919**
In year adjustments	701	0	701
Final budgeted distribution for 2020/21	**38,586**	**84,034**	**122,620**
Less: Actual central expenditure	(40,952)		(40,952)
Less: Actual ISB deployed to schools		(84,034)	(84,034)
Plus: Local authority contribution for 2020/21	0	0	0
In year carry forward to 2021/22 (negative DSG Reserve)	**(2,366)**	**0**	**(2,366)**
Plus: Carry forward to 2021/22 agreed in advance			701
Carry forward to 2021/22			**(1,665)**

Comparative figures for 2019/20 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	**Individual Schools Budget £000**	**Totals £000**
Final DSG for 2019/20 before academy recoupment			219,605
Less academy figure recouped for 2019/20			(104,849)
Total DSG after academy recoupment for 2019/20			**114,756**
Plus: brought forward from 2018/19			2,465
Agreed initial budgeted distribution for 2019/20	**37,215**	**80,006**	**117,221**
In year adjustments	0	0	0
Final budgeted distribution for 2019/20	**37,215**	**80,006**	**117,221**
Actual central expenditure	(38,249)		(38,249)
Actual ISB deployed to schools		(80,006)	(80,006)
Carry forward to 2020/21	**(1,034)**	**0**	**(1,034)**

35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

2019/20 £000		2020/21 £000
Credited to Taxation and Non Specific Grant Income		
0	Revenue Support Grant	1,398
21,477	Non ring-fenced Grant	44,098
30,724	Capital Grants	22,119
52,201	**Total**	**67,615**
Credited to Services		
44,433	Rent Allowances	42,358
27,912	Rent Rebates	25,730
10,646	Public Health Grant	11,210
115,545	Dedicated Schools Grant	124,273
7,046	Better Care Fund	15,824
5,889	Contributions from Other Local Authorities	8,402
1,055	School Contribution	331
1,244	Schools Funding Agency / Education Funding Agency	1,058
5,058	Pupil Premium Grant	4,973
2,618	Universal Free School Meals	2,702
849	Additional Funding For Schools –Primary School Sports Funding	841
1,791	Unaccompanied Asylum Seeking Children Funding	1,165
1,515	Flexible Homelessness Grant	1,515
1,069	Social Care Innovation Programme	0
1,663	Teachers Pension Grant	2,993
854	Teachers Pay Grant	1,017
607	Children Social Care Innovation Grant	0
0	COVID-19 (Infection Control)	6,234
0	COVID-19 (Furlough)	695
0	COVID-19 (Lateral Flow Testing)	655
0	COVID-19 (Schools Fund)	518
0	COVID-19 (Catch-Up Premium Schools)	842
0	COVID-19 (Adoption London East (ALE) Adoption Support Fund)	706
0	COVID-19 (Enforcement)	111
0	COVID-19 (Clinically Extremely Vulnerable Support)	553
0	COVID-19 (Contain Outbreak Management Fund)	7,289
8,521	Other	9,157
238,315	**Total**	**271,152**

Current Liabilities

b) Capital Grants – receipts in advance:

2019/20 £000		2020/21 £000
13,393	Brought forward	9,287
1,957	Amounts received in year	493
(6,063)	Amounts applied to meet new capital investment	(1,686)
9,287	**Carried forward**	**8,094**

36. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

Members

Members of The Authority have direct control over its financial and operating policies. The total of Members' allowances paid in 2020/21 is shown in Note 31.

The table below shows the Related Party interests in other entities as disclosed by Members and the transactions that took place between the Authority and the Related Party. Individual transactions were approved by officers and not by Members named. Information is disclosed to ensure transparent disclosure.

Organisations	Member	Payments to Organisations by the Authority £000	Balance Outstanding £000	Income £000	Income Outstanding £000
East London Waste Authority	Cllr R Benham Cllr O Dervish	16,363	-	(923)	
Veolia ES Cleanaway Havering Riverside Trust	Cllr R Benham	88	-	(4)	
Havering Arts Council	Cllr J Chapman Cllr J Frost Cllr T Lawal Cllr T Ryan	1	-	-	
Romford Town Management Partnership	Cllr J Chapman Cllr D White	336	-	(24)	
Havering Theatre Trust Ltd.	Cllr P McGeary	290	-	(31)	
London Riverside (BID) Limited	Cllr R Benham	343	-	(22)	
Havering Association for People with disabilities Trustee	Cllr N Dodin Cllr Christine Smith	83	-	-	
Tapestry	Cllr Christine Smith	517	-	-	
BETRA Tenant Management Organisation	Cllr P McGeary	243	-	-	
Learning Federation; Broadford and Mead Schools; Harold Hill - Chair of finance	Cllr P McGeary	5,822	-	-	
Local Government Association	Cllr D White Cllr M White	11	-	-	

Officers

The table below shows the material related party disclosures by officers.

Organisation	Officer	Payments to Organisations by the Authority £000	Balance Outstanding £000	Income £000	Income Outstanding £000
Centre for Engineering and Manufacturing Excellence Ltd (CEME)	Mr N Stubbings	65	-	-	-

Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits).

Transactions between the London Borough of Havering and the UK Government; its department, agencies, NHS bodies and other authorities are disclosed elsewhere in the Accounts, most notably:

Note 11 Other operating expenditure: levies;

Note 13 Taxation and Non-specific Grant Income;

Note 30 Pooled budgets;

Note 34 Dedicated Schools Grant; and

Note 35 Grant Income

Entity controlled or significantly influenced by the Authority

Joint Committee with London Borough of Newham and Bexley (oneSource)

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

On 31st July 2020, the London Borough of Bexley ceased to be part of the Joint Committee and on 6th September 2020 the London Borough of Newham created its sovereign Finance department. During the year Procurement and Finance were also split into two separate departments.

The oneSource net controllable expenditure for 2020/21 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

2019/20 Restated * £000	oneSource	2020/21 £000
	Net Expenditure	
6,550	Exchequer and Transactional Services	7,301
8,831	Finance	7,621
1,807	Procurement	2,202
973	Business Services	878
2,847	Legal and Governance	3,302
8,791	ICT	10,000
2,119	Asset Management	2,874
3,043	Strategic and Operational HR	3,446
34,961	**Total Net Expenditure**	**37,624**
	Cost Sharing:	
16,557	London Borough of Newham	20,901
15,852	London Borough of Havering	15,596
2,552	London Borough of Bexley	1,127

* Procurement is now shown separate from Finance

The joint committee council members are; Councillors R Benham, R Ramsey and D White (from Havering Council), Councillors R Fiaz, J Gray and T Paul (from Newham Council) and Councillor D Leaf was the representative from Bexley Council.

The following oneSource Chief Officers have joint managerial responsibility for services across authorities and as such have significant influence over operational effectiveness and decision making of the related parties. These roles are set out below.

Shared oneSource role	**Employing organisation**	**Period**
Executive Director	London Borough of Havering	April 2020 - March 2021
Director of Asset Management	London Borough of Havering	April 2020 - March 2021
Director of Exchequer and Transactional	London Borough of Havering	April 2020 - March 2021
Director of Legal and Governance	London Borough of Newham	April 2020 - March 2021
Director of Human Resources	London Borough of Havering	April 2020 - March 2021
Director of Finance	London Borough of Newham - Agency	April 2020 - March 2021
Director of ICT / Chief Information Officer	London Borough of Newham	April 2020 - March 2021
Director of Procurement	London Borough of Newham	September 2020 -March 2021

Mercury Land Holdings Ltd

The Authority controls Mercury Land Holdings Ltd through its ownership of 100% of the shares in the company. Further details are included as part of the Group Accounts section in the Statement of Accounts.

The Council has determined that for the financial year ended 31st March 2021, it has a material interest in one of its subsidiaries, Mercury Land Holdings (MLH).

Details of the Council's other subsidiaries and external bodies together with the associated accounting treatment are also disclosed within Note 36.

MLH is a wholly-owned subsidiary company that was formed in 2016 to facilitate the Authority's construction and investment in private rental properties within the Borough

MLH directors who have held office since 1st April 2018 are as follows:

- Andrew Blake-Herbert
- Anthony Huff
- Garry Green
- Ian Rhodes

Havering and Wates Regeneration LLP

The LLP was formed on 19th April 2018 as a joint venture with two members, Wates Construction Limited and the London Borough of Havering. The LLP's principal activity is the building and selling of residential apartments and houses in the London Borough of Havering.

The Council influences the joint venture through its 50% share in the LLP. For the financial year ended 31st March 2021, the share of the profit and loss account is a £177k loss. A 50% of the assets and liabilities of the joint venture is shown within the group accounts, this is predominantly a £9.5m property development in progress. The Council's balance sheet includes the Council's loan to the LLP, £5.472m as at 31st March 2021.

Bridge Close Regeneration LLP

The LLP was formed on 4th April 2018 as a joint venture between FB BCR LLP (First Base and Savills Investment Management) and the London Borough of Havering, in order to deliver the comprehensive regeneration of the site at Bridge Close, Romford, including the development and sale of residential and commercial property as well as the development of social infrastructure, a bridge, public realm and environmental improvements to the River Rom.

The Council took full control over the joint venture during 2020/21 by buying First Base/Savill's 50% share of the LLP through a wholly owned company, Bridge Close Regeneration Nominee Company Limited. For the financial year ended 31st March 2021, the Council's share of the profit and loss account was a £19k loss. The balance sheet includes the Council's and nominee long term debtor in the LLP, £12.480m as at 31st March 2021.

Rainham & Beam Park LLP Joint Venture

The LLP was incorporated on 9th February 2018 as a Limited Liability Partnership. The LLP was set up to partially purchase ten derelict industrial sites in Rainham and Beam Park in the London Borough of Havering for the development of a high density residential scheme. The scheme will consist of 774 units of mixed tenures. The scheme is currently at planning stage, with limited activities on-going. The Council's £1.66m investment is shown on the balance sheet.

Pension Fund

As the administrator of the Pension Fund, the Authority has direct control of the fund. The transactions between the Authority and the Pension Fund are detailed within Note 25 of the Pension Fund Accounts.

37. Capital Expenditure and Capital Financing

The following statement shows how the Authority's capital expenditure was financed and the consequent change in underlying borrowing:

2019/20 £000	Capital Expenditure	2020/21 £000
106,062	Property, Plant and Equipment	92,945
14,899	Investment fixed assets	112
0	Intangible Assets	19
15,526	Revenue expenditure funded from capital under statute	8,034
9,968	Long Term Investments	(2,479)
8,338	Long Term Loans	19,063
154,793	**Total capital expenditure**	**117,694**
	Less financed from	
(18,231)	Capital receipts	(20,638)
(17,997)	Major repairs	(17,242)
(8,940)	Revenue funds	(3,858)
(27,347)	Grants and contributions	(21,052)
82,278	**Increase in need to borrow**	**54,904**
(2,194)	Minimum Revenue Provision	(3,688)
0	Use of Receipts to repay Debt	(3,140)
80,084	**Change in Capital Financing Requirement**	**48,076**

38. Leases

Operating Leases

Vehicles, Plant and Equipment Leases
The Authority has entered into the following operating leases for vehicles, plant and equipment.
The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases were as follows:

2019/20 £000		2020/21 £000
217	Children’s and Education Services	240
0	Highways, Roads and Transport Services	0
217	**Minimum Lease Payments**	**240**

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2020 £000		31 March 2021 £000
186	Not later than one year	192
307	Later than one year and not later than five years	324
7	Later than five years	7
500	**Minimum Lease Payments**	**523**

Property Leases
The Authority has acquired a number of properties by entering into operating leases.
The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2020 £000		31 March 2021 £000
82	Not later than one year	0
0	Later than one year and not later than five years	0
82	**Minimum Lease Payments**	**0**

Changes to accounting standards:IFRS16 Leases

The implementation of IFRS 16 Leases in the Code has been deferred until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.
The main change introduced by IFRS 16 that is likely to impact the Council is accounting as a lessee for what are currently referred to as operating leases. These are where the Council enters into contracts for services with asset implications and / or where it has benefits and use of those assets. Under IFRS 16 the Council will be required to recognise a right of use asset and a lease liability on the Balance Sheet (subject to certain exemptions); currently the Council includes these costs as operating lease payments in the CIES. The Council will update its accounting policy on leases for 2022/23 to reflect the changes, including a threshold for exempt low-value leases.

39. Revaluation Gains and Impairment Losses

During 2020/21, the Authority has recognised a net revaluation gain of £22.4m in the Comprehensive Income and Expenditure Statement in relation to its revaluation of assets. A breakdown of the revaluations and impairments by asset class can be found in the table below:

Asset Class	Revaluation Gains Credited to the CI&ES £000	Revaluation Loss Charged to the CI&ES £000
Council dwellings	28,948	(2,838)
Other land and buildings	5,298	(6,227)
Community Assets	0	0
Surplus Assets	0	0
Total Property Plant and Equipment	**34,246**	**(9,065)**
Investment Properties	494	(3,297)
Assets Held for Sale	0	0
Total (gain) or loss to the CI&ES	**34,740**	**(12,362)**

40. Termination Benefits

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

Exit Package cost band (including special payments	Number of Compulsory Redundancies		Number of Departures Agreed		Total Number of exit packages by Cost Band		Total Cost of exit packages in each band	
	2019/20	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**
£0 - £20,000	13	15	12	1	25	16	160,219	100,076
£20,001 - £40,000	1	3	5	0	6	3	179,496	76,405
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	2	0	2	0	185,833	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
>£150,000	0	0	0	0	0	0	0	0
Total	**14**	**18**	**19**	**1**	**33**	**19**	**525,548**	**176,481**

41. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

Teachers employed by the Authority are members of the Teachers Pension scheme administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21 the Authority paid £8.3m (£6.98m 2019/20) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 23.68% (20.76% in 2019/20). There were no contributions remaining payable at the end of the period.

The Authority is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme.

NHS Pension Scheme

The Health and Social Care Act 2012, makes provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities.

In a letter dated 17 May 2012 Local Government Association and the Department of Health outlined the treatment of pensions as part of the Public Health Transfer.

It was confirmed that all staff performing public health functions transferring to local authorities (LAs), who have access to the NHS Pension Scheme on 31 March 2013 will retain access to the NHSPS on transfer from PCTs to local authorities at 1 April 2013.

In 2020/21 the Authority paid £54,955 (£44,640 in 2019/20) to NHS Pensions in respect of public health pension contributions. This represented 16.88% of pensionable pay (16.88% in 2019/20).

42. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded 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 London Borough of Havering 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 the Authority. Policy is determined in accordance with the Pensions Fund Regulations. The day to day operations of the Fund have been delegated to the Statutory Section 151 officer, the Chief Operating Officer. The investment managers of the fund are appointed by the committee and consist of the following Investment Fund Managers:

1. Legal & General Investment Management (LGIM)
2. London CIV (Collective Investment Vehicle) Sub funds:
   - Ballie Gifford Global Alpha
   - Ballie Gifford Diversified Growth
   - Ruffer
3. Royal London
4. UBS
5. CBRE
6. GMO
7. Stafford Capital
8. JP Morgan
9. Churchill
10. Permira
11. Russell Investments

The principal risks to the Authority 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 of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting 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. The amount is included in the IAS 19 figures reported for the Local Government Pension Scheme.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they're earned by employees, rather than when benefits are eventually paid as pensions. However, the charge to be made make against council tax is based on cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and the Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement in the year:

2019/20 £000		2020/21 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
32,026	Current service cost	28,160
85	Past service costs	75
0	Gain from settlements	0
	Financing and Investment Income and Expenditure	
12,955	Net interest expense	9,650
45,066	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**37,885**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
16,032	Return on plan assets (excluding the amount included in the net interest expense)	(138,294)
(83,933)	Actuarial gains and losses arising on changes in financial assumptions	251,973
(59,930)	Other	5,914
(127,831)	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**119,593**
	Movements in Reserves Statement	
(45,066)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(37,885)
	Actual amount charged against the General Fund Balance for pensions in the year:	
33,522	Employers' contributions payable to scheme	34,762
(11,544)	**Net movement in Pensions Reserve**	**(3,123)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2019/20 £000		2020/21 £000
	Local Government Pension Scheme	
(1,032,891)	Present value of the defined benefit obligation	(1,312,492)
609,796	Fair value of plan assets	766,681
(423,095)	**Net liability arising from defined benefit obligation**	**(545,811)**

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

2019/20 £000		2020/21 £000
	Local Government Pension Scheme	
609,909	Opening fair value of scheme assets	609,796
14,683	Interest income	14,067
	Re-measurement gain (loss):	
(16,032)	The return on plan assets, excluding the amount included in the net interest expense	138,294
33,522	Contributions from employer	34,762
5,804	Contributions from employees into the scheme	6,274
(38,090)	Benefits paid	(36,512)
0	Other – effect of settlements	0
609,796	**Closing fair values of scheme assets**	**766,681**

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

2019/20 £000		2020/21 £000
	Funded liabilities: Local Government Pension Scheme	
1,149,291	Opening balance at 1 April	1,032,891
32,026	Current service cost	28,160
27,638	Interest cost	23,717
5,804	Contributions from scheme participants	6,274
	Re-measurement (gains) and losses:	
(83,933)	Actuarial (gains)/ losses arising from changes in financial assumptions	251,973
(59,930)	Other	5,914
85	Past service cost (Including curtailments)	75
(38,090)	Benefits paid	(36,512)
0	Liabilities extinguished on settlements	0
1,032,891	**Closing balance at 31 March**	**1,312,492**

Local Government Pension Scheme assets comprised:

2019/20					2020/21			
Quoted Prices in Active Markets £000	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**	**Asset Category**	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total assets %**
				Debt Securities				
48,725		**48,725**	8.00	Corporate bonds (investment grade)	84,535		**84,535**	11.00
16,180		**16,180**	3.00	UK Government	3,931		**3,931**	1.00
31,382		**31,382**	5.00	Other	32,376		**32,376**	4.00
				Real Estate				
32,509		**32,509**	5.00	UK Property	36,144		**36,144**	5.00
				Investment Funds and Unit Trusts				
244,587		**244,587**	40.00	Equities	321,405		**321,405**	42.00
11,775		**11,775**	2.00	Bonds	32,312		**32,312**	4.00
30,330		**30,330**	5.00	Infrastructure	39,078		**39,078**	5.00
175,139		**175,139**	29.00	Other	199,217		**199,217**	26.00
				Derivatives				
(83)		**(83)**	-	Foreign Exchange	692		**692**	-
				Cash and Cash Equivalents				
19,252		**19,252**	3.00	All	16,993		**16,993**	2.00
609,796		**609,796**	**100.00**	**Totals**	**766,681**		**766,681**	**100.00**

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.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Authority Fund being based on the latest full valuation of the scheme as at 31 March 2021

2019/20 £000		2020/21 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.6 years	Men	21.8 years
23.7 years	Women	24.1 years
	Longevity at 65 for future pensioners:	
22.4 years	Men	22.9 years
25.2 years	Women	25.9 years
1.90%	Rate of inflation (CPI)	2.85%
2.60%	Rate of increase in salaries	3.55%
1.90%	Rate of increase in pensions	2.85%
2.30%	Rate for discounting scheme liabilities	2.00%

The estimation of the defined benefit obligations is sensitive to the actuarial 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 assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2021	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount	9%	122,765
0.5% Increase in the Salary Increase	1%	9,722
0.5% Increase in the Pension	8%	110,632

Impact on the Authority’s Cash Flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2022.

The Authority anticipates to pay £26.47m expected contributions to the scheme in 2021/22.

The weighted average duration of the defined benefit obligation for scheme members is 18 years as 31st March 2021 (18 years 31 March 2020).

43. Contingent Liabilities

MMI Scheme of Arrangement

Municipal Mutual Insurance Limited (MMI), a company limited by guarantee formed by Local Authorities, is subject to a contingent scheme of arrangement which became effective on 21 January 1994. The company has been the subject of an orderly run off since that time. However, the schemes administrators, Ernst and Young, triggered the scheme of arrangement during 2012/13. A 15% levy was imposed based upon the result of an actuarial valuation of claims as at 31 December 2012. In accordance with the Scheme of Arrangement, the Levy Notice was received dated 1 January 2014 and a payment made of £338,000 in respect of the 15% levy due. Following a further review of assets and liabilities a further levy of 10% was made and an additional £285,000 paid by 12 May 2016. This brings the total levy to 25% for past and future claims. Outstanding claims will continue to be paid with a 25% contribution from the Authority in respect of the ongoing levy under the terms of the scheme of arrangement. The total levy to 31 March 2021 is £724,938 with estimated scheme liabilities at the same date of £555,716. Additional demands for further levy contributions above the 25% for past and future liabilities may be made. The Authority has made provision for the levy within the Insurance Earmarked Reserve.

44. Heritage Assets: Five-year Summary of Transactions

There were no acquisitions or disposals of heritage assets within the last five years. Following a review, the Council's assets, Tithe Barn and Coronation Gardens have been identified as meeting the definition of heritage assets. Upminster Windmill was valued £2.1m higher.

45. Trust Funds

The Authority acts as sole trustee for the following trust funds, which are not included in the Comprehensive Income and Expenditure Statement or Balance Sheet and are not subject to separate audit.

	Richard Ballard Charity £	Lucas Children's Play Site Charity Restated £
Balance 31 March 2020	6,500	146,214
Receipts	6	146
Payments	(6)	0
Balance at 31 March 2021	**6,500**	**146,360**

The Richard Ballard Charity
Interest on the capital from the sale of two properties sold for a street widening scheme is used for highway repairs.

The Lucas Children’s Play Charity
The income from this charity may be applied towards the provision, maintenance and improvements of children’s playgrounds and equipment in the borough.

Housing Revenue Account

Housing Revenue Account
Income and Expenditure Statement 2020/21

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Authority's housing stock. 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 is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

2019/20 £000		Notes	2020/21 £000
	Income		
(45,359)	Dwelling rents		(46,168)
(401)	Non-dwelling rents		(395)
(7,829)	Charges for services and facilities		(7,970)
(1,209)	Contributions towards expenditure		(5,926)
(54,798)	**Total Income**		**(60,459)**
	Expenditure		
6,608	Repairs and maintenance		6,821
20,616	Supervision and management		22,615
1,295	Rents, rates, taxes and other charges		1,103
426	Increased provision for bad/doubtful debts		214
1,538	Depreciation and Impairment of tangible fixed assets	4	(17,480)
-	Debt management		15
30,483	**Total Expenditure**		**13,288**
(24,315)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(47,171)**
333	HRA Services' share of Corporate and Democratic Core		303
(23,982)	**Net Expenditure of HRA Services**		**(46,868)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(5,537)	Net gain on disposal of HRA assets		(5,583)
5,854	Interest payable and similar charges		6,396
(522)	Interest and investment income		(66)
-	Fair value loss on acquired Bridge Close loans		2,477
(24,187)	**Deficit/(Surplus) for the year on HRA Services**		**(43,644)**

Movement on the Housing Revenue Account Balance during 2020/21

2019/20 £000		2020/21 £000
(4,907)	**Housing Revenue Account balance brought forward**	**(9,832)**
(24,187)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(43,644)
18,872	Adjustments between accounting basis and funding basis under regulations	36,191
(10,222)	**HRA balance before transfer to earmarked reserves**	**(17,285)**
390	Transfers to earmarked reserves	257
(9,832)	**Housing Revenue Account balance carried forward**	**(17,028)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2020/21

2019/20 £000		2020/21 £000
Items included in the HRA Income and Expenditure but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
590	Pensions costs (transferred from the Pensions Reserve)	(353)
(21)	Holiday pay (transferred to the Accumulated Absences Reserve)	(194)
(7,200)	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	10,159
-	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to fair value changes in Bridge Close loan notes (these items are charged to the Capital Adjustment Account	(2,477)
(6,631)	**Total Adjustments to Revenue Resources**	**7,135**
Adjustments between Revenue and Capital Resources		
10,548	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	12,752
(157)	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	251
8,815	Posting of HRA resources from revenue to the Major Repairs Reserve	8,889
6,335	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,332
(38)	Deferred Capital Receipt	(98)
25,503	Total Adjustments between Revenue and Capital Resources	**24,126**
-	Total Adjustments to Capital Resources:	4,930
18,872	**Adjustments between accounting basis and funding basis under regulations**	**36,191**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

2019/20 Number		2020/21 Number
	Flats	
2,703	1 bedroom	2,709
2,214	2 bedrooms	2,252
478	3 bedrooms	405
27	4 & 5 bedrooms	18
	Houses	
295	1 bedroom	322
1,049	2 bedrooms	1,105
2,219	3 bedrooms	2,328
143	4 & 5 bedrooms	186
9,128	**Total Number of Dwellings**	**9,325**

b) Balance Sheet Value of HRA Tangible Fixed Assets

2019/20 £000		2020/21 £000
	Operational	
564,782	Council Dwellings	644,663
17,885	Other Land & Buildings	18,968
-	Community Assets	-
1,200	Infrastructure	977
34,858	Assets Under Construction	36,513
618,725		701,121
	Non-operational	
-	Investment properties	-
-	Held for sale	-
-		-
618,725	**Total Tangible Fixed Assets**	**701,121**

c) Valuation of Council Dwellings at Year End

2019/20 £m		2020/21 £m
2,259	Vacant Possession Value	2,579
1,694	Excess of Vacant Possession over	1,934
3,953	**Balance Sheet value**	**4,513**

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1(b) is a measure of the cost to Government of providing council housing at less than market rents.

2. Movement on Major Repairs Reserve

2019/20 £'000		2020/21 £'000
30,914	**Balance brought forward at start of year**	**21,732**
8,815	Total depreciation from Capital Adjustment Account	8,888
(17,997)	less MRR used to fund Capital Expenditure on HRA Dwellings	(17,242)
21,732	**Balance carried forward at end of year**	**13,378**

3. a) Total Capital Expenditure and Funding

2019/20 £'000		2020/21 £'000
	Capital expenditure on HRA property and other assets:	
31,037	Dwellings	42,513
-	Other land buildings	-
27,643	Assets Under Construction	14,193
3,150	Investments	2,449
61,830	**Total expenditure**	**59,155**
	Financed from:	
17,997	Major Repairs Reserve	17,242
52	Grants and contributions	4,724
6,335	Revenue contributions	2,332
14,898	Capital receipts	16,797
22,548	Borrowing	18,060
61,830	**Total funding**	**59,155**

b) HRA Capital Receipts

2019/20 £'000		2020/21 £'000
9,776	Right to Buy sales	10,295
1,461	Other property sales	2,958
11,237	**Total cash receipts**	**13,253**
(1,106)	Transferred for Pooling	(1,243)
10,131	**Total income**	**12,010**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2019/20 £'000		2020/21 £'000
8,290	Dwellings	8,460
291	Other buildings	210
-	Equipment	-
233	Infrastructure	218
8,814	**Total HRA depreciation**	**8,888**
(7,276)	Revaluation credit/debit	(26,369)
1,538	**Total HRA depreciation and Revaluation charge**	**(17,481)**

5. Rent Income, Arrears and Bad Debts

2019/20 £'000	Rent	2020/21 £'000
105.14	Average weekly rent (including service charges unpooled)	105.98

31 March 2020 £000	Arears and Bad Debts	31 March 2021 £000
3,528	Rent arrears at 31 March	3,670
(3,236)	Bad debts provision at 31 March	(3,445)
292	**Total**	**225**

Collection Fund Account

Collection Fund 2020/21

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Authority's main Accounts. The Accounts have been prepared on an accruals basis except in respect of sums due to or from the General Fund and the Greater London Authority (GLA) for their share of the Collection Fund surplus and deficit.

Income and Expenditure Statement 2020/21

2019/20			2020/21	
Business Rates £000	**Council Tax £000**		**Business Rates £000**	**Council Tax £000**
		Income		
	(154,454)	Income from Council Tax		(161,108)
(79,334)		Income from Business Rates	(36,817)	
(456)		Transitional relief	(17)	
(2,105)		Income collectable from Business Rate Supplement	(1,054)	
		Previous Year Deficit recognised in the CI&ES		
(585)		London Borough of Havering	(1,331)	
0		Central Government	(528)	
(178)		Greater London Authority	(749)	
(82,658)	**(154,454)**	**Total Income**	**(40,496)**	**(161,108)**
		Expenditure		
		Previous Year Surplus recognised in the CI&ES		
	458	London Borough of Havering		0
248		Central Government		
	99	Greater London Authority		0
		Precepts		
38,075	124,813	London Borough of Havering	23,809	130,104
19,831		Central Government	26,189	
21,417	28,409	Greater London Authority	29,364	29,515
		Charges to Collection Fund		
1,325	996	Write-offs	195	796
(789)	702	Increase/(decrease) in bad debt provision	198	3,692
2,091		Increase in provision for appeals	11,887	
272		Cost of collection	267	
		Business Rate supplement		
2,099		Payment to Greater London Authority	1,048	
6		Cost of Collection	6	
84,575	**155,477**	**Total Expenditure**	**92,963**	**164,107**
1,917	1,023	Movement in fund balance	52,466	3,000
1,011	(1,023)	Net deficit/(surplus) at start of year	2,928	0
2,928	**0**	**Net deficit/(surplus) carried forward notes 3a & 3b)**	**55,394**	**3,000**

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of council tax in 2020/21 at £1,795.84 for band D properties. The number of band D equivalent properties in each band making up the council tax base was as follows:

Band	Number of Band D Equivalent Properties
A1	4
A	2,158
B	5,661
C	20,117
D	31,293
E	16,828
F	8,614
G	4,762
H	619
Allowance for losses in collection 1.30%	(1,173)
Tax Base	**88,883**

2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values of £201.4m at 31 March 2021 (£203.4m at 31 March 2020) multiplied by uniform rates for large and small businesses. In 2020/21 the rate was 51.2p for large businesses (50.40p in 2019/20) and 49.9p for small businesses (49.10 in 2019/20). The total amount, less certain reliefs and other deductions, are shared between Central Government, Havering and The Greater London Authority (GLA). In addition to the multiplier used to calculate business rates, all London local authorities are required to collect from businesses with a rateable value in excess of £70,000 an additional 2p supplement, which is payable to the GLA. Under these arrangements the amounts included in these Accounts can be analysed as follows:

2a) Income collectable from Non Domestic Rates

2019/20 £000		2020/21 £000
97,246	Gross NNDR due in year	97,829
(17,912)	Less: allowances and other adjustments	(61,012)
79,334	**Net NNDR Yield**	**36,817**

2b) Income collectable from Business Rate Supplement

2019/20 £000		2020/21 £000
2,348	Gross Supplement due in year	2,416
(243)	Less: allowances and other adjustments	(1,363)
2,105	**Net Business Rate Surplus Yield**	**1,053**

From 2018/19 Havering has been a member of the London Business Rates Pool overseen by the GLA. The reduction in collectable NNDR has led to the pool being disbanded for 2021/22.

The deficit on the Collection Fund will be met by the precepting authority and the billing authority in the following proportions and will be recovered by adjusting the level of precepts and demands in future financial year. The Government has allowed the deficit charge estimated at January 2021 to be spread over three years.

3a) Council Tax

2019/20 £000		2020/21 £000
0	London Borough of Havering	2,424
0	Greater London Authority	576
0	**(Surplus) / Deficit**	**3,000**

3b) Business Rates

2019/20 £000		2020/21 £000
1,485	London Borough of Havering	16,676
637	Central Government	18,283
806	Greater London Authority	20,435
2,928	**Deficit**	**55,394**

Pension Fund Account

Pension Fund

Pension Fund Account for the year ended 31 March 2021

2019/20 £000		Notes	2020/21 £000
	Dealings with members, employers and others directly involved in the fund		
45,812	Contributions receivables	7	47,418
5,951	Transfers in from other pension funds	8	4,896
51,763			52,314
(38,769)	Benefits	9	(38,804)
(3,272)	Payments to and on account of leavers	10	(44,630)
(42,041)			(83,434)
9,722	Net additions (withdrawals) from dealings with members		(31,120)
(3,975)	Management expenses	11	(4,428)
5,747	**Net additions/(withdrawals) including fund management expenses**		**(35,548)**
	Returns on investments		
10,077	Investment income	12	15,539
(1)	Taxes on Income	13	-
(20,518)	Profit and losses on disposal of investments and changes in the market value of investments	14a	165,548
(10,442)	**Net returns on investments**		**181,087**
(4,695)	Net increase (decrease) in the net assets available for benefits during the year		**145,539**
733,391	Opening net assets of the Fund at start of year		728,696
728,696	**Closing net assets of the Fund at end of year**		**874,235**

Net Asset Statement for the year ended 31 March 2021

£000			£000
150	Long Term Investments	14	150
707,782	Investment Assets	14	858,410
(2,174)	Investment Liabilities	14	(263)
705,758	**Total net investments**		**858,297**
23,552	Current Assets	21	16,403
(614)	Current Liabilities	22	(465)
728,696	**Net assets of the Fund available to fund benefits at end of the reporting period**		**874,235**

The financial statements summarise the transactions and the net assets of the London Borough of Havering Pension Fund ("the Fund"). They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

Notes to the Pension Fund

1 Description of the Fund

The Havering Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

The following description of the scheme is a summary only. For more details on the operation of the Fund, reference should be made to the Fund's Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

a) General

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

The LGPS Regulations 2013 (as amended),

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended),

The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, are not included as they come within another national pension scheme.

The Fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee: a committee of the Council.

b) Membership

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

Organisations participating in the Fund include:

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

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

Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools. These have been accounted for within London Borough of Havering

During 2020/21 five new employers joined the Fund and one cessation.

There are 56 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-20		31-Mar-21
51	**Number of employers with active members**	**56**
	Number of employees in scheme	
4,769	London Borough of Havering	4,650
1,650	Scheduled bodies	1,697
73	Admitted bodies	79
6,492	**Total**	**6,426**
	Number of pensioners and dependants	
5,950	London Borough of Havering	6,014
346	Scheduled bodies	369
114	Admitted bodies	29
6,410	**Total**	**6,412**
	Deferred pensioners	
5,274	London Borough of Havering	5,179
807	Scheduled bodies	791
93	Admitted bodies	50
6,174	**Total**	**6,020**
19,076	**Total number of members in pension scheme**	**18,858**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2021. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 14.2% to 40.8% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. Havering Council pay a monetary value , other employers as a percentage of pensionable pay

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

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

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

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2020/21 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet into the Balance Sheet of Lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 20.

The Administering Authority is satisfied that Havering Pension Fund is a going concern. The return for 2020/2021 of 24.90% is greater than the actuary's long term target return for the Fund of +3.89% pa. The Fund still has the remaining year of the actuarial period to achieve the target return, and beyond this has agreed a 20 year recovery period should this be necessary to make good an increase in the funding deficit at the next actuarial valuation. The Fund's cashflow remains robust. The Fund held cash of £19m at the Balance Sheet date, equivalent to 2% of the Fund Assets. In addition, the Fund held £724m in Level 1 and Level 2 investment assets which could be realised However, based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments. As such the accounts have been prepared on a going concern basis.

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

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

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all that arise according to pensionable pay

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

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

Additional employers' contributions in respect of ill-health and early retirements (augmentation) are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

(b) Transfers to and from other schemes
Transfers in and out relate to members who have either joined or left the fund.

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

(c) Investment Income

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

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

iii) Distribution from Pooled Funds

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

iv) Property - Related Income
Property related income consists primarily of rental income and is recognised at the date of issue.

v) Movement in the Net Market Value of Investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

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

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

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

Administrative Expenses
All staff costs of the pensions' administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Oversight and Governance Costs
All costs associated with governance and oversight are seperately identified and recharged to the Fund and charged as expenses to the Fund.

Investment Management Fees
Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

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

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

Officers' time spent on investment management functions are also charged to the fund.

(g) Lifetime Allowances

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

(h) Financial Assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund. Any amounts due or payable in respect of trades entered but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

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

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

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

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

(k) Cash and Cash Equivalents
Cash comprises cash in hand (Fund's Bank account) and includes amounts held by the Fund's external managers.

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

(l) Financial Liabilities
A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

(m) Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present vauve of promised benfits by way of a note to the Net Asset Statement (Note 20).

(n) Additional Voluntary Contributions
The Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

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

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

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

4 Critical Judgements in Applying Accounting Policies

Pension Fund Liability
The Pension Liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions which are agreed with the actuary and are summarised in Note 19.

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

5 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: 0.5% decrease in the real discount rate could result in an increase of 9%. 0.5% increase in salary increase rate could result in an increase of 1% 0.5% increase in the pension increase rate could result in an increase of 10%	138 12 153
Level 3 Investments (Note 16a)	Level 3 investments can be determined by Fund Managers in accordance with guidelines and principles set out in the International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Level 3 investments total £150m, which represents 17% of the total Fund value of £874m.	Sensitivity Analysis shows that the £150m valuation could decrease or increase within the range of £141m and £159m

6 Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) includes an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabilities this year. There will be changes made to scheme regulations that will remove age discrimination from the LGPS and it is anticipated that these regulations will come into force from 1 April 2023.

COVID-19

The Fund has valued its assets based on the 31 March 2021 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

On 11 March 2020 the World Health Organisation (WHO) declared a COVID 19 pandemic. This caused a world-wide public health emergency and initially significantly impacted global markets which contributed to both a volatile and a severe decline in those sectors that were impacted. The rebound in equity markets from the COVID-19 lows have been a lot faster and stronger than many predicated and has resulted in traditional equity and bond markets ending March 2021 at exceptionally high levels. Whilst COVID 19 pandemic continued throughout 2020/21 volatility remains due to the uncertainty of further waves due to increases in coronavirus infections. For the purposes of these financial statements the COVID 19 impact is considered a non- adjusting event.

7 Contributions Receivable

By category

2019/20 £000		2020/21 £000
	Employees' contributions	
	Normal:	
5,819	London Borough of Havering	6,268
1,462	Scheduled Bodies	1,442
74	Admitted Bodies	73
	Additional contributions:	
7	London Borough of Havering	6
7,362	**Total Employees' Contribution**	**7,789**
	Employers' contributions	
	Normal:	
13,808	London Borough of Havering	14,716
5,853	Scheduled bodies	5,545
311	Admitted bodies	311
	Deficit funding:	
18,449	London Borough of Havering*	18,677
	Augmentation	
4	London Borough of Havering	341
25	Scheduled bodies	37
-	Admitted bodies	2
38,450	**Total Employers' Contributions**	**39,629**
45,812	**Total Contributions Receivable**	**47,418**

*The 2020/21 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £6.027m voluntary planned contributions.

By authority

2019/20 £000		2020/21 £000
38,087	London Borough of Havering	40,008
7,340	Scheduled bodies	7,024
385	Admitted Bodies	386
45,812	**Total Contributions Receivable**	**47,418**

8 Transfers in from Other Pension Funds

2019/20 £000		2020/21 £000
5,951	**Individual transfers**	4,896
5,951	**Total Transfers In from Other Pension Funds**	**4,896**

9 Benefits Payable

By category

2019/20 £000		2020/21 £000
	Pensions	
30,137	London Borough of Havering	30,798
1,399	Scheduled Bodies	1,692
851	Admitted Bodies	881
32,387	**Pension Total**	**33,371**
	Commutation and Lump Sum Retirements	
4,431	London Borough of Havering	3,577
402	Scheduled Bodies	344
179	Admitted Bodies	394
5,012	**Commutation and Lump Sum Retirements Total**	**4,315**
	Lump Sum Death Benefits	
1,305	London Borough of Havering	976
65	Scheduled Bodies	110
-	Admitted Bodies	32
1,370	**Lump Sum Death Benefits Total**	**1,118**
38,769	**Total Benefits Payable**	**38,804**

By authority

2019/20 £000		2020/21 £000
35,873	Havering	35,351
1,866	Scheduled bodies	2,146
1,030	Admitted Bodies	1,307
38,769	**Total Benefits Payable**	**38,804**

10 Payments To and On Account of Leavers

2019/20 £000		2020/21 £000
110	Refunds to members leaving service	70
-	Group Transfer*	40,438
3,162	Individual transfers	4,122
3,272	**Payments to and on Account of Leavers**	**44,630**

*College Transfer settlement - includes £15m cash withdrawal from Havering Pension Fund internally held cash & £25.4m investment withdrawal

11 Management Expenses

2019/20 £000		2020/21 £000
315	Administrative Costs	601
3,192	Investment Management Expenses	3,412
452	Oversight and Governance Costs	398
14	Oversight and Governance Costs - External Audit costs	16
2	Local Pension Board	1
3,975	**Management Expenses**	**4,428**

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £0.102m (2019/20 £0.108m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.067m in respect of transaction costs (2019/20 £0.023m).

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

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

11a. Investment Management Expenses

2020-21	Management fees	Performance Related fees	Transaction cost	2020/21 Total
	£000	£000	£000	£000
Bonds	162	-	-	162
Fixed Interest Unit Trust	106	-	-	106
Diversified Growth Funds	622	-	15	637
Infrastructure	313	-	-	313
Global Equity	1,445	-	52	1,497
Other Investments				-
Pooled Property	304	102	-	406
Private Equity and joint venture	190	-	-	190
Derivatives -Forward Currency Contracts	17	-	-	17
	3,159	**102**	**67**	***3,328**
Custody fees				37
Performance Measurement fees				33
Other Investment fees				14
Investment Management Expenses				**3,412**

*Includes £2.086m charged for assets in the London CIV asset pool (£1.732m In 2019/20)

11a Investment Management Expenses continued

2019-20 Restated	Management fees	Performance Related fees	Transaction cost	Total
	£000	£000	£000	£000
Bonds	133	-	-	133
Fixed Interest Unit Trust	101	-	-	101
Diversified Growth fund	393	-	15	408
Infrastructure	364	-	-	364
Global Equity	1,409	-	58	1,467
Other Investments:				
Pooled Property	405	105	23	533
Private Equity and joint venture	127	3	-	130
Derivatives - Forward Currency Contracts	3	-	-	3
	2,935	**108**	**96**	**3,139**
Custody fees				27
Performance measurement fees				17
Other Investment fees				9
Investment Management Expenses				**3,192**

12 Investment Income

2019/20 £000		2020/21 £000
8,149	Pooled Investments - unit trusts and other managed funds	8,101
2,582	Income from Bonds*	1,881
1,920	Pooled Property Investments	1,887
(2,642)	Income form Derivatives (Foreign Exchange Gains/(losses))	3,841
202	Interest on Cash Deposits	126
(134)	Other Income**	(297)
10,077	**Investment Income**	**15,539**

***** Income includes Index linked Interest of £0.137m (2019/20 £0.103m).

** Management expenses to offest against gross income from dividends

13 Taxes on Income

2019/20 £000		2020/21 £000
(1)	Withholding Tax	-
(1)	**Taxes on Income**	**-**

14 Analysis of Investments

2019/20 Restated		2020/21
£000		£000
	Investment Assets	
150	**Long Term Investments**	150
150		**150**
	Bonds	
49,206	Fixed Interest Securities	39,001
40,033	Index-Linked Securities	36,897
89,239		**75,898**
	Pooled Investment	
32,881	Fixed Interest Unit Trust	61,822
80,000	Diversified Growth Fund	87,978
43,988	Infrastructure	44,536
362,966	Global Equity	477,416
519,835		**671,752**
	Other Investments	
70,130	Pooled Property	68,986
19,630	Private Equity and Joint Venture	36,825
1,445	Derivatives - Forward Currency Contracts	1,148
91,205		**106,959**
6,778	Cash deposits Managers	3,321
725	Investment income due	480
7,503		**3,801**
707,932	**Total Investment Assets**	**858,560**
	Investment Liabilities	
	Derivative Contracts	
(2,173)	Forward Currency Contracts	(262)
(1)	Income receivable	(1)
(2,174)	**Total Investment Liabilities**	**(263)**
705,758	**Total Net Investments**	**858,297**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2020 Restated	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2021
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	49206	19,163	-32774	3406	-	39,001
Index-linked Securities	40033	95,380	-99896	1380	-	36,897
Pooled Investment Vehicles	519,985	33,363	-43672	162226	-	671,902
Other Investments	89760	23815	-4685	-3079	-	105,811
Derivatives – forward currency contracts	-728	94996	-94996	1614	-	886
Cash Deposits (fund managers)	6778	0	0	1	(3,458)	3,321
	705,034	**266,717**	**(276,023)**	**165,548**	**(3,458)**	**857,818**
Other Investment Balances	724	-	0	0	(245)	479
	705,758	**266,717**	**(276,023)**	**165,548**	**(3,703)**	**858,297**

	Market Value at 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2020
	£000	£000	£000	£000	£000	£000
Equities	96	-	(107)	11	0	0
Fixed Interest Securities	89,985	28,259	(71,671)	2,633	0	49,206
Index-linked Securities	33,086	41,935	(35,974)	986	0	40,033
Pooled Investment Vehicles	584,442	94,427	(45,707)	(23,417)	0	609,745
Derivatives – forward currency contracts	-	146,466	(146,466)	(728)	0	(728)
Cash Deposits (fund managers)	10,505	-	0	(3)	(3,724)	6,778
	718,114	**311,087**	**(299,925)**	**(20,518)**	**(3,724)**	**705,034**
Other Investment Balances	1,322	-	0	0	(598)	724
	719,436	**311,087**	**(299,925)**	**(20,518)**	**(4,322)**	**705,758**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.067m (2019 Restated £0.096m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2020		Manager	Mandate	Value 31 March 2021	
£000	%			£000	%
Investments managed by London CIV asset Pool:					
150	0.02	London CIV	Equities Unquoted	150	0.01
97,738	13.85	Ruffer	Pooled Absolute Return Fund	111,270	12.96
136,341	19.32	Baillie Gifford	Pooled Global Alpha Growth Fund	191,042	22.27
80,000	11.34	Baillie Gifford	Pooled Diversified Growth Fund	87,978	10.25
314,229	**44.53**			**390,440**	**45.49**
PLUS Life Fund Investments aligned with London CIV asset pool:					
123,850	17.55	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	175,105	20.41
438,079	**62.08**	**London CIV Total**		**565,545**	**65.90**
Investments managed outside of the London CIV asset Pool:					
70,577	10.00	Royal London Index Linked Bonds Fund	Investment Grade Bonds	38,731	4.51
53,611	7.60	Royal London Corp' Bond Fund	Investment Grade Bonds	37,958	4.42
-	-	Royal London Multi Asset Credit Pooled Fund	Fixed Interest Unit Trust	61,822	7.20
41,067	5.82	UBS Property	Pooled Property	41,034	4.78
5,038	0.71	GMO Global Real Return (UCITS) Fund	Pooled Multi Asset	-	-
28,956	4.10	CBRE	Global Pooled Property	27,793	3.24
17,447	2.47	Stafford Capital SISF II	Overseas Pooled Infrastructure	19,118	2.23
-	-	Stafford Capital SISF IV	Overseas Pooled Infrastructure	1,557	0.18
26,964	3.82	JP Morgan	Overseas Pooled Infrastructure	23,861	2.78
14,026	1.99	Churchill	Overseas Pooled Private Debt	19,138	2.23
5,605	0.79	Permira	Overseas/UK Pooled Private Debt	17,687	2.06
(728)	(0.10)	Russell Investments	Currency Management	2,666	0.31
5,116	0.72	Other	Other	1,387	0.16
267,679	**37.92**			**292,752**	**34.10**
705,758	**100.00**	**Total Fund**		**858,297**	**100.00**

The following investments represent more than 5% of the net assets of the Fund:

Market Value 31-Mar-20	% of total fund	Security	Market Value 31-Mar-21	% of total fund
£000			**£000**	
136,341	18.70	London CIV Global Alpha Fund	191,042	21.85
97,738	13.41	London CIV Ruffer Absolute Return Fund	111,270	12.73
80,000	10.97	London CIV Diversified Growth Fund	87,978	10.06
51,296	7.04	LGIM All World Equity Index	71,550	8.18
44,638	6.12	LGIM FTSE RAFI AW 3000 Index	64,316	7.36
-	-	Royal London Multi Asset Credit Pooled Fund	61,822	7.07
41,067	5.65	UBS Property	-	-
451,080		**Total Fund**	**587,978**	

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

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

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2021, the value of quoted equities on loan was £3.233m (nil 31 March 2020) These equities continue to be recognised in the fund's financial statements.

15 Analysis of derivatives

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

Forward foreign currency
The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Russell. A breakdown of forward contracts held by the Fund as at 31 March 2021 and prior year is shown below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
Up to One month	**GBP**	11,135	**EUR**	(10,706)	429	0
	GBP	17,511	**USD**	(17,328)	183	(1)
	GBP	2,642	**AUD**	(2,582)	60	0
	USD	414	**GBP**	(409)	5	0
	EUR	507	**GBP**	(517)	0	(10)
	AUD	308	**GBP**	(309)	0	(1)
Up to Two months	**GBP**	12,422	**EUR**	(12,238)	184	0
	GBP	17,027	**USD**	(17,277)	0	(250)
	GBP	2,346	**AUD**	(2,310)	37	0
	USD	70	**GBP**	(69)	1	0
	EUR	1,855	**GBP**	(1,855)	0	0
	AUD	111	**GBP**	(111)	0	0
Up to Three months	**GBP**	12,871	**EUR**	(12,714)	157	0
	GBP	13,749	**USD**	(13,670)	79	0
	GBP	2,027	**AUD**	(2,014)	13	0
Open forward currency contracts at 31 March 2021					**1,148**	**(262)**
Net forward currency contracts at 31 March 2021						**886**
Gross open forward currency contracts at 31 March 2020					1,445	(2,173)
Net forward currency contracts at 31 March 2020					**-**	**(728)**

16 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, where possible using market based information. There has been no change in the valuation techniques used during the year.

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

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

The Valuation basis for each category of investment asset is set out below:

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled quoted	Level 1	Published bid market price ruling on the	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
UK Pooled instruments property funds	Level 3	Valuations carried out by the property funds external valuers, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rental growth
Overseas Pooled instruments property funds (CBRE)	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount

16 Fair Value Basis of Valuation (continued)

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas Pooled instruments Infrastructure Funds (JP Morgan)	Level 3	Estimated fair values are determined by the Advisor at valuation date and independently appraised on a quarterly basis.	Three valuation techniques can be used, the market, income or cost approach. For this fund, Income approach was used based on Unobservable input of Discount/WAAC rate and Exit EBITDA Multiples.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount
Overseas Pooled instruments Infrastructure Funds (Stafford Capital)	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount
Overseas Pooled instruments Private Debt Funds (Churchill)	Level 3	Valuations undertaken quarterly and determined by the Investment Manager. To determine the value the manager relies on guidance by various regulatory and industry organisations and authorised to use independent third party pricing services and valuation firms.	Unobservable inputs are determined by the Investment Manager and shall take into account items that it reasonably believes would impact the valuation (such as expenses and reserves).	Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.
Overseas/UK Pooled instruments Private Debt Funds (Permira)	Level 3	Fair Value is determined by the AIFM based on advice from Portfolio Manager and based on the International Private Equity and Venture Capital guidelines or other standards agreed by the Senior Fund Advisory Committee.	Unobservable inputs are determined by the Investment Manager.	Use of estimates and changes in assumptions may have significant impact on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.

16 Fair Value Basis of Valuation (continued)

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent performance measurement service , the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Assessed valuation range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	3.40	68,985	71,330	66,640
Pooled Unit Trusts	7.80	81,361	87,707	75,015

16a. Fair Value Hierarchy

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	435,248	272,703	150,346	858,297
Net Financial Assets	**435,248**	**272,703**	**150,346**	**858,297**

16a. Fair Value Hierarchy continued

RESTATED	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and	450,183	124,000	133,749	707,932
Financial Liabilities				
Financial liabilities at fair value through profit	(2,788)	-		(2,788)
Net Financial Assets	**447,395**	**124,000**	**133,749**	**705,144**

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

16b. Reconciliation of Fair Value Measurement within Level 3

	Market Value 31 March 2020	Transfer Into Level 3	Purchases	Sales	Unrealised gains/ losses	Realised gains/losses	Market Value 31 March 2021
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Property Funds	70,130	-	-	(80)	(1,065)	-	68,985
Infrastructure	43,989	7,561	490	(2,299)	(5,192)	(13)	44,536
Private Debt	19,630	18,753	5,064	(4,606)	(2,016)	-	36,825
Total	**133,749**	**26,314**	**5,554**	**(6,985)**	**(8,273)**	**(13)**	**150,346**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

(a) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Private Debt Level 3

(c) All transfers between levels are recognised in the month in which they occur.

17 Financial Instruments

(a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

31 March 2020 Restated				31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
150	-	-	Long Term Investments	150	-	-
49,206	-	-	Bonds -Fixed Interest Securities	39,001	-	-
40,033	-	-	Bonds - Index linked securities	36,897	-	-
1,445	-	-	Derivative contracts	1,148	-	-
519,835	-	-	Pooled investment Vehicles	671,752	-	-
19,630			Private Equity and joint venture	36,825	-	
70,130	-	-	Property	68,986	-	-
-	6,778	-	Cash	-	3,321	-
-	725	-	Other Investment Balances	-	480	-
-	23,552	-	Debtors	-	16,403	-
700,429	**31,055**	**-**	**Financial Assets Total**	**854,759**	**20,204**	**-**
			Financial Liabilities			
(1)	-	-	Other Investment Balances	(1)	-	-
(2,173)	-	-	Derivative contracts	(262)	-	-
-	-	(614)	Creditors	-	-	(465)
(2,174)	**-**	**(614)**	**Financial Liabilities Total**	**(263)**	**-**	**(465)**
698,255	**31,055**	**(614)**		**854,496**	**20,204**	**(465)**
	728,696		**Net Assets**		**874,235**	

(b) Net Gains and Losses on Financial Instruments

2019/20 £000		2020/21 £000
	Financial assets	
(20,518)	Fair value through profit and loss	**165,548**
(20,518)	**Total**	**165,548**

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

18 Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Polices are reviewed regularly to reflect changes in activity and in market conditions.

(a) Market Risk

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

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investment return.

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

Other Price Risk

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset Type	Value as at 31 March 2021	Potential market movements	Value on Increase	Value on Decrease
	£000	%	£000	£000
Pooled Equities	539,389	15.60	623,532	455,243
Total Bonds	75,898	7.70	81,743	70,054
Pooled Overseas Unit Trusts	81,361	7.80	87,707	75,015
Global Pooled inc.UK	87,978	6.50	93,697	82,260
Pooled Property	68,985	3.40	71,331	66,640
Cash	4,686	0.60	4,714	4,658
Total	**858,297**		**962,724**	**753,870**

Asset Type	Value as at 31 March 2020	Potential market movements	Value on Increase	Value on Decrease
	£000	%	£000	£000
Equities	260,341	13.10	294,446	226,237
Total Bonds	122,119	8.00	131,888	112,349
Pooled Overseas Unit Trusts	63,619	14.40	72,780	54,457
Global Pooled inc.UK	182,776	6.00	193,742	171,809
Pooled Property	70,130	4.00	72,935	67,325
Cash	6,773	0.60	6,814	6,733
Total	**705,758**		**772,605**	**638,910**

Interest Rate Risk

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

Interest Rate Risk Sensitivity Analysis

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to Interest Rate Risk

Assets exposed to interest rate risk	Asset Values as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on Decrease
	£000		£000	£000
Bond Securities	75,898	759	76,657	75,140
Cash and Cash Equivalents	4,686	47	4,733	4,639
Cash Balances	15,963	160	16,123	15,804
Total Change in Asset Value	**96,547**	**966**	**97,513**	**95,583**

Assets exposed to interest rate risk	Asset Values as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on Decrease
	£000		£000	£000
Bond Securities	122,119	1,221	123,340	120,898
Cash and Cash Equivalents	6,773	68	6,841	6,705
Cash Balances	23,056	231	23,287	22,825
Total Change in Asset Value	**151,948**	**1,520**	**153,468**	**150,428**

Currency Risk

Currency risk represents the risk that fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

Currency Risk (cont'd)

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 8.4% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.
A 8.4% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Currency Risk – Sensitivity Analysis

Assets exposed to currency risk	Asset Values as at 31 March 2021	Potential Market movement	Value on increase	Value on Decrease
	£000	8.40%	£000	£000
Overseas Pooled	91,468	7,683	99,151	83,784
Overseas Cash	541	45	587	496
Total change in assets available to	**92,009**	**7,728**	**99,738**	**84,280**

Assets exposed to currency risk	Asset Values as at 31 March 2020	Potential Market movement	Value on increase	Value on Decrease
	£000	7.40%	£000	£000
Overseas Pooled	86,970	6,436	93,406	80,534
Overseas Cash	4,836	358	5,194	4,478
Total change in assets available to	**91,806**	**6,794**	**98,600**	**85,012**

(b) Credit Risk

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

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

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experieced any actual defaults in recent years and the current pracitice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(c) Liquidity Risk

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

The Fund's cash holding under its treasury management arrangements as at 31 March 2021 was £15.963m (31 March 2020 £23.065m).The Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of liquid assets was £724m, which represented 83% of the total Fund (31 March 2020 £595m, which represented 82% of the total fund assets).

(d) Refinancing Risk

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

19 Funding Arrangements

Actuarial Statement for 2020/21

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated December 2019. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31-Mar-19 %
Discount Rate for Period	3.3
Salary increases assumption	3.0
Benefit increase assumption (CPI)	2.3

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

** Aged 45 at the 2019 Valuation*

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

Experience over the period since 31 March 2019
Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is broadly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

20 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities to disclose the actuarial present value of retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

31-Mar-20	Year Ended	31-Mar-21
£m		**£m**
1,195	Present Value of Promised Retirement Benefits	1,557
729	Fair Value of Scheme assets (bid Value)	874
466	**Net Liability**	**683**

The promised retirement's benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However the actuary is satisfed that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2021 include an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabiliites this year.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. It is estimated that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £299m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £21m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

31-Mar-21	Year Ended (% p.a)	31-Mar-20
% p.a.		**% p.a.**
2.85	Pension Increase Rate	1.90
3.55	Salary Increase Rate	2.60
2.00	Discount Rate	2.30

Longevity assumption

Life expectancy is based on the Fund's VitaCurves alongside future improvements based on the CMI 2020 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.8 years	24.1 years
Future Pensioners	22.9 years	25.9 years

Please note the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	138
0.5% p.a. increase in the Salary Increase Rate	1%	12
0.5% p.a. decrease in the Real Discount Rate	10%	153

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21 Current Assets

2019/20 £000		2020/21 £000
	Debtors:	
265	Contributions due from employers	307
68	Contributions due from employees	79
1,307	Pension Fund Bank Account Balances	116
3	Sundry Debtors	9
21,909	Cash deposit with LB Havering	15,876
-	Holding Accounts	16
23,552	**Current Assets**	**16,403**

22 Current Liabilities

2019/20 £000		2020/21 £000
	Creditors:	
(314)	Benefits Payable	(252)
(140)	Sundry Creditors	(169)
(160)	Holding Accounts	(44)
(614)		**(465)**

23 Additional Voluntary Contributions

Market Value 2019/20 £000	AVC Provider	Market Value 2020/21 £000
753	Prudential	841
108	Standard Life	144

Some employees made additional voluntary contributions (AVC's) of £31,030 (2019/20 £33,022) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2020/21 were £28,730 (2019/20 £30,622) to the Prudential and £2,400 (2019/20 £2,400) to Standard Life.

24 Agency Services

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are fully reclaimed from the employer bodies.

2019/20 £000		2020/21 £000
1,360	Payments on behalf of Havering Council	1,329

25 Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Fund is administering by the London Borough of Havering. During the reporting period, the council incurred costs of £0.538 (2019/20 £0.230m) in relation to the administration and management of the fund and was reimbursed by the Fund for these expenses.

The Authority is also the largest employer in the Fund and in 2020/21 contributed £33.392m (19/20 £32.257m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of London Borough of Havering, through a service level agreement. As at 31 March 2021 cash holdings totalled £15.837m (2019/20 £23.056m), earning interest over the year of £0.126m (2019/20 £0.202m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2021 (19/20 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 14b. During 2020/21 a total of £2.086m was charged to the Fund by the London CIV in respect of investment management services (19/20 £1.732m).

Governance

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions Committee and Local Pension Board are required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 11.

25a Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

26 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 were £50.62m. (31 March 2020 were £49.94m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. There are potential liabilities of £0.706m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Three admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.33m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.36m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.

27 Correction of Prior Period Errors

LGIM investments amounting to £123.850 million are pooled, index tracking funds where the valuation is based on the market quoted prices of the respective underlying securities thereby categorizing them as level 2 assets.

Furthermore, an adjustment is made to remove loans and receivables totalling £31.055 million, which included cash deposits and investment income totalling £7.503 million under financial assets at fair value through profit and loss – Level 1 disclosures. This adjustment aligns with the CIFPA LGPS Fund Accounts guidance.

			Adjustments			
		31 March 2019 (Audited accounts) £000	**LGIM holdings from level 1 to level 2 £000**	**Loans and receivable to FVtPL £000**	**Loans and Receivables reported in current assets £000**	**Restated 31 March 2019 £000**
Level 1	Financial assets at fair value through profit and loss	566,530	(123,850)	7,503		450,183
Level 1	Loans and receivables	31,055		(7,503)	(23,552)	-
Level 2	Financial assets at fair value through profit and loss	150	123,850			

Glossary

Accounting Policies Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

(i) recognising

(ii) selecting measurement bases for, and

(iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accruals The amounts by which receipts or payments are increased (or reduced) in order to record the full income and expenditure incurred in an accounting period.

Actuary An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Authority on the Fund's financial position and recommended employers' contribution rates.

Agency Arrangement An arrangement whereby an authority (the agent) acts on behalf of another (the principal) to collect income or incur expenditure on the behalf of the principal. Such income or expenditure is not included in the agent's accounts other than any commission paid by the principal.

Amortisation The writing off of an intangible asset or loan balance over a period of time.

Appropriation The transfer of ownership of an asset from one service to another at an agreed (usually market) value.

Balance Sheet A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

Bid Price The purchase price that a buyer is willing to pay for an asset.

Budget A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the council tax is set. Budgets are revised towards the year end to take account of inflation, changes in patterns of services, and other factors.

Capital Expenditure Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Financing Requirement The measure of an authority's capital borrowing need under the Prudential Code and the Local Government Act 2003. It is made up of the total value of the Authority's fixed assets and intangible assets less the sums accumulated in the revaluation reserve, deferred grant reserve and capital adjustment accounts.

Capital Receipt Income received from the sale of a capital asset such as land or buildings.

Code of Practice on Local Authority Accounting in the United Kingdom (The Code) Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board. The Code is reviewed continuously and is issued annually.

Collection Fund A Statutory Account which receives council tax and non-domestic rates to cover the costs of services provided by Havering and its precepting authorities.

Community Assets Assets that the Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement A statement showing the income and expenditure for the year of all the functions for which the Authority is responsible and complies with accounting practices as required under International Financial Reporting Standards (IFRS).

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

Contingent Liability A possible liability to future expenditure at the balance sheet date dependent upon the outcome of uncertain events.

Defined Benefit Scheme A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves Amounts earmarked to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

Effective Interest Rate The rate of interest needed to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at the initial recognition.

Finance Lease A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Financial Asset A right to future economic benefits controlled by the Authority that is represented by:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash (or other financial asset) from another entity.
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial Instrument A contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another

Financial Liability An obligation to transfer economic benefits controlled by the Authority that is represented by:

- A contractual obligation to deliver cash (or other financial asset) to another entity
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Authority.

General Fund (GF) Havering's main Revenue Account from which is met the cost of providing most of the Authority's services.

General Fund Working Balance Revenue Funds which are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

Historic Cost The actual cost of an asset in terms of past consideration as opposed to its current value.

Housing Revenue Account (HRA) A Statutory Account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment The reduction in value of a tangible or intangible fixed asset reflecting either (i) the consumption of economic benefits such as obsolescence or physical damage or (ii) a general fall in prices. In the former case, the impairment is a charge to the revenue account; in the latter, the impairment is a charge to the Revaluation Reserve or Capital Adjustment Account.

Infrastructure Assets Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

London Collective Investment Vehicle (CIV) was launched in December 2015, is the first fully authorised and regulated investment management company set up by Local Government in the UK. They have been established as a collective vehicle for investments for Local Government Pension Scheme Funds.

Long Term Assets – assets that yield benefit to the Authority and the services it provides for a period of more than one year. Fixed Assets are sub-divided into **Tangible** and **Intangible**: the former are physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research and development. Long term assets were previously called **fixed assets** on the balance sheet.

Minimum Revenue Provision (MRP) The Authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). The MRP is based on the Council's capital financing requirement.

Movements in Reserves Statement (MiRS) This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services.

Net Book Value The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost The current cost of replacing or recreating an asset in its existing use, adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

Non Distributed Costs Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities

The costs of shares of long term unused but unrealisable assets.

oneSource A partnership between the London Boroughs of Bexley, Havering and Newham through a joint-committee arrangement to deliver support services. This will release resources to be applied to the protection of front-line services.

Operational Assets Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its services.

Operating Lease A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn The actual level of expenditure and income for the financial year.

Post Balance Sheet Events Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Chief Operating Officer

Precept The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Havering) to finance its net expenditure.

Provisions Amounts set aside to fund known liabilities chargeable to the current year's Accounts where the exact amount or timing of the payment are not yet certain.

Prudential Code Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities' capital spending plans are affordable, prudent and sustainable, with authorities being required to set specific prudential indicators.

Public Works Loans Board (PWLB) Central Government Agency which funds much of Local Government borrowing.

Revenue Expenditure The day to day expenditure of the Authority, e.g. salaries, depreciation, goods and services.

Revenue Expenditure Funded from Capital Under Statute Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples include items such as improvement grants and loan redemption expenses.

Revenue Support Grant The main grant paid by the Government to local authorities.

Supported Borrowing supported by central government grant towards the financing costs, mainly through Revenue Support Grant.

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London Borough of Havering Audit Results Report - Update

Year ended 31 March 2021

10 May 2024

Building a better working world

Appendix B

10 May 2024

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

Dear Audit Committee Members

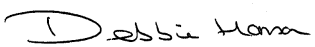
We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our current audit conclusions in relation to the audit of the London Borough of Havering (the Council) for 2020/21. We will update the Audit Committee at its meeting scheduled for 14 May 2024 on any further progress to that date and outline the remaining steps to the issue of our final opinion. This report provides an update on the report presented to the Committee on 18 April 2023. There have been significant delays in the completion of the audit due to poor quality responses to audit queries and lack of evidence to support the accounts in a number of areas. These issues have also resulted in a large number of audit differences being identified. We will issue a final Audit Results Report once all our audit procedures are complete.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Councils accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements in this report.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 14 May 2024.

Yours faithfully



Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (Statement of responsibilities of auditors and audited bodies from 2018/19 – PSAA) The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report, presented at the 28 April 2021 meeting of the Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to risk:

Infrastructure assets accounting:

In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence, gross cost and gross accumulated depreciation are continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets and in December 2022 DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil.

The Council will take the option to apply the Code adaptation and statutory instrument to their 2020/21 financial statements. They will amend the presentation of infrastructure assets, included the required disclosure note and updated the accounting policy as required by the statutory instrument.

Our work to review this restatement and confirm the material accuracy of the in year depreciation has been completed and we have not identified any issues.

Minimum revenue provision calculation:

Under statute the Council is required to calculate and set aside a minimum revenue provision (MRP) for the repayment of debt. The Council's MRP is not material, however in light of the significant levels of borrowing associated with the Council's regeneration programme we have identified a risk that the provision may not be appropriately calculated, resulting in a risk of material understatement.

Additional significant risk relating to accounting for hosting, agency and partnership arrangements

Our audit testing identified a number of issues with how the Council is accounting for arrangements where it is the host for services or is acting as an agent or where it is acting in partnership with others. In many cases the Council was unable to provide clear details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. The quantum of these arrangements are material to the Council and impact on both income and expenditure. As our materiality is based on gross expenditure we have therefore identified this as a new significant risk.

Appendix B

Executive Summary

Scope update

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure, we have updated our overall materiality misstatement to £10.4 million (Audit Planning Report – £10.3 million). This results in updated performance materiality, at 75% of overall materiality, of £7.8 million, and an updated threshold for reporting misstatements of £0.52 million.

We will need to revisit materiality on conclusion of the audit taking into account the level and nature of errors identified and in particular those that impact on gross expenditure (as our materiality is based on this) to determine whether it remains appropriate.

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

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Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2021. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Review and assessment of the Council's updated our going concern assessment and completion of our internal consultation in relation to this;
- Completion of final Partner and Manager review of the outstanding areas noted in this report;
- Completion of the general conclusion procedures;
- Completion of subsequent event procedures up to the date of the audit report;
- Agreement of all final amendments to the financial statements;
- Final reviews by the Engagement manager, Partner and Quality Control Reviewer; and
- Receipt of a signed accounts and a signed letter of management representation.

There have been significant delays in the completion of the audit due to poor quality responses in response to audit queries and lack of evidence to support the accounts in a number of areas. Following completion of the audit work in these areas a number of errors have been identified. Some of the main areas which have resulted in delays and errors are set out on slide 8.

Given that the audit process is not yet fully complete, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion which is included in Section 4 of this report.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

In the Audit Results Report presented to the 18 April 2023 Audit Committee, we reported that we had completed our planning, taking into consideration the findings from the 2019/20 value for money work, our discussion with management and our knowledge of sector-wide issues that may affect the Council. We had identified one risk of significant weakness in respect of the Council's governance arrangements for delivering housing regeneration schemes through three joint venture partners.

We engaged our EY Forensics team to assess whether the Council had in place reasonable ongoing governance for delivering its regeneration objectives. We considered this in relation to the achievement of the Council's objectives for the housing regeneration schemes delivered through the three joint ventures: Havering and Wates Regeneration LLP; Rainham and Beam Park Regeneration LLP and Bridge Close Regeneration LLP (which is now under the Council's ownership after the relationship was terminated with the private sector partner). In particular, we considered:

- whether the Council makes properly informed decisions through access to appropriate and reliable financial and performance information relating to the regeneration scheme
- how the Council is working with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e., affordable housing and income)
- how the Council reflects significant changes to the funding / benefits of the regeneration scheme in its annual budget setting process

For Bridge Close we also considered:

- the termination of the agreement with private sector partner and assessed whether the ownership transfer of the assets adhered to Council processes;
- Whether risks arising from the termination were assessed and mitigated accordingly
- whether new governance processes were implemented to reflect the Council's sole ownership of the venture

Overall, we concluded that Council's arrangements in relation to the above areas were adequate and did not identify any significant weakness in arrangements. We will therefore not be reporting by exception in our audit report. Our detailed value for money commentary will be included in our Auditor's Annual Report which we will issue before issuing our certificate of completion of the audit.

Executive Summary

Audit differences

We have identified a significant number of differences and/or amendments during the audit which are greater than £0.5 million (audit differences threshold) that require bringing to your attention.

Some of the main areas where differences were identified included:

- accounting for hosting, agency and partnership arrangements.
- Group accounting and disclosures, including accounting for the Councils interesting in companies and joint ventures
- Minimum revenue provision calculation.

Further detail on these areas and the challenges encountered are set out in this report. We would however particularly highlight our findings in relation to the Council's minimum revenue provision which have resulted in a cumulative understatement of £4.507 million by 31 March 2021. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account). As useable reserves are a key measure of the Council's financial resilience, we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate.

A number of the other issues identified will also continue to impact on the Council's accounts in subsequent years and it is therefore important that action is taken to address the underlying issues to ensure similar issues did not reoccur.

We include further details in Section 4 of this report. The differences reported are based on the updated draft accounts which we only received on 9 May 2024, and which were not supported by a clear audit trail of adjustments made, although the Council has agreed to provide this. Therefore, further changes may be identified.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit. The Council is below the threshold requiring detailed procedures and the NAO has now confirmed that they do not require any additional procedures for 2020/21. We will therefore complete our WGA submission and issue this along with our audit opinion.

We have no other matters to report.

Executive Summary

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial report of London Borough of Havering. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section 02 of this report.

Below we have summarised the conclusions of our work on the areas of audit focus.

Fraud/Significant Risks	Findings & Conclusions
Misstatements due to fraud or error (management override)	We have not identified any material weaknesses in controls or evidence of material management override and not identified any instances of inappropriate judgements being applied from the work completed.
Incorrect capitalisation of revenue spend	We completed our work on the testing of REFCUS and capital additions during the year and have not identified any evidence of manipulation through inappropriate capitalisation.
Valuation of investment properties	We have completed our audit work in respect of to the valuation of investment properties and have no issues to report.
Additional significant risk not identified in our audit plan or previous Audit Results Report	
Accounting for hosting, agency and partnership arrangements	Our audit testing identified a number of issues with how the Council is accounting for arrangements where it is the host for services or is acting as an agent or where it is acting in partnership with others. In many cases the Council was unable to provide clear details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. In a number of cases, our assessment and further audit work indicated that the accounting for these arrangements was incorrect. This has resulted in the comprehensive income and expenditure statement (CIES) incorrectly including a number of income and expenditure items on a gross basis where the Council is acting as an agent or host and therefore should only be reflecting the net cost that relates directly to the Council. The total of the items where such issues were identified was material and results in both income and expenditure in the CIES being overstated. The Council is currently proposing to amend for one of these items. Further detail is included in Section 4 of this report. The issues identified here also represent weakness in governance arrangements and this is considered further in Section 5 of this report as part of our value for money responsibilities.

Executive Summary

Areas of audit focus

Area of audit focus	Findings & Conclusions
Infrastructure assets	We have completed our audit work on infrastructure assets and have no matters to report. The Council has applied the statutory override and Code adaptation and reported these assets on a net book value basis and made appropriate disclosures in the accounts related to this. Our work on deprecation has concluded this is materially accurate.
Pension liability valuation	We have completed the work on this area and not identified any material issues.
Group financial statements	We have completed the work on the Council's Group, including consideration of its subsidiaries and Joint Ventures and identified a number of differences and amendments which are detailed in Section 4 of this report. Overall the quality of the accounts in these areas was poor and the Council demonstrated a weak understanding of accounting requirements in this area.
Going concern disclosures	At the time of writing, our going concern assessment and procedures are incomplete. Due to the delays in the completion of the audit, for the reasons outlined in this report, the Council is required to provide an updated going concern disclosure and assessment and supporting cash flow forecast. The disclosure and assessment need to consider the Council's circumstances for the foreseeable future, which is at least twelve months from the date the accounts are authorised for issue. The Council's disclosure and assessment needs to cover the Council and Group position, including consideration of the entities in which the Council has an interest which are not currently consolidated into the Group accounts. It will also need to consider the impact of the Council's current financial position and the associated capitalisation direction. Once we have been provided with this updated assessment and supporting information we will complete our review. This will include challenge of the assumptions underpinning management's assessment and internal consultation with our Profession Practice Department.
Valuation of land and buildings	We have completed the work on this area and have not identified significant issues to report.
Minimum revenue provision calculation	We have completed the work on Minimum Revenue Provision and identified misstatements, which have resulted in a cumulative understatement of £4.507 million by 31 March 2021. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account). As useable reserves are a key measure of the Council's financial resilience we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate. Further details are in Section 4 of this report.

Executive Summary

Areas of audit focus

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no other matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

Control observations

We have identified several weaknesses and deficiencies in the Council processes in a number of areas, with particular weaknesses in the processes for the production of the accounts in more complex areas.

Further details are included in section 7.

Independence

Please refer to Section 09 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (management override)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- Identified fraud risks during the planning stages, which reflect the significant fraud risk recognised in this report (the risk of inappropriate capitalisation of expenditure).
- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Determined an appropriate strategy to address those identified risks of fraud; and
- Performed mandatory procedures regardless of specifically identified fraud risks, including:
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. Please also separate sections of this report for our conclusion on valuation of investment properties, valuation of land and buildings and pension liability valuation.

Our testing of journals is completed with no material issues identified.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

Confirming additions to property, plant and equipment and investment property has been correctly classified and meet the relevant criteria.

What did we do?

In response to this risk, we:

- For significant capital additions, we examined invoices, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.
- Reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), and verified that revenue costs have not been inappropriately funded from capital.
- Tested year end journals which moves expenditure from revenue to capital.

What are our conclusions?

We have completed our work on capital additions and REFCUS and have not identified any additions that were incorrectly capitalised or REFCUS items which did not meet the statutory definition.

Our testing of year end journals did not identify any movements from expenditure to capital outside of the normal course of business.

Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

The Council's investment properties represent a significant balance in the Council's accounts and are subject to valuation changes and impairment review.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The ongoing impact of Covid-19 means there is potential for significant impact on the estimations and assumptions applied to asset valuations. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields. There is therefore a risk that investment property may be misstated in the accounts.

What did we do?

- Considered the work performed by the Council's valuer over the Council's assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Assessed the classification of the assets and whether the appropriate valuation basis has been applied;
- Considered the annual cycle of valuations to ensure that investment property have been valued annually as required by the Code and considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Sample tested key asset information used by the valuer in performing their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger.
- Tested accounting entries had been correctly processed in the financial statements; and
- Ensured that appropriate disclosure had been made in the financial statements concerning the material uncertainty relating to year end valuations.

What are our conclusions?

We concluded that we could rely on the work of the Council's valuer over the Council's investment property assets, and that the scope of the work performed and their professional capabilities were adequate.

We concluded that assets were correctly classified as investment properties and had been valued on an appropriate basis annually.

Sample testing of the individual valuations of 16 investment properties was undertaken. This work did not identify any differences.

We were satisfied that related accounting entries had been correctly processed in the financial statements.

We have noted that the Council's valuer included a material uncertainty in their report in relation to retail and specific trading related assets/sectors such as car parks. The Council has not included any reference to this in its accounts. We have therefore asked the Council to consider whether they hold any such assets and if they do, to include a disclosure regarding this in the accounts – under Note 3 - Critical Judgements in Applying Accounting Policies, Assumptions made about future and other major source of estimation uncertainty. We are currently awaiting the Council's response in relation to this.

Areas of Audit Focus

Significant risk

Accounting for host, agency and partnership arrangements (new risk not previously reported)

What is the risk?

The Council is party to a number of arrangements which include working with other authorities in a number of cases which may result in the Council acting as a host or agent for services and passporting funding for others.

Management is required to undertake an assessment to determine the appropriate accounting for such arrangements based on the nature of the arrangement and the agreements in place. This needs to be undertaken in line with the CIPFA Code and relevant ISA accounting standards.

During our audit work we identified a number of these arrangements where the Council was unable to provide details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined.

The quantum of these arrangements for the Council is material.

What did we do?

- Undertook a detailed assessment of the Council's main income and expenditure streams and drew on our knowledge of the Council to identify any agency, host or partnership arrangements
- Assessed the nature of the arrangements in order to determine whether the appropriate accounting treatment had been applied;
- Assessed the adequacy of the Council's underpinning documentation and any impact on our value for money assessment from a governance perspective;
- Ensured that appropriate disclosure had been made in the financial statements concerning the judgements made by the Council in determining the accounting treatment to be adopted.

What are our conclusions?

We concluded that the Council has a poor understanding of the various hosting, agency and partnership arrangements it is part of from an accounting perspective.

For a number of the key arrangements, for example OneSource, the Council was unable to locate the original partnership agreement which is key to understanding the nature of the arrangement and therefore the resulting accounting. This also represents a governance weakness as it is important that the Council has copies of such agreements in case of future disputes.

We also found that the Council's general approach is to account for all these arrangements on a gross basis, without reference to, or consideration of, the underlying nature of the arrangement. This has therefore resulted in the material overstatement of income and expenditure in the Council's accounts.

The main such area is the £7.38 million of income and expenditure in respect of the Hospital Discharge Programme (HDP). HDP is a Department of Health and Social Care scheme for which the Council was an agent and hence neither the income or expenditure is reportable within the Council's accounts. Both income and expenditure were therefore overstated by £7.38 million. The Council has agreed to amend for this item. Further details of the unadjusted items are in Section 4 of this report.

We have also asked the Council to consider whether it has included sufficient reference to the judgements in relation to accounting for these arrangements in its accounts. We would expect this to be included under Note 3 - Critical Judgements in Applying Accounting Policies, Assumptions made about future and other major source of estimation uncertainty. We are currently awaiting the Council's response in relation to this query.

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Accounting for infrastructure assets In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulated depreciation are therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated. The Council has a material infrastructure assets amounting to £117.6 million held on its balance sheet at 31 March 2021. DLUHC issued a Statutory Instrument which came into effect on the 25 December 2022 which allowed for a temporary change in accounting rules in this area giving Authorities the option to account for Infrastructure Assets on a net rather than gross basis. CIPFA also released an update to the Local Authority Accounting Code and a Local Authority Accounting Panel (LAAP) bulletin was issued which provided practitioners guidance on how they should account for Infrastructure Assets should an Authority wish to adopt the Statutory Instrument.	We initially: ▸ Reviewed the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components. ▸ Made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits. Once the Council confirmed that it chose to adopt the statutory instrument and Code adaptation, we: ▸ Confirmed that the value of these assets is reported correctly on a net book value basis. ▸ Performed a reasonableness check to determine whether the economic useful lives used by management to calculate depreciation were appropriate and obtained an understanding of how these had been determined. ▸ Compared the depreciation charge included in the financial statements to the potential depreciation charge using the CIPFA example useful economic lives. ▸ Reviewed updated accounting disclosure to ensure they are in line with the requirement of amended CIPFA code of practice and accurately reflected the Council's practices. We are satisfied with the changes made to disclosures and that depreciation is materially accurate and have not identified any issues

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Valuation of land and buildings The value of land and buildings, which is the main element of property, plant and equipment, represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet and are likely to have a significant impact on the valuation of these assets.	We: ▸ Checked the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted; ▸ Assessed the expertise and independence of management's valuation specialist by confirming their qualifications, experience in the sector and the terms of their engagement with the Council. ▸ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). ▸ Checked the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for property, plant and equipment. ▸ Identified assets not subject to valuation in 2020/21 and applied indices to confirm that the value of these assets had not changed materially since the last valuation date in order to confirm that the remaining asset base is not materially misstated. ▸ Reviewed the fixed asset register and confirmed there had been no significant changes to useful economic lives as a result of the most recent valuation. ▸ Tested that accounting entries have been correctly processed in the financial statements. We have completed the procedures set out above and our findings are set out on the following slide.

Areas of Audit Focus

Other areas of audit focus (continued)

Conclusion

Valuation of land and buildings

- We are satisfied that assets have been correctly classified and valued on an appropriate basis.
- We are satisfied that the scope of the work performed by the Council's valuer is appropriate and within their professional capabilities.
- Our sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) has not identified any significant issues.
- We are satisfied that the annual cycle of valuations ensures that assets have been valued within a 5 year rolling programme as required by the Code for Property, plant and equipment.
- Our work in respect of reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated has not identified any material differences.
- We did not identify any changes to useful economic lives as a result of the most recent valuation.
- We confirmed that accounting entries have been correctly processed in the financial statements.

Based on the procedures completed, we have not identified any material errors in the valuation of the Council's land and buildings included in the property plant and equipment balance in the financial statements.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £546 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We:

- Liaised with the auditor of the Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC, being the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pensions actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- The revised ISA 540 standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports, run a parallel actuarial model and compare to that produced by Hymans Robertson.

Our conclusion:

We have considered the information provided by the EY Pensions actuarial team and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable.

We have considered the assurance report received from the Havering Pension Fund Auditor and assessed that the impact of the difference identified in the valuation of investments asset values is not material to the Council.

We have also agreed the Council's IAS 19 disclosures to the actuaries' report and ensured these are fairly stated in the accounts. We note that the Council obtained an update IAS19 report from the actuary to reflect actual year end asset values and this resulted in an increase in the net liability of £1.25 million. The Council has not adjusted for this.

Our procedures to determine our own estimate for the Council's pension liability found that the liability calculated by the actuary fell within our reasonable range.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
Group financial statements The Council has entered into three Joint Venture (JV) arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. The Council consolidated the transactions or balances relating to these joint venture arrangements within its group financial statements for the first time in 2019/20. Although 2020/21 will be the second year of consolidation for the joint ventures there remains a risk that they may not be consolidated accurately and that all required disclosures may not be included in the accounts, particularly as the level of activity in and size of the joint ventures increases. In addition, during the year, the status of Bridge Close changed from being a JV arrangement to a 100% owed subsidiary of the Council, following the termination of the agreement with the JV partner. This would therefore change the required accounting for this.	We: ➢ Reviewed and assessed the accuracy of the Council's Group boundary assessment and the entities that were within scope ➢ Checked the amounts consolidated by the Council and determined the accuracy of the consolidation process ➢ Assessed the accounting treatment for those entities which were within scope but not required to be consolidated. ➢ Assessed the completeness of disclosures made within the Council's financial statements in relation to the Group. Our findings and conclusions Our work on this area has been particularly challenging and a number of meetings have been held with management to try to gain a clear understanding of the relationship between the Council and the JVs and subsidiary companies and the appropriate accounting requirements and disclosures. Following these meetings it was clear that the Council did not have an adequate understanding of either the arrangements or the resulting the accounting requirements. As a result, the Council engaged an external firm to review the arrangements and provide advice on the appropriate accounting requirements. We reviewed the report provided by the external firm with consultations from our technical specialist and Financial Reporting Group. The work of the consultant and our own work identified several misstatement. The Council has subsequently made adjustments to single entity and group accounts to address the issues identified. Not all adjustments have however been made and there remain unadjusted differences although the impact of these is not material. Some of the main issues identified were: • The Council initially consolidated the JVs within the Group accounts but had done this on a line by line rather than equity basis which was incorrect. • On further review, it was also determined that, as these entities are currently loss making, the Code requires these not to be consolidated but to be accounted for on a different basis. Further details are in Section 4 of this report.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
Going concern disclosures Covid-19 has created a number of financial pressures throughout Local Government. It has created financial stress leading to increased expenditure in specific services, and reductions in income sources. In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, so for the Corporation the 2020/21 financial statements are the first to be impacted. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription. However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.	We initially: ▸ Reviewed management's going concern assessment in the draft financial statements. ▸ Read the Narrative Report and financial statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Council's financial position. ▸ Reviewed, tested and challenged the supporting evidences provided by management in relation to going concern ▸ Assessed the reasonableness of the assumptions included in the Council's cash flow forecasts. ▸ Stress tested the Council's medium term financial strategy At the time of writing, our going concern assessment and procedures are incomplete. Due to the delays in the completion of the audit, for the reasons outlined in this report, the Council is required to provide an updated going concern disclosure and assessment and supporting cash flow forecast. The disclosure and assessment need to consider the Council's circumstances for the foreseeable future, which is at least twelve months from the date the accounts are authorised for issue. The Council's disclosure and assessment needs to cover the Council and Group position, including consideration of the entities in which the Council has an interest which are not currently consolidated into the Group accounts. It will also need to consider the impact of the Council's current financial position and the associated capitalisation direction. Once we have been provided with this updated assessment and supporting information we will complete our review. This will include challenge of the assumptions underpinning management's assessment and internal consultation with our Profession Practice Department.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
Minimum revenue provision (MRP) calculation Under statute the Council is required to calculate and set aside a minimum revenue provision (MRP) for the repayment of debt. The Council's MRP is not material, however in light of the significant levels of borrowing associated with the Council's regeneration programme we have identified a risk that the provision may not be appropriately calculated, resulting in a risk of material understatement.	We have: ▸ Reviewed the Council's calculation of the Capital Financing Requirement (CFR) and minimum revenue provision (MRP) ▸ Checked that Council's MRP Policy is compliant with the statutory guidance issued by DLUHC (previously MHCLG). Findings and conclusion Review of the CFR calculation identified that it contained a number of errors that resulted in it being understated. The most significant of these being the double counting of Adjustment A (an allowance arising from a previous capital financing regime that reduces the CFR), and the omission of investment properties transferred from the HRA to the General Fund in 2013/14. The MRP, which is the setting aside of revenue resources to fund capital expenditure / future debt redemption is based on the CFR. As a result of the above CFR error MRP has been understated by £4.507 million to the end of 2021 on a cumulative basis. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account). As useable reserves are a key measure of the Council's financial resilience we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate. See Section 4 of this report for more details.

03 Audit Report

Audit Report - Draft

Draft audit report

Our opinion on the financial statements - draft

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING - DRAFT

Opinion

We have audited the financial statements of London Borough of Havering ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 45.
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 5
- Collection Fund and the related notes 1 to 2

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:
- give a true and fair view of the financial position of London Borough of Havering and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Operating (Section 151) Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Operating (Section 151) Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Operating (Section 151) Officer is responsible for the other information contained within the statement of accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to

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Our opinion on the financial statements

determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Group and the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Operating (Section 151) Officer

As explained more fully in the Statement of the Chief Operating (Section 151) Officer's Responsibilities set out on page 19, the Chief Operating (Section 151) Officer is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements**,** in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Operating (Section 151) Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Chief Operating (Section 151) Officer is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),

Audit Report

Our opinion on the financial statements

determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Group and the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Operating (Section 151) Officer

As explained more fully in the Statement of the Chief Operating (Section 151) Officer's Responsibilities set out on page 19, the Chief Operating (Section 151) Officer is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Operating (Section 151) Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Chief Operating (Section 151) Officer is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),

Audit Report

Our opinion on the financial statements

- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2021,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how London Borough of Havering is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management/head of internal audit/those charged with governance/monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Authority's committee minutes and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the London Borough of Havering had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit Report

Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements..

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

Use of our report

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

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

The differences reported are based on the updated draft accounts which we only received on 9 May 2024, and which were not supported by a clear audit trail of adjustments made, although the Council has agreed to provide this. As the audit procedures are not yet fully complete, further differences may be identified in relation to the outstanding areas noted in the Executive Summary and once we have been able to check the amendments that have been made to the accounts. An update will be provided to the Committee for any new differences identified subsequent to the release of this report.

Summary of differences

<u>Adjusted audit differences</u>

We identified a number of differences which management has agreed to amend, some of which were immaterial in nature or were narrative disclosure amendments only. We have therefore not reported these here. We do however bring to your attention the following:

Group accounting
A number of amendments were made to the Council single entity and Group accounts to correct the errors referred to earlier in this report. The impact of these changes are summarised in the tables in the following slides (34 and 35). We note that the Council has not however made all the amendments we have identified as being required and there remain unadjusted difference. The impact of these are also summarised in the following slides.

Overstatement of income and expenditure
As noted in this report the CIES incorrectly includes a number of income and expenditure items where the Council is acting as an agent or host and therefore should only be reflecting the net income and expenditure that relates directly to the Council. The Council has amended the accounts to remove income and expenditure of £7.36 million in respect of the Hospital Discharge Programme (HDP). Both income and expenditure were therefore overstated by £7.38 million.

Recharges to the Pension Fund of £0.64 million in respect of administrative costs have been shown gross within the CIES rather than net.

There are other similar areas of income and expenditure which are incorrectly reported on a gross rather than a net basis and have not been adjusted. These are set out in the unadjusted differences in the following slides.

Audit Differences

Summary of differences (cont'd)

Grant notes

A number of changes have been made to the Grant note to remove items that do not meet the definition of grants. We are in the process of checking these adjustments.

Expenditure and Funding Analysis (EFA)

The EFA in the draft accounts did not agree to the CIES (which is should do). This was due to the inclusion of an incorrect 'off ledger' adjustment of £2.651 million. The Council was not able to explain the reason for this adjustment and we have subsequently confirmed that was incorrect and has now been reversed.

Officer's remuneration disclosure

The disclosure omitted an 'other payment' of £46.8k for the Director of Regeneration. The other payments should be £187.2k but only £140.4k was disclosed in the draft accounts. As this is a sensitive note, we understand that the Council will amend for this.

Unadjusted Audit Differences

We highlight misstatements greater than £0.52 million which have been identified during the course of our audit that have not been corrected.

Projected misstatements

We have identified two projected misstatements in relation to expenditure and creditors:

- Overstatement of creditors as a result of two sampled items which were not supported with evidence and one item where a purchase order was raised but should have been cancelled. The projected misstatement amounts to £0.65 million.
- Overstatement of expenditure as a result of unsupported expenditure. The projected misstatement amounts to £1.93 million.

Factual misstatements

- The Council obtained an updated IAS19 report from the actuary which resulted in a £1.25 million increase in the net liability. As a result, the pension liabilities, remeasurement loss and pension reserve are all understated
- The amended single entity accounts provided for audit include a movement of £1.4 million from long term to short term debtors which is incorrect. As a result, long term debtors are understated and short term debtors overstated.
- We identified a misclassification of codes between sundry debtors and sundry creditors with a net impact of £0.68 million, resulting in an overstatement of both debtors and creditors.

Audit Differences

Summary of differences (cont'd)

Judgemental misstatements

- Estimated understatement of Minimum Revenue Provision (MRP) charges up to and including 31 March 2021 of £4.51 million. Resulting in understatement of useable reserves (general fund) and overstatement of unusable reserves (capital adjustment account)
- Recharges to other authorities for costs relating to the OneSource joint working arrangement have been shown gross within the CIES and balance sheet but should have been shown net as they are not transactions related to the Council. As a result, both income and expenditure are overstated by £5.5 million and debtors and creditors by £4.01 million.
- The CIES incorrectly contains income and expenditure of £3.14 million in respect of the Adopt London East (ALE) arrangement for which the Council are the host and hence the Council should be reporting the net position. As a result, both income and expenditure are overstated.

Audit Differences

Summary of differences (cont'd)

Impact of adjustments - Single entity Accounts, showing movement between draft and updated accounts and remaining unadjusted differences

SINGLE ENTITY BALANCE SHEET	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
L/T Assets				
PPE	£1,432,160	£1,432,160	£0	£0
Hertiage Assets	£2,319	£2,319	£0	£0
Investment Property	£64,552	£64,552	£0	£0
Intangible Assets	£621	£621	£0	£0
L/T Investments	£0		£0	£0
L/T Investments in Subs and JV	£26,460	£19,199	-£7,261	-£1,455
L/T Debtors	£39,394	£42,735	£3,341	£3,683
TOTAL	£1,565,506	£1,561,586	-£3,920	£2,228
Current Assets				
S/T Investments	£110,276	£110,276	£0	£0
Inventories	£400	£400	£0	£0
S/T Debtors	£67,046	£68,488	£1,442	-£6,147
Cash and Cash Eqiv.	£7,861	£7,861	£0	£0
Assets Held for Sale	£0	£0	£0	£0
TOTAL	£185,583	£187,025	£1,442	-£6,147
Current Liabilties				
S/T Borrowing	-£12,242	-£12,242	£0	£0
S/T Creditors	-£111,328	-£111,328	£0	£5,973
TOTAL	-£123,570	-£123,570	£0	£5,973
L/T Liabilities				
L/T Creditors	£0	£0	£0	£0
Provisions	-£10,955	-£10,955	£0	£0
L/T Borrowing	-£264,124	-£264,124	£0	£0
Other L/T Liabilities	-£545,811	-£545,811	£0	-£1,424
Cap Rec in Advance	-£8,094	-£8,094	£0	£0
TOTAL	-£828,984	-£828,984	£0	-£1,424
NET ASSETS	£798,535	£796,057	-£2,478	£630
Reserves				
Usable Reserves	-£208,999	-£208,999	£0	£3,224
Unusable Reserves	-£589,536	-£587,058	£2,478	-£3,854
TOTAL	-£798,535	-£796,057	£2,478	-£630

SINGLE ENTITY CIES	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
SEA - Income Side				
Corporate Budgets	-£2,410	-£2,410	£0	£0
Neighbourhoods	-£22,666	-£22,666	£0	£0
Housing	-£65,693	-£65,693	£0	£0
Regeneration Programme	-£1,692	-£1,692	£0	£0
Adult Services	-£32,956	-£25,580	£7,376	£0
Childrens Services	-£151,409	-£151,409	£0	£3,139
Public Health	-£19,710	-£19,710	£0	£0
OneSource Non Shared	-£70,193	-£70,193	£0	£0
OneSource Shared	-£6,309	-£6,309	£0	£6,042
TOTAL	-£373,038	-£365,662	£7,376	£9,181
SEA - Expenditure Side				
Corporate Budgets	£33,397	£33,397	£0	-£1,283
Neighbourhoods	£44,302	£44,302	£0	£0
Housing	£25,863	£25,863	£0	£0
Regeneration Programme	£7,448	£7,448	£0	£0
Adult Services	£97,547	£90,171	-£7,376	£0
Childrens Services	£205,731	£205,731	£0	-£3,139
Public Health	£15,588	£15,588	£0	£0
OneSource Non Shared	£84,844	£84,844	£0	£0
OneSource Shared	£24,790	£24,790	£0	-£6,042
TOTAL	£539,510	£532,134	-£7,376	-£10,464
Other Op Income and Expenditure				
Other Operating Expenditure	£16,162	£16,162	£0	£0
Financing and Investment I&E	£12,900	£15,377	£2,477	-£770
Taxation and Non Specific Grants	-£231,939	-£231,939	£0	£0
(Surplus) / Deficit on Services	-£36,405	-£33,928	£2,477	-£2,053
Other Comprehensive I&E				
(S)/D on PPE Revlauation	-£99,572	-£99,572	£0	£0
L/(G) on Pension Assets	£119,593	£119,593	£0	£1,424
TOTAL	£20,021	£20,021	£0	£1,424
Total Comprehensive I&E	-£16,384	-£13,907	£2,477	-£629

Appendix B

Audit Differences

Summary of differences (cont'd)

Impact of adjustments – Group Accounts, showing movement between draft and updated accounts and remaining unadjusted differences

GROUP BALANCE SHEET	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
L/T Assets				
PPE	£1,450,251	£1,446,115	-£4,136	-£1
Hertiage Assets	£2,319	£2,319	£0	£0
Investment Property	£112,505	£112,505	£0	£0
Intangible Assets	£621	£621	£0	£0
L/T Investments	£0	£0	£0	£0
L/T Investments in Subs and JV	£693	£1,674	£981	£3
L/T Debtors	£215	£5,078	£4,863	£490
TOTAL	£1,566,604	£1,568,312	£1,708	£492
Current Assets			£0	£0
S/T Investments	£110,276	£110,276	£0	£0
Inventories	£400	£400	£0	£0
S/T Debtors	£64,677	£64,784	£107	-£4,705
Cash and Cash Eqiv.	£13,177	£12,788	-£389	£0
Assets Held for Sale	£0	£0	£0	£0
TOTAL	£188,530	£188,248	-£282	-£4,705
Current Liabilties			£0	£0
S/T Borrowing	-£11,938	-£12,240	-£302	-£2
S/T Creditors	-£112,266	-£111,963	£303	£5,975
TOTAL	-£124,204	-£124,203	£1	£5,973
L/T Liabilities			£0	£0
L/T Creditors	£0	£0	£0	£0
Provisions	-£12,075	-£12,075	£0	£0
L/T Borrowing	-£264,245	-£264,124	£121	£0
Other L/T Liabilities	-£545,946	-£545,946	£0	-£1,424
Cap Rec in Advance	-£8,094	-£8,094	£0	£0
TOTAL	-£830,360	-£830,239	£121	-£1,424
NET ASSETS	£800,570	£802,118	£1,548	£336
Reserves			£0	£0
Usable Reserves	-£211,034	-£205,921	£5,113	-£5,621
Unusable Reserves	-£589,536	-£596,197	-£6,661	£5,285
TOTAL	-£800,570	-£802,118	-£1,548	-£336

GROUP CIES	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
SEA - Income Side			£0	£0
Corporate Budgets	-£2,410	-£2,410	£0	£0
Neighbourhoods	-£22,666	-£22,666	£0	£0
Housing	-£65,693	-£65,693	£0	£0
Regeneration Programme	-£12,281	-£3,366	£8,915	£818
Adult Services	-£32,956	-£25,580	£7,376	£0
Childrens Services	-£151,409	-£151,409	£0	£3,139
Public Health	-£19,710	-£19,710	£0	£0
OneSource Non Shared	-£70,193	-£70,193	£0	£0
OneSource Shared	-£6,309	-£6,309	£0	£6,042
TOTAL	-£383,627	-£367,336	£16,291	£9,999
SEA - Expenditure Side			£0	£0
Corporate Budgets	£33,397	£33,397	£0	-£1,283
Neighbourhoods	£44,302	£44,302	£0	£0
Housing	£25,863	£26,107	£244	-£244
Regeneration Programme	£10,500	£8,157	-£2,343	-£580
Adult Services	£97,547	£90,170	-£7,377	£1
Childrens Services	£205,731	£205,731	£0	-£3,139
Public Health	£15,588	£15,588	£0	£0
OneSource Non Shared	£84,844	£84,844	£0	£0
OneSource Shared	£24,790	£24,790	£0	-£6,042
TOTAL	£542,562	£533,086	-£9,476	-£11,287
Other Op Income and Expenditure			£0	£0
Other Operating Expenditure	£16,191	£16,225	£34	-£63
Financing and Investment I&E	£15,522	£7,122	-£8,400	£157
Taxation and Non Specific Grants	-£230,819	-£230,819	£0	£0
(Surplus) / Deficit on Services	-£40,171	-£41,722	-£1,551	-£1,194
Other Comprehensive I&E			£0	£0
(S)/D on PPE Revlauation	-£99,572	-£99,572	£0	£0
L/(G) on Pension Assets	£119,718	£119,718	£0	£1,424
TOTAL	£20,146	£20,146	£0	£1,424
Total Comprehensive I&E	-£20,025	-£21,576	-£1,551	£230

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIFPA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

In the performance of our risk assessment procedures, we identified one risk of a significant weaknesses in the Council's VFM arrangements relating to Governance reporting criteria:

- Council's governance of the regeneration schemes being delivered through the joint venture partners.

We engaged our EY Forensics team to assess whether the Council had in place reasonable ongoing governance for delivering its regeneration objectives. We considered this in relation to the achievement of the Council's objectives for the housing regeneration schemes delivered through the three joint ventures: Havering and Wates Regeneration LLP; Rainham and Beam Park Regeneration LLP and Bridge Close Regeneration LLP (which is now under the Council's ownership after the relationship was terminated with the private sector partner).

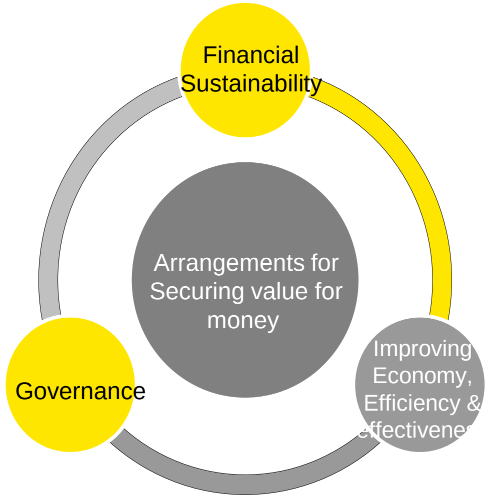
In particular, we considered:

- whether the Council makes properly informed decisions through access to appropriate and reliable financial and performance information relating to the regeneration scheme
- how the Council is working with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e., affordable housing and income)
- how the Council reflects significant changes to the funding / benefits of the regeneration scheme in its annual budget setting process

For Bridge Close we also considered:

- the termination of the agreement with private sector partner and assessed whether the ownership transfer of the assets adhered to Council processes;
- Whether risks arising from the termination were assessed and mitigated accordingly
- whether new governance processes were implemented to reflect the Council's sole ownership of the venture

Overall, we concluded that Council's arrangements in relation to the above areas were adequate and did not identify any significant weakness in arrangements.



Status of our VFM work

Our VFM work has been completed as noted above and no significant weakness in arrangements were identified Council. We will therefore not be reporting by exception in our audit report. Our detailed value for money commentary will be included in our Auditor's Annual Report which we will issue before issuing our certificate of completion of the audit.

We are satisfied that this work does not have a material effect on the financial statements.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

At the time of writing, we have not concluded our work to determine whether the financial information in the final version of the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We will complete this procedure once we receive the final version of accounts including audit amendments.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We will commence our work in this area once the accounts have been finalised and will report any matters arising to the Audit Committee.

The audit certificate will be issued once this work is complete and we have reported our VfM commentary in the Auditors Annual Report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any relevant issues.

Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have no significant matters to report in relation to the above.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified control deficiencies which we wish to bring to your attention related to the following areas:

- Poor processes for the assessment of the group accounting and disclosure requirements in relation to the various subsidiaries and Joint Venture arrangements the Council is a party to. Incorrect group accounting has been applied to Bridge Close Regeneration LLP as it has transitioned from a Joint venture to subsidiary during the year. In addition, the consolidation of the remaining two Joint Ventures, namely Rainham & Beam Park Regeneration LLP and Havering and Wates Regeneration LLP, was on an incorrect basis as they were consolidated in proportionate line by line basis rather than on an equity basis. There was also a lack of understanding of the various arrangements and their impact on the financial statements.
- Poor processes to support the audit of the accounts in a number of areas. The main areas identified were:
    - Provision of year end transaction level listings to support debtor and creditor balances in the accounts to enable audit testing
    - Poor timeliness and quality of working papers and responses to audit queries. For example, ‘source’ evidence provided was often simply a journal rather than the originating document for the transaction such as an invoice or purchase order
    - Grants disclosures were of a poor quality and not Code compliant. This resulted in significant additional audit time and a fundamental re-working of the notes. The Council did not perform detailed review and analysis of the grants and contributions other than rough grouping of the account codes within the grants
    - Incorrect/inappropriate accounting treatment of for hosted transactions, principal/ agent accounting and partnerships. For a number of these arrangements the Council was unable to provide details or copies of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. This also resulted in the overstatement of income/expenditure and/or debtors/creditors and items incorrectly included in the grants note. This also represents a governance weakness as it is important that the Council has copies of such agreements in case of future disputes.
- Three year-end declarations of interest supporting the Related Party Transactions note were not provided as part of the audit. As a result we had to undertake alternative procedures.
- In relation to our contracts testing, there were some contract not provided to the audit team, contract which was not signed and instances where contracts were included in the register where it has not been awarded yet. There is a poor maintenance of the contract registers by the Council.

Assessment of Control Environment

Financial controls

Our recommendation are as follows:

- We recommend that the Council reviews it processes in the areas noted above and ensures that it has a clear understanding of Code requirements in these areas and has processes and skills in place to ensure it is able to comply with these requirements
- We recommend that the Council undertakes a review of the processes and working papers to support the audit of the financial statements to ensure working papers are fit for purpose and that officers understand what is meant by audit evidence and source documentation. We would be happy to assist in facilitating any training in this area.
- We recommend that arrangements should be put in place to ensure that a complete member declarations are obtained and retained as part of the accounts production process.
- We recommend that Council performed proper review of contract register and put in place robust monitoring arrangements to ensure that they have copies of signed contracts.
- We recommend that the Council reviews its governance arrangements over host, agency and other partnership agreements to ensure there is a clear understanding of the nature and governance of these arrangements and the resulting accounting treatment. This should be done for all existing arrangements and processes should also be put in place to ensure these issues are considered at the time any new arrangements are entered into.

08 Data Analytics

Data analytics

Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

Our testing of journals is completed with no material issues identified and is currently in review with Manager and Partner.

09 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fee due for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

At the time of writing, we have undertaken non-audit work in relation to the housing benefits assurance process (HBAP). Non audit work is work not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017. There are no other non-audit services being provided to the Council.

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for period ending June 2023:

ey-uk-2023-transparency-report.pdf

Independence

Relationships, services and related threats and safeguards

Services provided by Ernst & Young			
Description	**Planned Fee - 2020/21 (£) (estimated)**	**Scale Fee - 2020/21 (£)**	**Final Fee - 2019/20 (£)**
PSAA Scale fee	116,920	116,920	116,920 (a)
Proposed recurring variation to the scale fee	91,148 (b)	N/A	N/A
Total variation to the scale fee	N/A	N/A	92,798 (a)
Group/JVs issues	40,000 (c)	N/A	N/A
Infrastructure assets	2,700 (d)	N/A	N/A
Analytics charge	2,500 (e)	N/A	N/A
Grants	10,000 (f)	N/A	N/A
MRP review	8,000 (g)	N/A	N/A
Delays during the audit	14,000 (h)	N/A	N/A
Covid-19 related risks	4,000 (i)	N/A	N/A
Others	TBC (j)	N/A	N/A
VFM	16,000 (k)	N/A	N/A
ISA 540 accounting estimates	4,400 (l)	N/A	N/A
Total Proposed Fees	TBC	116,920	209,718

All fees exclude VAT

Independence

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

(a) For 2019/20, PSAA approved a total of £92,978 fee variation in addition to the scale fee of £116,920. The additional fees represents the cost incurred in assessing the risks the Council faced in relation to Covid-19, increased FRC challenge, Group accounts, technical accounting issues, VFM, PPE and Pension valuations, and others (e.g. quality preparation issues).

(b) We do not believe that the current scale fee set by PSAA adequately reflects the level of audit work required. For 2020/21, we therefore proposed an increase to the scale fee and provided the details to the Audit Committee in our previous reports. This will be subject to determination by PSAA once the audit is concluded.

(c) This fee variation relates to the work carried out on the accounting and arrangements the Council has in relation to its subsidiary and joint ventures.

(d) This fee variation relates to the additional inherent risk for 2020/21 relating to accounting of Infrastructure assets

(e) Due to a system change during the year, two data analysers were required to perform the audit. This also includes the audit team review of the completeness of the data migration from old to new system.

(f) Additional work carried out on the Council's accounting for grants including review of the disclosures in the accounts.

(g) The fee variation relates to the review carried out on the additional inherent risk for 20/21 relating to Council's minimum revenue provision (MRP) charges.

(h) The fee variation relates to the ongoing delays in provision of evidence in relation to debtors, creditors, income, expenditure, etc.

(i) Additional work carried out in assessing the covid-19 related risks.

(j) Other fee variations may arise up to signing of the financial statements since audit is still on-going at the time of writing the report. This includes but not limited to:
- Review on the revised financial statements once all audit adjustments have been made.
- Going concern procedures and consultation

(k) VFM work carried including the work on risk on governance arrangement by Council of its Joint venture arrangements.

(l) Variation in relation to addressing the requirements of the updated ISA 540 -Estimates

All proposed fees will be discussed with management and)are subject to determination by PSAA. Until the audit is fully concluded the above fees are estimates. These will be finalised on conclusion of the audit.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach from the prior year apart from adding the accounting for Infrastructure assets as significant risk for 2020/21.

Appendix B

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – April 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – April 2021
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – April 2023 Audit Results Report (update)– May 2024 Annual Auditor's Report – TBC

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements	Audit Results Report – April 2023 Audit Results Report (update)- May 2024
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit Results Report – April 2023 Audit Results Report (update)- May 2024
Subsequent events	▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – April 2023 Audit Results Report (update)- May 2024
Fraud	▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit, Standards and Statutory Accounts Committee responsibility.	Audit Results Report – April 2023 Audit Results Report (update)- May 2024

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – April 2023 Audit Results Report (update)– May 2024
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report – April 2021 Audit Results Report – April 2023 Audit Results Report (update)– May 2024 Annual Auditor's Report – TBC
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit Results Report – April 2023 Audit Results Report (update)– May 2024
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit Results Report – April 2023 Audit Results Report (update)– May 2024

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – April 2023 Audit Results Report (update)– May 2024 Annual Auditor's Report - TBC
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Planning Report – April 2021 Audit Results Report – April 2023 Audit Results Report (update)– May 2024
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – April 2023 Audit Results Report (update)– May 2024
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – April 2023 Audit Results Report (update)– May 2024
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – April 2023 Audit Results Report (update)– May 2024

Appendix C

Management representation letter - Draft

This is our draft letter of management representation. This could be subject to change following the completion of the final audit procedures

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Debbie Hanson

Ernst & Young
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31 March 2021. 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 consolidated and Council financial statements give a true and fair view of the Group and Council financial position of London Borough of Havering as of 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)Council.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) Council.

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 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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)Council and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

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Management representation letter

Management Rep Letter

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2020/21(as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) for the Group and Council Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Appendix C

Management representation letter

Management Rep Letter

C. 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;
- Additional information that you have requested from us for the purpose of the audit; and
- 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 all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanction in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Group and Council, and Audit, Cabinet, Governance, and Full Council committees [held through the year to the most recent meeting on the following date: *[list date]* .

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and Council financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.

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 consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. 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 consolidated and Council 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 to litigation and claims, both actual and contingent, and have disclosed in Note 43 to the consolidated and Council financial statements all guarantees that we have given to third parties.

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Management representation letter

Management Rep Letter

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E. Going Concern

1. Note 1 to the consolidated and Council financial statements discloses all the matters of which we are aware 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.

F. Subsequent Events

1.Other than the disclosure described in Note 6 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council, subsidiary undertakings and associated undertakings.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered.

J. **Ownership of Assets**

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 *Leases*, the Group and Council has satisfactory title to all assets appearing in the balance sheet, 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.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.

K. **Reserves**

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

L. **Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property, land and buildings and pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council 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

Appendix C

Management representation letter

Management Rep Letter

matters that have had an effect on the independence or objectivity of the specialists.

M. **Estimates**

Property and Pension liability valuation Estimates

1. We confirm that the significant judgments made in making the property and pension liability valuation estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the property and pension liability valuation estimates.

3. We confirm that the significant assumptions used in making the property and pension liability valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

5. We confirm that appropriate specialized skills or expertise has been applied in making the property and pension liability valuation estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements, including due to the COVID-19 pandemic.

N. **Retirement benefits**

1. 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.

Yours faithfully,

____

Chief Operating (Section 151) Officer

____

Chairman of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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Havering Pension Fund

Audit results report - Update

Year ended 31 March 2021

9 May 2024

Building a better working world

Havering Pension Fund

9 May 2024

Dear Audit Committee/ Pension Committee Members,

We are pleased to attach our Audit Results Report Update for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting on 14 May 2024 on further progress to that date and outline the remaining steps for the issue of our final report and opinion. This report provides an update on our report presented to the Committee in April 2023. The completion of the Pension Fund audit has been delayed due to issues with the audit of the Council's accounts as the Pension Fund accounts are published as part of the Council's accounts and therefore the opinions need to be issued concurrently.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit focus, our views on Havering Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the use of the Pensions Committee, Audit Committee, and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 14 May 2024.

Yours faithfully

Debbie Hanson

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

Enc

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01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Other reporting issues

06 Assessment of Control Environment

07 Independence

08 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (Statement of responsibilities of auditors and audited bodies from 2018/19 – PSAA).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the Audit Committee meeting on 28 April 2021, we provided you with an overview of our audit scope and approach for the audit of the Pension Fund's financial statements. We carried out our audit in accordance with this plan with the following updates.

Update to materiality

Planning materiality, performance materiality and audit differences presented in our Audit Planning Report were £7.28 million, £5.46 million and £0.36 million, respectively. We updated our planning materiality assessment using the draft financial statements as follows and have also reconsidered our risk assessment on substantial completion of the audit. We are satisfied that our materiality levels remain appropriate.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Pension Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Final	£8.74 million	£6.56 million	£0.44 million

Executive Summary

Status of the audit

Our audit work in respect of the Pension Fund 2020/21 audit is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Completion of our going concern assessment procedures, to cover a period of at least 12 months from the date of authorisation of the financial statements. This work had been previously completed but now needs to be extended due to the delays in the completion of the audit. We have received and updated disclosure, assessment and supporting cash flow forecast from the Council and are in the process of reviewing this;
- Review of the consistency check procedures on the Pension Fund's Annual Report with the Pension Fund's financial statements within London Borough of Havering's Statement of Accounts pack. This cannot be completed until we have a final set of accounts including the Pension Fund from the Council;
- Completion of internal consultation procedures in relation to a material prior period error identified which will require adjustment in the prior period figures in the notes to the accounts. This will include review and assessment of the prior period adjustment disclosure in the accounts:
- Completion of the general audit conclusion procedures;
- Completion of subsequent event procedures up to the date of our audit report;
- Agreement of all final amendments to the financial statements;
- Final reviews by the Engagement manager, Partner and Quality Control Reviewer;
- Receipt of a signed accounts and a signed letter of management representation.

We are unable to issue the audit opinion on the Pension Fund's financial statements until the audit of the administering authority's (London Borough of Havering) financial statements is complete, as the Pension Fund Accounts form part of the London Borough of Havering accounts and therefore the two opinions need to be issued concurrently.

Audit differences

We have identified differences and/or amendments during the audit which are greater than £0.44 million (audit differences threshold) that we need to bring to your attention.

We have also identified material errors in Note 16a of the Pension Fund accounts that require amendment in both the 2020/21 and prior year accounts. These differences relate to disclosures and classification impacting relating to fair value hierarchy and have no impact on the Net Asset Statement or Fund Account.

Our audit has also identified a small number of disclosure differences which management has agreed to adjust. Further differences may be identified as our remaining procedures are concluded.

We include further details in Section 4 of this report.

Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Pension Fund financial statements. We summarise below our latest findings.

This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error (management override)	We carried out procedures to address this fraud risk as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and testing estimates for evidence of management bias. We have completed our work in this area and have no matters to bring to your attention.
Misstatement due to fraud or error (Incorrect posting of investment valuation and income journals)	We carried out procedures to address this fraud risk as set out in our Audit Plan, including a reconciliation between the fund manager reports and the custodian reports and agreement of investment income to source reports to address the risk of manipulating of asset valuations and investment income, respectively. We have completed our work in this area and have identified differences between fund manager reports and our direct confirmations in relation to various Level 3 investments with a net impact of £1.4 million.

Significant risk	Findings & conclusions
Valuation of complex investments (including pooled property funds, pooled infrastructure and pooled private debt)	We undertook additional procedures, as described more fully in Section 2 of this report, to gain assurance over the material accuracy of the year-end valuation of the Pension Fund's Level 3 complex investments, which are inherently more difficult to value. We have completed our work in this area. We identified differences of £1.4 million between fund manager reports and our direct confirmation in relation to various Level 3 investments as described in Section 4 of this report.

Areas of audit focus/Higher inherent risk	Findings & conclusions
Going concern disclosures	Our updated procedures in this area are in progress. We have previously reviewed the proposed disclosure on going concern in the draft accounts presented for audit and are revisiting this based on the Pension Fund's updated disclosure, assessment and cash flow forecast to ensure they remain appropriate.

Executive Summary

Control observations

We have identified one deficiency in the design or operation of an internal control that will result to prior year adjustments of the financial statements. Please refer to Section 6 for details.

Other reporting issues

We are required to give a consistency opinion on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the Pension Fund financial statements in the Statement of Accounts of London Borough of Havering. The audit of the statement of accounts of London Borough of Havering for the year ended 31 March 2021 is not yet complete, and we have not yet received a final set of updated accounts, so we are yet to complete our consistency checks.

Independence

Please refer to Section 7 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud and error

What is the risk?

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have considered where this risk specifically manifests itself and this is in the posting of investment journals (see following page).

What judgements are we focused on?

The risk of management override at Havering Pension Fund is mainly through the possibility that management could override controls and manipulate in-year financial transactions which intend to adjust the entity's reported Fund Account.

This could be done through manipulation of estimates including investment valuation, or through journals amending the values in the production of the financial statements from those provided by the custodian or fund managers.

What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for any significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

Our procedures to address this risk are complete, subject to final Partner review.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. We did not identify any evidence of management basis in relation to accounting estimates.

Our journal testing did not identify any journal entries without a valid business purpose.

We did not identify any other transactions during our audit which appeared unusual or outside Havering Pension Fund's normal course of business.

Significant risk

Misstatements due to fraud and error: Incorrect posting of investment valuation and income journals

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

The Pension Fund posts year-end manual journals in relation to the valuation of its investments as well as investment income. There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect. This could result in a misstatement of year-end investment values and in year investment income.

What judgements did we focus on?

The posting of incorrect investment valuation journals and investment income journals at year-end to the Pension Funds' general ledger. The reporting of incorrect investment valuations and income would impact the performance and funding level of the Pension Fund.

What did we do?

- Verified agreement of the Pension Fund's investment asset holdings as at 31 March 2021, including asset values, and investment income for 2020/21 to source reports from the Pension Fund's custodian and individual fund managers;
- Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports from the Pension Fund's Custodian and Investment Fund Managers.

What are our conclusions?

As noted on the next slide, we identified differences of £1.4 million between investment asset valuations as reported in the Pension Fund's Net Asset Statement and direct confirmations received from the Fund manager independent third party valuation reports.

The difference is due to timing differences between the information included in the custodian report, which was used by management to compile the accounts, and the figures in the fund manager reports which reflected the most up to date information as at 31 March 2021.

We are therefore satisfied that the difference is not due to management override.

We have not identified any differences in relation to investment income journals.

Significant risk

Valuation of complex investments (Level 3 investments including pooled property funds, pooled infrastructure and pooled private debt)

What is the risk?

The Fund's investments include complex investments, such as pooled property investments. The valuation of such investments are classified under IFRS 13 as Level 3 investments. As such the valuation of Level 3 investments are based on 'unobservable' inputs.

Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What judgements are we focused on?

Level 3 investment asset valuations, including the net asset values of each of the individual underlying investments funds. We also considered the potential changes in values where the date of valuation information where is not coterminous with the Pension Fund's year end date of 31 March 2021.

What did we do and what judgements did we focus on?

For a sample of Level 3 investments:

- Reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of valuation methods used;
- Compared the investment value included in the Pension Fund's financial statements to direct confirmations from the Fund Managers;
- Obtained copies of the ISAE3402 reports over internal control for any control exceptions raised in relation to the valuation of investments;
- Where available, reviewed the latest audited financial statements for the relevant fund managers and ensured there are no matters arising that highlight material differences in the reported funds valuation within the financial statements;
- Performed analytical procedures and checking the valuation output for reasonableness against our own expectations;
- Reviewed investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 investments have been appropriately made in the Pension Fund's financial statements.

What are our conclusions?

We identified differences between Level 3 investment asset valuations as reported in the Pension Fund's Net Asset Statement and direct confirmations received from the fund manager independent third party valuation reports. This is due to timing differences between the information included in the custodian report, which was used by management to compile the accounts, and the figures in the fund manager reports which reflected the most up to date information as at 31 March 2021.

The differences amount to £1.4 million and result in an understatement of investment assets.

Management have chosen not to amend the differences due to the fact they are not material.

We did not identify any weaknesses in fund manager controls related to investment asset valuation reporting of Level 3 assets.

The Pension Fund's financial statement disclosures of significant judgements surrounding the valuation of Level 3 investments were appropriate.

Areas of Audit Focus

What is the risk/area of focus?	What did we do?
Going concern disclosure There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is still required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and also the volatility of the capital markets due to the ongoing impact of Covid as well as the Ukraine-Russia conflict give rise to a risk that the Pension Fund may not appropriately disclose the impact of these issues on their going concern assessment. The disclosure should be underpinned by management's assessment based on the Pension Fund's actual year end financial position and projected performance and cashflows for the going concern period of 12 months from the auditor's report date.	We are in the process of completing our updated procedures related to this area of focus now that we are close to issuing our audit report. In terms of the work completed to date, we have: • Obtained management's initial going concern assessment and reviewed for any evidence of bias and consistency with the accounts; • Challenged management's identification of events or conditions impacting going concern; • Reviewed the cashflow forecasts prepared by the Pension Fund; • Assessed the adequacy of going concern disclosures in the Pension Fund's draft financial statements. Our review of the initial disclosure on going concern has not identified any issues. However, this disclosures will need to be revisited at the point the pension fund statements are authorised for issue to ensure that these remain appropriate to the Pension Fund's circumstances for the foreseeable future (the next twelve months). Management provided us with the updated cashflow forecast covering period to March 2026 along with the supporting assessment and we are on the process of reviewing this. We will also request management to update their going concern disclosures in the accounts.

03 Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING ON THE PENSION FUND'S FINANCIAL STATEMENTS - DRAFT

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Operating (Section 151) Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of Chief Operating (Section 151) Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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

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

We have nothing to report in this regard.

Draft audit report

Our opinion on the financial statements

Responsibility of the Chief Operating (Section 151) Officer

As explained more fully in the Statement of the Chief Operating (Section 151) Officer Responsibilities set out on page 19, the Chief Operating (Section 151) Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Operating (Section 151) Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how Havering Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management/head of internal audit/those charged with governance/monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Pension Board minutes and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations and investment income to be our fraud risk.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements and confirmed investment income through third party evidence.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business

Draft audit report

Our opinion on the financial statements

rationale of any identified significant transactions that were unusual or outside the normal course of business.

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

Use of our report

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

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
xx xx 2024

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted and adjusted differences

We highlight misstatements greater than £0.44 million which have been identified during the course of our audit.

<u>Unadjusted audit differences</u>

Valuation of Level 3 investments:

There are uncorrected audit differences arising from procedures performed on the valuation testing of Level 3 investments which in total would increase the value of the Pension Fund assets by £1.4 million. These differences were identified based on direct confirmations received from the fund managers for the Level 3 investments. This is due to timing differences between the information included in the custodian report, which was used by management to compile the accounts, and the figures in the fund manager reports which reflected the most up to date information as at 31 March 2021.

Management have chosen not to make the amendment in the Pension Fund accounts due to the fact that the differences are not material. The Audit Committee should also confirm they are satisfied with Management’s decision through approval of the Letter of Representation.

<u>Other audit differences</u>

Our audit also identified a limited number of minor disclosure misstatements mostly relating to the narratives in the Annual Report which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the Statement of Accounts.

In addition, there were material errors identified in classification of LGIM investments amounting to £175 million (2020/21) and £124 million (2019/20) impacting on Note 16A – fair value hierarchy disclosure. While the error does not have an impact on the Pension Fund’s Account and Net Asset Statements, the disclosure note should be updated to correct the classification of Investments from Level 1 to Level 2. Furthermore, Note 16A included a line called ‘loans and receivables’ under financial assets amounting to £20 million (2020/21) and £31 million (2019/20). which should not be included in the disclosure and £3.8 million (2020/21) and £7.5 million (2019/20) of cash deposits and investment income due which should be included as part of ‘financial assets at fair value through profit and loss – level 1’ in the same disclosure note. As these errors also impact on 2019/20, a prior year adjustment will be required. We are currently consulting internally on this and will require the Pension Fund to update their accounts for these differences. The Pension Fund will also need to include full disclosures relating to the prior period adjustment in line with IAS 8.

Our audit is not yet fully complete and further differences may be identified during the completion of the outstanding procedures.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the Pension Fund financial statements in the Statement of Accounts of London Borough of Havering. The audit of the statement of accounts of London Borough of Havering for the year ended 31 March 2021 is not yet complete, so we are unable to complete our consistency checks. We will update the Committee on our findings from completion of these procedures at the next Committee meeting.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund’s financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

Our responsibilities

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Findings

As reported in Section 4 – Audit differences, errors were identified in relation to Note 16A – fair value hierarchy disclosures. The errors occurred due to an error in the assessment of investment classification and not following the LGPS Fund example accounts and disclosure checklist (the Code) by the Pension Fund. We recommend that the Pension Fund should perform a robust review and assessment of its investments and their proper classifications to ensure the error does not recur in future years and also undertake a detailed review of the accounts to ensure compliance with the requirements of the Code.

07 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Pension Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Pension Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young
The next page includes a summary of the fees in relation to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. At the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted. We confirm that we have not undertaken non-audit work.

Other communications

EY Transparency Report 2022
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended June 2023: ey-uk-2023-transparency-report.pdf

Relationships, services and related threats and safeguard

Services provided by Ernst & Young

As part of our reporting on our independence, we set out below a summary of the fees in relation to the year ended 31 March 2021.

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

On completion of the audit we will finalise our fees and provide supporting details to the Chief Financial Officer. Any fee increases in relation to Code work also need to be approved by PSAA.

	Proposed fee 2020/21	Final fee 2019/20
	£'s	£'s
Scale fee – Code work	16,170	16,170
Changes in work required to address professional and regulatory requirements and scope associated with risk	38,842 (b)	14,300 (a)
Additional fee in respect of work on admitted body – London Borough of Havering – non code work	5,000 (c)	4,000 (c)
Triennial membership data testing	N/A	8,000 (d)
Additional level 3 investment valuation procedures	3,000 – 5,000 (e)	N/A
Additional going concern procedures	2,000 – 3,000 (f)	N/A
Analytics charge	2,500 (g)	N/A
Prior year disclosures error	1,500 – 2,000 (h)	N/A
Other additional fees	TBC (i)	N/A
Total fee	TBC	42,470

All fees exclude VAT

See next slide for notes on the fees per the above table

Relationships, services and related threats and safeguard

Notes on fees

(a) For 2019/20, PSAA approved a fee variation of £14,300 in addition to the scale fee of £16,170. The additional fees represents the cost incurred as a result of additional work required in response to increased FRC challenge and covid-19 impact on completion and investment valuations.
(b) We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the PSAA tender exercise for this audit. For 2020/21, as in the previous year, we have therefore proposed increases to the scale fee to take into account a number of risk factors including: Procedures to address the risk profile of the Pension Fund; Additional work to address increase in Regulatory Standards; Client readiness and IT support for Data Analytics. The proposed scale fee increase is subject to determination by PSAA.
(c) Additional fee to take into account the work required to respond to IAS19 assurance requests from the admitted body – London Borough of Havering. This is not subject to PSAA determination.
(d) Fee relates to the triennial valuation 2019 – membership data testing. This is not subject to PSAA determination.
(e) Additional audit procedures performed relating to the valuation of LEVEL 3 Investments, where we have a significant risk.
(f) Additional procedures relating to the going concern, which we identified as an area of focus for 2020/21.
(g) Due to system change during the middle of the year, two sets of data analysers were required to perform the audit. This also includes the audit team review of the completeness of the data migration from old to new system.
(h) This variation relates to the work carried out on prior year errors related to fair valuer hierarchy disclosures plus the required internal consultation.
(i) Other additional fees includes but not limited to the following:

- ISA 540 accounting estimate- £600-£1,000
- Consideration of 2022 triennial valuation - £500
- Review of the final pension fund accounts – TBC

Other fee variations may arise up to signing of the pension fund statements since audit is still ongoing at the time of writing this report

08 Appendices

Audit approach update

We summarise below our approach to the audit of the net assets statements and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the net assets statement include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There are no changes to our audit approach to the Pension Fund's net assets statement when compared to the prior year audit.

Appendix B

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – April 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – April 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report -April 2023 Audit Results Report – May 2024

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit Results Report -April 2023 Audit Results Report – May 2024
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report -April 2023 Audit Results Report – May 2024
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report -April 2023 Audit Results Report – May 2024
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report -April 2023 Audit Results Report – May 2024

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit Results Report -April 2023 Audit Results Report – May 2024
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Planning Report - April 2021 and Audit Results Report -April 2023 Audit Results Report – May 2024

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report -April 2023 Audit Results Report – May 2024

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	This Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Audit Results Report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	This Audit Results Report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report April 2021 and This Audit Results Report

Management representation letter - Draft

Havering Pension Fund anticipated draft, based on the current position of the audit. Further representations may be required

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]
Debbie Hanson
Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Havering Pension Fund ("the Fund") for the year ended 31 March 2021. 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 transactions of the Fund during the period from 1 April 2020 to 31 March 2021 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2021, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

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 Fund, we believe that the Fund 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 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement]

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

1. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties

Management representation letter

- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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.
- 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. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date [date].

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund'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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the [members of the management of the Fund. {

7. We have disclosed to you, and the Fund 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.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

10. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. 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 to litigation and claims, both actual and contingent, and have disclosed in Note 26 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 2 to the financial statements discloses all the matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than events after the reporting period as described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises of Statement of Accounts 2020/21, other than the financial statements and the auditor's report.

Management representation letter

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the [members of the management of the Fund] at the Fund's year end and the terms and conditions relating thereto.
Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

J. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

K. Actuarial valuation

1. The latest report of the actuary Hymans Robertson LLP as at 31 March 2021 and dated 30 April 2021 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund assets and liabilities 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.

Management representation letter

M. Estimates

Level 3 Investments and IAS 26 valuation Estimates

1. We confirm that the significant judgments made in making the estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates..

3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Yours faithfully,

____

(Chief Financial Officer)

____

(Chair)

Management representation letter

Uncorrected misstatements 31 March 2021 (Currency'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors (Factual misstatements)						
Level 3 Investment valuations understatement						
• Investments (Net asset statement)				1,424,000		
• Change in value of investments (Fund account)		(1,424,000)				

EY | Assurance | Tax | Transactions | Advisory

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London Borough of Havering Annual Governance Statement 2020/21

ANNUAL GOVERNANCE STATEMENT 2020/21

This statement, from the Leader and Chief Executive, provides reasonable assurance to all stakeholders, that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

The Annual Governance Statement is co-ordinated within the Assurance Service and the production and progress of the statement is monitored by the officer Governance and Assurance Board.

Scope of responsibility

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

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 Edition. This statement outlines how the London Borough of Havering has complied with these principles and also meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework, available on the Havering website and provided in the link below, has been in place at the London Borough of Havering for the year ended 31 March 2021 and up to the date of approval of the statement of accounts.

https://www.havering.gov.uk/codeofgovernance

Review of governance effectiveness

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

Constitution

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are recommended by the Governance Committee for decision by Full Council.

Governance and Assurance Board

The London Borough of Havering has an established officer Governance and Assurance Board, that meets at least every six weeks, with standing membership including:

- Chief Finance Officer / Section 151 officer
- Deputy Director Legal and Governance (Monitoring Officer)
- Head of Assurance
- Deputy 151 Officer
- Director of Human Resources and Organisational Development (oneSource)
- Director of Technical Services
- Assistant Director Transformation
- Director of Procurement
- Head of Programme Management Office
- Head of Joint Commissioning Unit
- Head of ICT Governance

The terms of reference for the Board (reviewed annually) provide the option to extend membership to meet demands and will regularly invite additional key officers to attend, to address or report on existing and/or emerging governance issues. This Board is charged with monitoring and reviewing the effectiveness of the governance arrangements throughout the year, overseeing the production of the Annual Governance Statement, monitoring progress against significant issues raised as part of this and reviewing arrangements for Risk Management, including the Corporate Risk Register.

The Board reviews the AGS significant issues as a standing item at each meeting and provides an update to Audit Committee on the progress of these issues at least once during the year. Emerging governance issues are also considered during the regular review of governance arrangements that takes place at each meeting.

Senior Leadership Team (SLT)

The Senior Leadership Team (SLT) consists of the Chief Executive, six Directors with responsibility for Regeneration, Neighbourhoods, Housing, Children's Services, Adult Services & Health, Public Health and the Chief Operating Officer which incorporates the role of Chief Finance Officer (Section 151 Officer).

The Executive Director of oneSource is responsible for the delivery of the shared services between the Council and London Borough of Newham. During the pandemic starting March 2020 and presently ongoing, the Executive Director of oneSource function has been represented by two of the portfolio Directors from the Executive Director's management team. They have focused on representing oneSource within Havering and providing support for the Council during the response to the pandemic. The shared services between Havering and London Borough of Newham are continuing. London Borough of Bexley chose to withdraw from the shared service relationship during 2020.

The Chief Executive initiated a Gold/Silver/Bronze governance approach to dealing with the pandemic from March 2020 and this is ongoing. A number of Bronze groups were established to manage the Council's response. To the present date, the Director of Public Health holds the Silver command position. The Directors have all been essential to the Gold/Silver/Bronze governance by chairing the majority of the Bronze groups.

Governance Committee

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders, is charged with overseeing the organisation's governance arrangements including the review of the Constitution and the Code of Conduct for Members.

Audit Committee

The Audit Committee is responsible for monitoring the adequacy and effectiveness of internal audit, the risk management environment, fraud and corruption arrangements and the provision of the external audit service. They receive regular reports in line with this remit and agree the annual audit plan, draft Annual Governance Statement and revisions to related policies. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required. Approval of the annual Statement of Accounts also falls under the remit of the Audit Committee.

Adjudication and Review Committee

The Adjudication and Review Committee is made up of ten Councillors. The committee provides Members for panels to consider complaints against councillors and also to make up 'Member review' panels (which is the default panel for considering complaints made by members of the public at Stage Three of the Corporate Complaints procedure through a paper exercise). Should a Member Review Panel consider that a complaint warranted a formal hearing it would adjourn and reconvene to hear the matter with the parties present. The Adjudication and Review Committee is also responsible for overseeing and confirming the appointment of 'Independent Persons' and the Independent School Appeal panels which are convened to review permanent pupil exclusions.

Overview and Scrutiny

The Overview and Scrutiny function reviews and challenges decisions made by the Executive and other bodies, e.g. National Health Service organisations and the Police to assist in the development of policy.

An overarching Board undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued.

The Overview and Scrutiny Board and its sub-committees have the opportunity to consider performance information within their area of responsibility using monthly Members packs and other relevant performance data.

Each year Overview and Scrutiny is tasked with identifying areas of the Council's work that it wishes to consider in detail, for which purpose task groups comprised of members of the Board and its sub-committees are set up to research the issue with the assistance of officers and sometimes external bodies and report their findings and recommendations.

In pursuit of transparent governance, the Overview & Scrutiny Board, at its meeting in October 2020, agreed to establish a Topic Group to review the impact of the COVID pandemic and the Council's emergency planning response to it.

The focus for this Topic Group concerned the Council's emergency planning arrangements and the operation of its Command Structure. It therefore concentrated on the following key areas:

1. Review the Council's influenza-pandemic plan and develop an understanding of the Council's Command structure. Challenge and review planning assumptions contained within the plan (was the response proportionate to the risk);

2. Understand and explore the relationship between the Command structure and the Borough Resilience Forum;

   a. With reference to the Community Resilience Development Framework, was there sufficient support for individuals identified at being of greatest risk? How are we doing it and what worked well/not so well (lessons learnt)
   b. Promotion of the pandemic plans/Command responses into Member organisations from the business and voluntary sector. How was it communicated and were there any areas for improvement?
   c. Was the Resilience Plan tested pre-Covid? If so, what were the improvements gleaned from it?

3. Communication roles between Command, the Resilience Forum and elected Members. How the council communicated government guidance on responding to the pandemic and impacts on service provision.

Local Pension Board

The role of the Local Pension Board is to assist Havering as the Administering Authority to ensure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

This established Board holds quarterly meetings and an annual general meeting. Matters that are discussed at the meeting are shared with the Pensions Committee through the sharing of minutes and submission of an annual report. Pensions Committee meeting held on 21 January 2021 noted the Local Pension Board Annual report which detailed activities undertaken during 2019/20 and included an action plan for the forthcoming year.

All meetings of the Local Pension Board held during the COVID-19 period of working restrictions took place in a “virtual” format.

The Pension Fund’s Governance Compliance statement also incorporates the Local Pension Board which reports the extent of compliance against a set of principles. This document is reviewed annually and if necessary any changes are submitted to the Pensions Committee for approval. No changes were required for the reporting period to November 2020.

Internal Audit (Assurance Services)

Internal Audit is an independent assurance function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risk. In doing so Internal Audit supports the Chief Finance Officer in their statutory role as Section 151 Officer. Annually the Head of Internal Audit Opinion and annual report provides assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

Due to the Covid-19 emergency response, the priorities and risk profile of the Council changed significantly during 2020/21. Internal Audit adapted their work to provide assurance on the emergency response projects and changing risk environment. This was reflected in the plan presented to Audit Committee in July 2020.

From the work undertaken during the 2020/21 year, reasonable assurance can be provided that there is generally a sound system of internal control across the Council. Further information on this opinion can be found in the Head of Assurance Annual report, presented to Audit Committee on 28th April 2021.

Risk Management

The strategic risks to the achievement of the Authority’s objectives are captured within a corporate risk register which is overseen by the Governance and Assurance Board and progress reported to the Audit Committee. Work has continued during 2020/21 to review Directorate risk registers and the Governance and Assurance Board has overseen the process to ensure that the corporate risk register reflects the risks facing the Council.

The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council’s systems and procedures, and will be approved by the Audit Committee biannually.

The number of risks the Council has faced during 2020/21 increased, and in some cases escalated as a result of Covid-19. These risks have been managed during the year, and continue to be addressed through the Bronze, Silver and Gold Command Structures put in place through our business continuity and emergency planning procedures.

External Inspectors

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently Ernst and Young (EY) is reported to the Audit Committee. The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2019/20 audit. They issued unqualified opinions on the Council's and Pension Fund's financial statements along with the unqualified assessment of the Council's value for money. The Audit Results Report was issued on 28th May 2021 and the certificate of completion had been issued on 21st June 2021.

Information Commissioner's Office

The Council must comply with the General Data Protection Regulation 2016 and Data Protection Act 2018. The Information Commissioner's Office (ICO) has taken no enforcement action for non-compliance. No fines were imposed because of weak controls. We continue to improve and learn lessons from mistakes to protect the data that we use.

Local Ombudsman

The Council comes within the jurisdiction of the Local Government and Social Care Ombudsman (LGSCO).

LGSCO closed their service to new complainants at the beginning of the initial Covid-19 lockdown, to enable councils the opportunity to deal with more urgent matters arising from the pandemic. With resources being re-directed to essential services, the decision was taken by the authority to suspend the corporate complaint procedure; the service resumed again in June 2020.

In 2020/21, the Ombudsman found 12 cases of maladministration against the Council. Three cases were "maladministration & injustice without penalty" and nine cases were "maladministration & injustice with penalty".

LGA Corporate Challenge Peer Review

The Council had its LGA Corporate Peer Challenge Review in February 2019. The review made eleven key Improvement recommendations, these together with an associated high level action plan, owned by the Senior Leadership Team were agreed by Cabinet in July 2019 and the September Overview and Scrutiny Board. These were reported six-monthly through the Member Theme Board route (February 2020), and Overview and Scrutiny September March 2020. At that point the position was substantial progress had been made, with only one recommendation not due.

Since the Pandemic and subsequent lockdown the Council like others, has been in the agreed Pandemic Response Emergency Planning structure and not performing the usual business as usual operations. This has impacted on the finalisation and further reporting against the Action Plan.

Impact of COVID-19

The pandemic impacted on governance across the Council from March 2020 and throughout 2020/21. Broadly, this included:

- Impact on business as usual delivery of services;
- Opportunities from new ways of working especially remotely
- New areas of activity implemented as part of the national response (including the implementation of new policy/procedure);
- Provision of emergency assistance;
- Funding and logistical consequences of delivering the local government response;
- Changes to Council meetings and decision making arrangements;
- New collaborative arrangements;
- Funding and cash flow challenges;
- Payment of business grants to local business on behalf of government
- Assessment of the longer term disruption and consequences arising from the pandemic eg. existing projects and programmes put on hold;
- New priorities and objectives introduced; and
- New risks identified/existing risks escalated.

As a result the decision was made in April 2020 to include an additional significant governance issue to provide an action plan to review lessons learned from our response.

The Council instigated its Covid-19 emergency arrangements in March 2020 and has continued to operate them throughout 2020/21 and continuing into 2021/22. The emergency arrangements included a series of Bronze groups that took responsibility for key aspects of the emergency response, e.g. support to residents who were deemed Clinically Extremely Vulnerable (CEV), excess deaths management, schools management, communications and deployment of resources. Over time new Bronze activity was added, e.g. test and trace, local testing. These Bronze groups reported into the Silver group and the Gold group.

A detailed risk management mechanism was built into the Bronze group reporting and Internal Audit assisted with setting this up so that all Bronze group risk registers fed into a corporate Covid-19 risk register and the Corporate Risk Register. The Covid-19 risks and the Corporate Risk Register were reported through to the Audit Committee.

In the first few weeks of 2020/21, Internal Audit supported the Covid -19 response by sitting alongside the introduction of the new services being implemented to support residents who were deemed to be Clinically Extremely Vulnerable. Advice was provided in real time to ensure the systems being implemented were effective and that risk was being properly controlled.

The Council's Governance and Assurance Board monitored the development of the Covid-19 risk management system and risk registers throughout the year.

New Covid-19 related services have continued to be added within the Council at the government's request. These are monitored initially through Bronze groups and later mainstreamed into business as usual.

A range of different grant streams have emerged and have needed to be managed, e.g. Contain Outbreak Management Fund, a large number of different business grants schemes (both mandatory and discretionary), funding for support to the Clinically Extremely Vulnerable and funding for Covid Marshals. The Corporate Finance Team have had to set up new monitoring regimes to ensure that the funding has been applied to qualifying expenditure and that funding allocations have not been exceeded.

A Recovery Bronze group has met at various points across the year and has overseen:

- Council service re-opening plans for the summer of 2020 and the spring of 2021 following the easing of lockdowns.

- Identification of challenges for the Council emerging post-Covid 19 such as local economic recovery, health inequalities and the management of the Council's financial sustainability given the expenditure pressures posed by the pandemic.

The Recovery Bronze group will continue to meet regularly as the country emerges from the pandemic.

The Covid-19 pandemic remains one of the Council's most significant risks into 2021/22 and will continue to be monitored by the Governance and Assurance Board for at least the next twelve months.

Progress of significant governance issues raised in the 2020/21 AGS

The issues identified in the 2020/21 Annual Governance Statement have been monitored by management and the Governance and Assurance Board throughout the year with review periodically to challenge actions and progress by both the Senior Leadership Team and the Audit Committee.

1. <u>EU Exit; Preparations and Impact</u>

Progress during 2020/21:

- Established a Corporate EU Exit Group, reporting weekly to SLT
- Active participation in Borough, London and National related groups, e.g. London Resilience
- Completion of the London Resilience Risk Register for Havering
- Review of Borough Emergency Plan and arrangements against National standards
- Training of Local Authority GOLD Officers
- Updated BCPs
- Testing of Borough Emergency Plan
- Attendance at national events
- Implemented weekly PI monitoring
- Weekly returns to London Councils made
- Weekly telephone conference with London Resilience/London Council Groups
- Sign-posting of National Guidance (Community and Staff)
- Monitor and consider the implications of the Post Brexit EU Trade Deal for Havering.
- Formally review the Corporate Risk Register in light of the Post Brexit EU Trade Deal.
- Horizon Scan the potential issues and review preparations being taken by other Boroughs using service contacts.
- Continue to review key Risk Mitigations resulting from the Post Brexit EU Trade Deal.
- Support for LAC EU settlement status.
- Continue to review actions at the EU exit group and require Departments to review their readiness for service consequences arising from the Post Brexit EU Trade Deal.
- There is an extension of six months for the UK and EU to reach an agreement concerning the processing of personal data.

The Governance & Assurance Board consider that sufficient action has taken place during 2020/21 to close this significant issue.

2. **Embedding the Governance Culture and Framework within the organisation:** Further work needs to be undertaken to develop a comprehensive, auditable and objective assurance process to give reassurance that the Governance framework is understood and embedded within the organisation. Particular emphasis should be given to ensuring that any change in the governance framework is known and addressed and that new personnel are equipped with the correct knowledge and understanding.

Progress during 2020/21:

- Risk management work incorporated into audit plan and allocation for emerging risk as required.
- Internal Audit review of Governance and Decision Making during 2019/20 provided input into areas of weakness and concern under review by relevant service areas.
- Highlighting of key governance changes.
- The induction process was reviewed in 2019. Managers are responsible for the local induction of their staff; all new starters should attend a half-day Corporate Welcome event and are required to complete a range of e-learning courses.
- Development of co-ordinated and monitored training programme. The introduction of the Transformation Programme and development of the People and Organisational Transformation Strategy has meant that we are looking at this from a broader perspective and activity is being aligned to support this.
- New personnel are equipped with the correct knowledge and understanding by:
- Mandatory Induction for Managers (virtual).
- Mandatory Corporate Welcome event (virtual).
- The induction checklist has been revised, it is now clearer and more concise. Individual induction remains the responsibility of the line manager.
- A mandatory training matrix is in place; it describes what courses should be completed according to roles, activities and responsibilities. Agency/contingent workers are included for the first time. The matrix clarifies when courses should be repeated.
- Mandatory e-learning courses are embedded in Fusion providing the ability to monitor and prompt colleagues when renewals and repeats are due.
- On boarding in Fusion is now in place. This will direct people to key policies and procedures, mandatory e-learning and the induction checklist.
- Governance and decision making as a rolling programme of work in the Audit Plan.

Whilst progress has been made in each of the other areas identified during 2020/21, all were considered to have remained significant enough to be carried forward into the action plan for 2021/22.

Significant governance issues 2020/21 (to be addressed in 2021/22)

1. **Delivery of a balanced budget:** The Council was able to set a balance budget for the 2019/20 financial year. As set out in the report to Council at the start of the year there continues to be pressure over the medium term to the Council due to increased service demand and demographic pressures while available resources are reducing. As outlined in the budget setting report for 20/21 approved in February 2020, uncertainty around many aspects of the future funding model for Local Government remains a challenge in the medium term. However over and above all this sits the COVID19 pandemic and the emergency response which was initiated nationally in March 2020 and continued through the entire financial year. This has brought an unprecedented challenge to local government generally and has led to a reconsideration of the MTFS that was agreed and the corporate approach to recovery.
Actions taken during 2020/21
• Monthly reports provided to the Senior Leadership Team outlining anticipated outturn for the financial year, assisting in the identification of medium term financial pressures and opportunities. • Regular update of the Medium Term Financial Strategy and overarching financial position provided to Cabinet throughout the year. • Continued delivery of the transformation and modernisation programme with theme board focus on core business and transformation delivery. Transition to Oracle Fusion has been an ongoing project during 2020/21. Go live with the Fusion system was delayed by a short while because of COVID issues but went live in September 2020. • Detailed monitoring of the impact of the COVID19 pandemic on the financial standing of the organisation and the MTFS included as part of the corporate monthly monitoring process, and compliance with the MHCLG reporting requirements on expenditure, loss of income and impact on savings proposals was achieved. • Close monitoring of the revenue and capital plans and scrutiny of the balances and reserves of the council is included in the monitoring reporting, including the potential impact on the collection fund and forecast for year-end position. • Regular reporting to Cabinet and Overview and Scrutiny Board on the COVID19 response and the sustainability of the MTFS has taken place including the position in reserves, taking in to account the impact on the base assumptions. • Delivery of the corporate recovery programme which contains the main strands of the Council's approach to successful recovery to the new normal. Recovery Officer Group meets to manage and monitor the recovery planning. • A balanced position for the 21/22 budget and a revised MTFS was presented to cabinet in February 2021 and Council in March 2021.
Planned actions for 2021/22
• Acknowledgement of ongoing issues with embedding Fusion – work will continue on developing confidence of service users in deployment of product. The Fusion Improvement Board will monitor the ongoing progress. • Continue to monitor the impact of the Covid-19 pandemic on the financial standing of the organisation and the MTFS which is reviewed as part of the corporate monthly monitoring process. • Continued focus on the delivery of the corporate recovery programme and close monitoring of the revenue and capital plans. • Senior Leadership continue to monitor the MTFS and the recovery plan to ensure the sustainability of the Council's finances.
Lead Officer: Jane West, Chief Operating Officer

2. COVID-19: Impact and recovery
Actions taken during 2020/21
• Implemented the Havering Multi-agency Pandemic Plan • Managed the response in accordance with the Major Emergency Plan and Strategic Coordination Group direction commonly referred to as the Gold, Silver, Bronze framework. • Minimised the impact on, and provide support to, the community and businesses • Maintained and restored essential services, working to the Corporate Business Continuity Plan. • Provided information to the community and businesses to aid self-help, working to Central Government guidance • Established an Outbreak Control Service and Covid Marshals to ensure Covid restrictions were widely adhered to across the borough • Distributed grants to businesses on behalf of central government • Provided financial assistance, mainly to families, through the local Havering Helps scheme and central government grant e.g. Winter Pressures grant • Protected the health, safety and welfare of staff, including reducing risk to staff by maximising working from home. • Relieved suffering and provided humanitarian assistance through a range of initiatives including setting up the COVID line, food, medicine and PPE distribution and mobilising Voluntary and Community Sector support.
Planned actions for 2021/22
• Facilitating recovery and the return to the new normality through a Council and Service Recovery Plans • Continue to monitor the pandemic, legislation changes and the impacts on the borough through the Gold, Silver, Bronze framework • Overseeing Outbreak Management Plans including monitoring Track and Trace. • To take an evidence-based and proactive approach in identifying any action(s) necessary to highlight or reduce specific risks of the impact of coronavirus faced by any group, community or individual likely to be disproportionately affected. • To continue to support NHS services (e.g. vaccination), Care Homes and Home Care Resilience.
Lead Officer: Jane West, Chief Operating Officer

3. Cyber Security: Chief Information Officer (CIO) has raised concerns about the increased likelihood of Cyber security breaches given the almost exclusive focus of public sector organisations on COVID-19 response.
Actions taken during 2020/21
• Raised awareness concerning cyber security. • All staff trained in the General Data Protection Regulation (GDPR). • Develop tools to help identify vulnerabilities. • Obtained funding for the development of cyber security online training.
Planned actions for 2021/22
• Monitor and consider cyber security implications. • Develop our response to cyber security attacks. • Raise awareness and train staff in cyber security. • Refresher training for all staff in the General Data Protection Regulation (GDPR). • Prepare monthly reports for the Senior Leadership Team. • Test and rehearse our response to cyber security attacks. • Review and update our Disaster Recovery plan. • Review and update our governance and policies. • Planned desktop exercise involving SLT to test our response to a cyber-security attack that impacts the network and access to systems and data.
Lead Officer: Ian Gibbs, Head of IT Governance and Security

4. Joint Venture Governance: Circumstances that have arisen at other councils have highlighted the importance of monitoring the sustainability of significant regeneration programmes.
Actions taken during 2020/21
• Joint venture boards are regularly held. • Regeneration group was established to manage and monitor the progress of the joint venture schemes. • Programme dashboards are produced including progress of key deliverables and future milestones, key risks and issues. • Business plans refreshed and reported to cabinet and implications included in MTFS.
Planned actions for 2021/22
• The regeneration schemes and the progress of the joint ventures will be part of the capital programme reporting to theme board. • The pipeline schemes for the JVs and Mercury Land Holdings are reviewed at the officer board. • A review of the financial viability of the joint ventures given the economic challenges following COVID to monitor programme sensitivities.
Lead Officer: Jane West, Chief Operating Officer

5. Contract Register

Actions taken during 2020/21

- The Director of Procurement has initiated a programme of procurement improvement.
- We now have a dedicated resource focussing on the Contact Register
- We have asked all Directors to provide their contract information
- Contract Register update will form Gateway 3 of a new Gateway process
- We have developed a Power BI dashboard available to all Directors to enable self-service
- All Procurement Managers are asked to work with their counterparts in the services to review and correct the register data
- We are reviewing/ renewing the contract standing orders
- We are drafting a new procurement intranet site, all guidance and templates are being reviewed /refreshed
- All waiver requests (relating to contract extension) are refused if no contract is registered to improve compliance

Planned actions for 2021/22

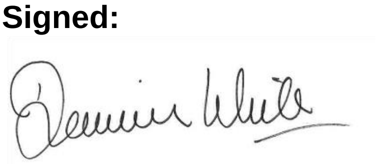
- Approval for new CPR's
- Launch new guidance, documents and templates
- Initiate training, videos, drop in sessions etc.

Lead Officer: Rose Younger

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion
To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year. We did not find any matters that needed addressing during our review other than those that were previously identified and on which action has been taken to address.

Signed:



Leader of the Council
Date 30/07/2021

Chief Executive
Date 30/07/2021

Agenda Item 7

AUDIT COMMITTEE
14 May 2024

Subject Heading:	Head of Assurance Annual Report 2023/24
SLT Lead:	Kathy Freeman, Strategic Director Resources
Report Author and contact details:	Jeremy Welburn, Head of Assurance Tel: 01708 432610 / 07976539248 Email: jeremy.welburn@onesource.co.uk
Policy context:	To present a summary of the outcomes of Internal Audit and Counter Fraud work completed during 2023/24 and the Head of Assurance's annual opinion.
Financial summary:	There are no financial implications or risks arising directly from this report which is for information only.

The subject matter of this report deals with the following Council Objectives

People making Havering	[X]
Places making Havering	[X]
Resources making Havering	[X]

SUMMARY

This report brings together all aspects of audit, assurance and counter fraud work undertaken in the 2023/24 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2023/24.

Limited assurance reports issued since the last Audit Committee are included in Appendix 1

RECOMMENDATIONS

Members are asked to consider the Assurance End of Year Report 2023/24 incorporating Head of Assurance Opinion and to make any appropriate recommendations.

REPORT DETAIL

Introduction

The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner/sponsor
- Third line – independent assurance.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

This report summarises the outcomes of audit and counter fraud work undertaken during 2023/24 in support of the Audit Committee's role.

Head of Assurance Opinion

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed by Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that is focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.

In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council's risk profile.

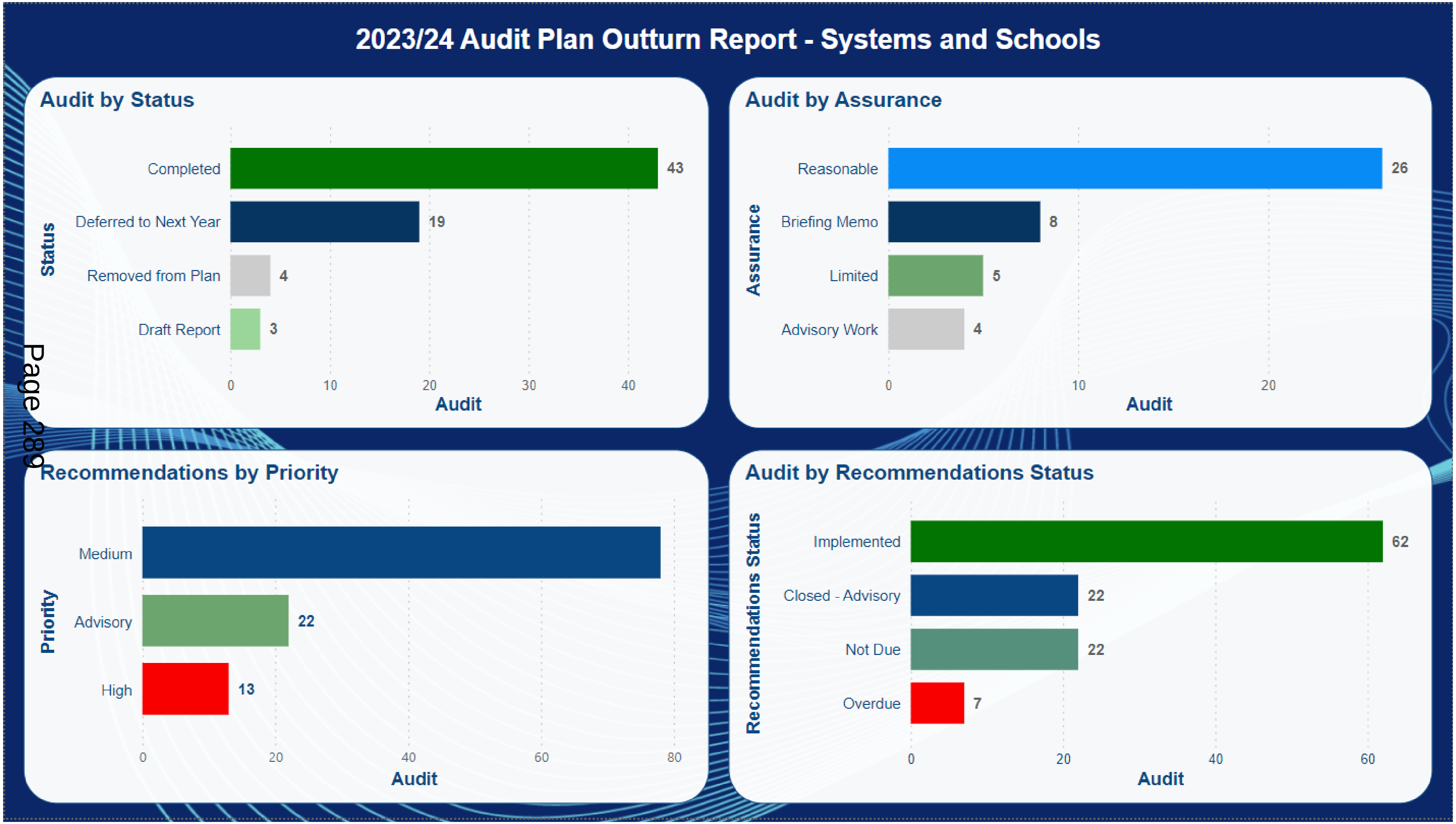
From the work undertaken during the 2023/24 year, reasonable assurance can be provided that there is generally a sound system of internal control across the Council. This opinion is broadly consistent with the 2022/23 view. However, it should be noted that the reasonable assurance opinion acknowledges that procurement processes and contract management arrangements continues to be an area of significant risk to the Council.

The Council has a responsibility to ensure that the procurement of goods and services is conducted effectively, with contracts entered into subsequently managed robustly, to ensure that value for money is achieved for the benefit of residents. Work is underway across the Council to address these risk areas and these will be reviewed by the Internal Audit team during 2024/25.

The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. Outlined below are the definitions of the assurance levels provided by Internal Audit:

Key to Assurance Levels

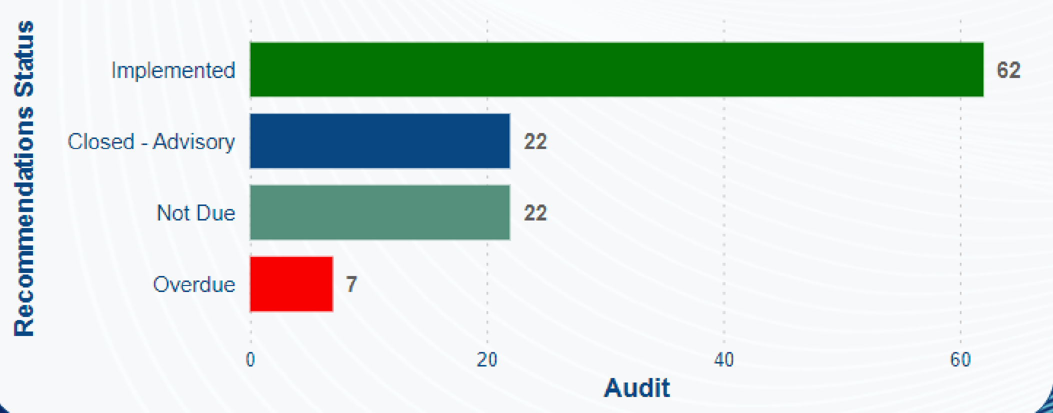
- **Reasonable Assurance -** The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Limited Assurance -** There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.


2023/24 Audit Plan Outturn Report - Systems and Schools
Audit by Status
Completed 43
Deferred to Next Year 19
Removed from Plan 4
Draft Report 3
Status
0 10 20 30 40
Audit
Audit by Assurance
Reasonable 26
Briefing Memo 8
Limited 5
Advisory Work 4
Assurance
0 10 20
Audit
Recommendations by Priority
Medium
Advisory 22
High 13
Priority
0 20 40 60 80
Audit
Audit by Recommendations Status
Implemented 62
Closed - Advisory 22
Not Due 22
Overdue 7
Recommendations Status
0 20 40 60
Audit

2023/24 Audit Plan Outturn Report - Systems and Schools

Assurance by Audit Type

Audit by Recommendations Status



Type	Closed - Advisory	Implemented	Not Due	Overdue	Total
Triennial	6	24	6	7	**43**
Systems	14	19	15		**48**
Health Check	2	19	1		**22**
Total	**22**	**62**	**22**	**7**	**113**

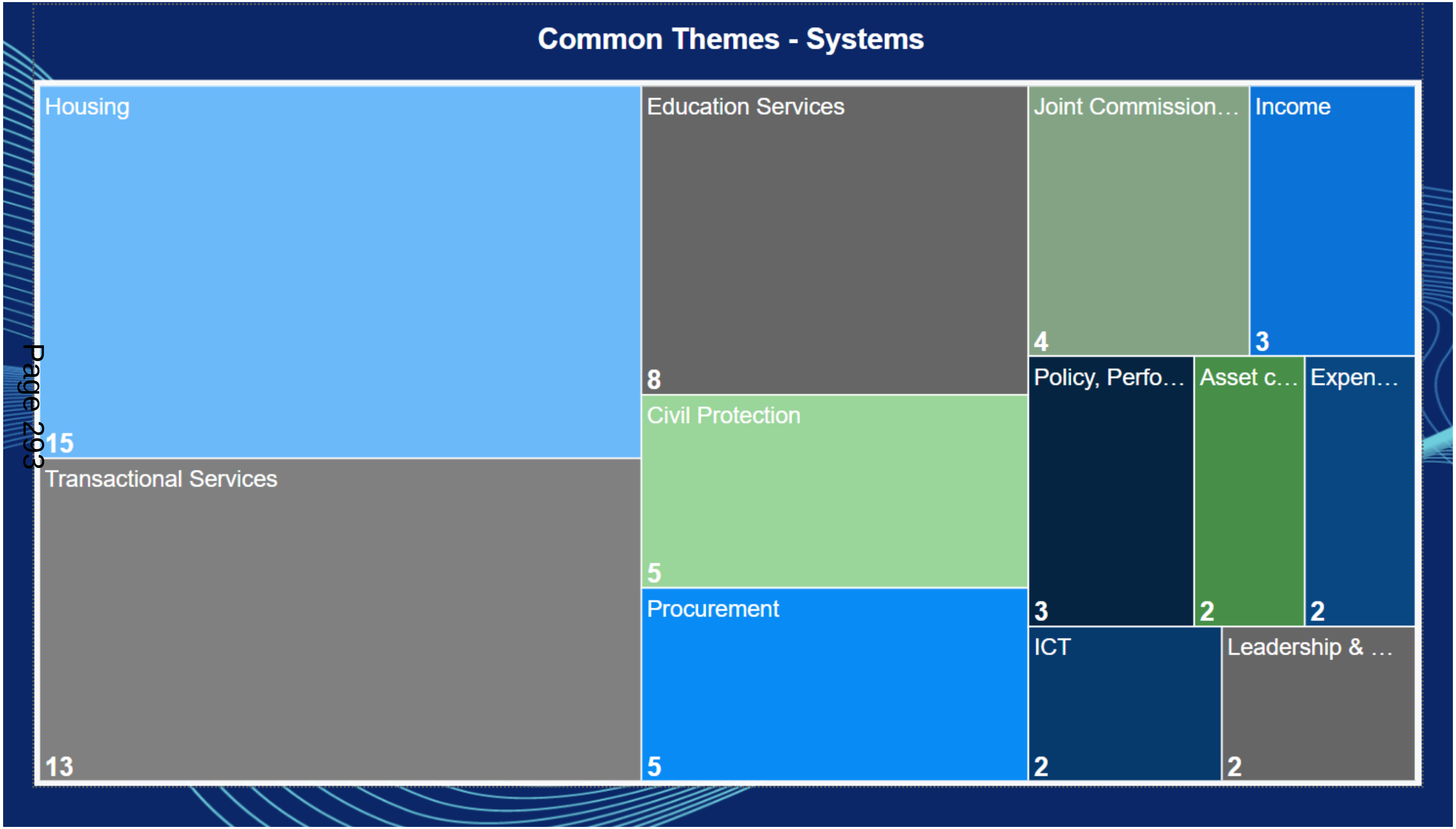
Audit Committee, 14 May 2024

Audit Plan - Systems (Completed and Draft)

Title	Status	Assurance	High Recs	Medium Recs	Advisory Recs	Total	Overdue High	Overdue Medium	Total Overdue
Catering in Schools - Allergy Management	Completed	Reasonable	0	3	5	8	0	0	0
Contract Management - Environment (Phase 2) (22/23)	Completed	Briefing Memo	0	0	0	0	0	0	0
Data Breach	Completed	Briefing Memo	0	0	0	0	0	0	0
DPIA Compliance - CCTV (22/23)	Completed	Limited	3	0	0	3	0	0	0
DPIAs - CCTV (Interim F/Up and Progress Report)	Completed	Reasonable	0	0	0	0	0	0	0
Faster/ Duplicate Payments (22/23)	Completed	Limited	3	3	1	7	0	0	0
Housing Compliance Follow Up (22/23)	Completed	Reasonable	0	5	0	5	0	0	0
Insurance Mapping	Completed	Advisory Work	0	0	0	0	0	0	0
IT Transition Procurement Support	Completed	Briefing Memo	3	0	0	3	0	0	0
Mayors Appeal Fund	Completed	Briefing Memo	0	0	0	0	0	0	0
Parking Income	Completed	Briefing Memo	0	0	1	1	0	0	0
Procurement	Completed	Briefing Memo	0	0	0	0	0	0	0
PSL Follow Up	Completed	Reasonable	0	1	2	3	0	0	0
Purchase Orders and Accruals	Completed	Reasonable	0	0	0	0	0	0	0
Reablement Contract Award Follow Up	Completed	Reasonable	0	0	0	0	0	0	0
Responsive Repairs	Completed	Limited	1	1	2	4	0	0	0
Responsive Repairs Follow Up	Completed	Reasonable	0	0	0	0	0	0	0
SEND Transport Follow Up	Completed	Reasonable	0	0	0	0	0	0	0
Service Charges Follow Up	Completed	Limited	0	0	0	0	0	0	0
Supplier Creation (22/23)	Completed	Briefing Memo	0	0	0	0	0	0	0
Supporting Familes (Q3)	Completed	Advisory Work	0	0	0	0	0	0	0
Supporting Families (Q1)	Completed	Advisory Work	0	0	0	0	0	0	0
Supporting Families (Q2)	Completed	Advisory Work	0	0	0	0	0	0	0
Supporting Families (Q4)	Completed	Reasonable	0	0	0	0	0	0	0
Traded Services (Brokerage Service)	Completed	Briefing Memo	0	0	0	0	0	0	0
Waivers (22/23)	Completed	Limited	3	3	3	9	0	0	0
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)	Draft Report		0	0	0	0	0	0	0
Procurement Governance Arrangements	Draft Report		0	0	0	0	0	0	0
Total			**13**	**16**	**14**	**43**	**0**	**0**	**0**

Audit Plan - Systems (Deferred and Removed)

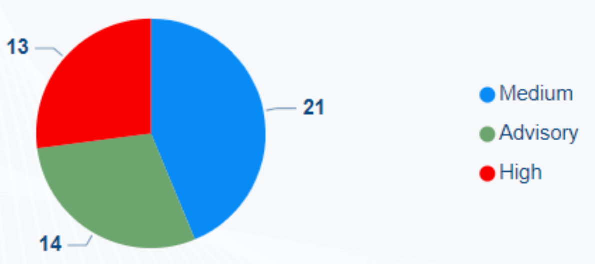
Title	Status
Complaints	Deferred to Next Year
Contract Management	Deferred to Next Year
Contracts Register	Deferred to Next Year
Empty Properties (Council Tax Charges)	Deferred to Next Year
Governance and Compliance Culture (Phase 2)	Deferred to Next Year
ICT - Application Risk Management	Deferred to Next Year
ICT - Service Desk	Deferred to Next Year
Mayors Car Budget / Process Maps	Deferred to Next Year
Planning	Deferred to Next Year
Project (risk based deep dive reviews)	Deferred to Next Year
Reablement Contract	Deferred to Next Year
Voids	Deferred to Next Year
Continuing Health Care	Removed from Plan
Highways Services	Removed from Plan
Household Support Fund	Removed from Plan
Public Realm	Removed from Plan


Common Themes - Systems
Housing
15
Transactional Services
13
Education Services
8
Civil Protection
5
Procurement
5
Joint Commission…
4
Income
3
Policy, Perfo…
3
Asset c…
2
Expen…
2
ICT
2
Leadership & …
2

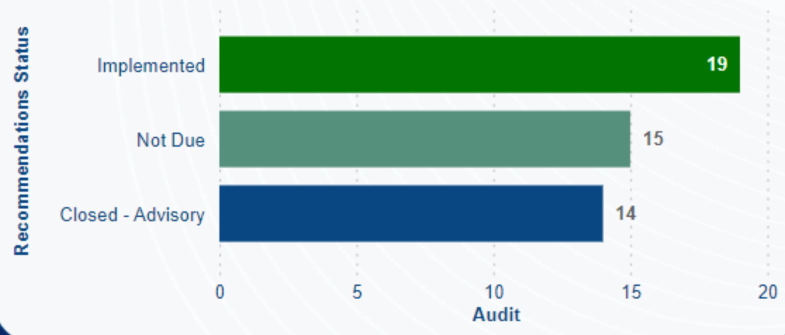
Audit Recommendations Update - Systems

Internal Audit follows up all audit recommendations with management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review. This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.

Recommendations by Priority



Audit by Recommendations Status



Plan Year	Audit Title	Recommendation Priority	Recommendation Status
2023/24	Catering in Schools - Allergy Management	Advisory	Closed - Advisory
2023/24	Faster/ Duplicate Payments (22/23)	Advisory	Closed - Advisory
2023/24	Parking Income	Advisory	Closed - Advisory
2023/24	PSL Follow Up	Advisory	Closed - Advisory
2023/24	Responsive Repairs	Advisory	Closed - Advisory
2023/24	Waivers	Advisory	Closed - Advisory
2023/24	Catering in Schools - Allergy Management	Medium	Implemented
2023/24	DPIA Compliance - CCTV (22/23)	High	Implemented
2023/24	Faster/ Duplicate Payments (22/23)	High	Implemented
2023/24	Faster/ Duplicate Payments (22/23)	Medium	Implemented
2023/24	Housing Compliance Follow Up (22/23)	Medium	Implemented
2023/24	IT Transition Procurement Support	High	Implemented
2023/24	PSL Follow Up	Medium	Implemented
2023/24	Responsive Repairs	High	Implemented
2023/24	Responsive Repairs	Medium	Implemented
2023/24	Faster/ Duplicate Payments (22/23)	High	Not Due
2023/24	Housing Compliance Follow Up (22/23)	Medium	Not Due
2023/24	IT Transition Procurement Support	High	Not Due
2023/24	Purchase Orders and Accruals	Medium	Not Due
2023/24	Waivers	High	Not Due
2023/24	Waivers	Medium	Not Due

Recommendation Detail - Systems

Audit Title	Recommendation	Rec Priority	Rec Status	Due Date	Revised Due Date
DPIA Compliance - CCTV (22/23)	Collate and maintain a central record of CCTV currently in place across the organisation. This should include establishing a network of key contacts across all relevant areas in order to work collaboratively and provide clear lines of communication. Where this process identifies CCTV not supported by a DPIA action should be taken to address this immediately.	High	Implemented	01 October 2023	
DPIA Compliance - CCTV (22/23)	Produce and publish guidance to make Council staff aware of their responsibility in terms of complying relevant legislative requirements (GDPR). This should include clear signposting on the intranet to ensure that officers procuring new CCTV / applicable equipment not only have access of guidance, but are aware of the need to engage with the SPOC in order to update the central records.	High	Implemented	01 October 2023	
DPIA Compliance - CCTV (22/23)	SLT should be suitably informed of the risks arising from this report and the Council's exposure in this area. A decision should then be made by SLT to agree where overarching responsibility for Council wide use of CCTV should sit, to provide services with CCTV with a Single Point of Contact (SPOC).	High	Implemented	01 October 2023	
Faster/ Duplicate Payments (22/23)	In order to minimise the risk of duplicate payments, the Faster Payment request form should be amended to include a declaration that, if the faster payment is being raised to replace a payment already submitted via the accounts payable process, that the person completing the form has instructed Accounts Payable to cancel the previous payment.	High	Implemented	01 December 2023	
Faster/ Duplicate Payments (22/23)	Ownership of the faster payments process should be determined.	High	Implemented	01 December 2023	
IT Transition Procurement Support	From the limited credentials available at the time of this work, regarding TVI as a company, the viability of TVI being able to deliver the scope of such a significant and complex project they have been engaged for should be established and verified as a matter of urgency.	High	Implemented		
IT Transition Procurement Support	Immediate action should be taken to understand the formal agreement between TVI and the Council for the delivery of phase two of the IT Transition Procurement Support project to ensure that the Council does not breach any contractual obligations.	High	Implemented		
Responsive Repairs	Action should be taken to execute the contract immediately. This should include confirming with Legal Services that no amendments have been made to the contract that was originally awarded and whether any significant changes to the service, such as the transfer of the	High	Implemented	01 November 2023	

Recommendation Detail - Systems

Audit Title	Recommendation	Rec Priority	Rec Status	Due Date	Revised Due Date
Faster/ Duplicate Payments (22/23)	In addition to the faster payment form, guidance should be produced and made available to all staff, outlining when it is acceptable to request a Faster Payment. Guidance should also set out the standard / expected level of detail to be provided within the request form.	High	Not Due	01 June 2024	
IT Transition Procurement Support	The governance arrangements for awarding high value contracts through Matrix Managed Marketplace should be reviewed to ensure that all decisions made are in accordance with Council processes and financial regulations. Decisions should be appropriately evidenced and recorded.	High	Not Due	01 June 2024	
Waivers	In the absence of up to date Contract Procedure Rules the current waivers process should be reviewed to ensure that it aligns with core governance requirements set out in both the CPRs and the Council's Constitution and that the process includes robust controls to ensure compliance. Once reviewed the process should be made readily available to officers across the Council.	High	Not Due	01 July 2024	
Waivers	The current Contract Procedure Rules (CPR) should be reviewed and updated to reflect both local & legislative changes and to assimilate the current operational processes with the governance arrangements set out in the rules.	High	Not Due	01 July 2024	
Waivers	To ensure standards are being consistently applied it is advised that the Procurement Team are provided with training to ensure that all officers are aware of the process and understand, and can apply the controls. This should include clear communication of the teams role and responsibilities within the waivers process, such as responsibility for checking waivers are approved in line with the scheme of delegation and that any applicable supporting documents (such as EDs if applicable) have been submitted.	High	Not Due	01 July 2024	

Introduction - Schools Programme

There are currently 40 borough maintained schools within Havering. Of these, 24 schools will have received a triennial audit between the financial years 2021/22 – 2023/24. The remaining 16 maintained schools were assessed on the assurance given at their last triennial audit and considered to be low risk; therefore, a triennial audit was not delivered as part of the three year rolling programme. Ten of these schools have received at least one health check since their last triennial visit, the remaining six schools are amongst the thirteen schools scheduled to be reviewed as part of the 2024/25 audit plan.

In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes outlined below.

Assurance opinions are given for each school report. Currently, the schools that were due to be audited in 2023/24 have received a Triennial audit, all of which were given Reasonable Assurance.

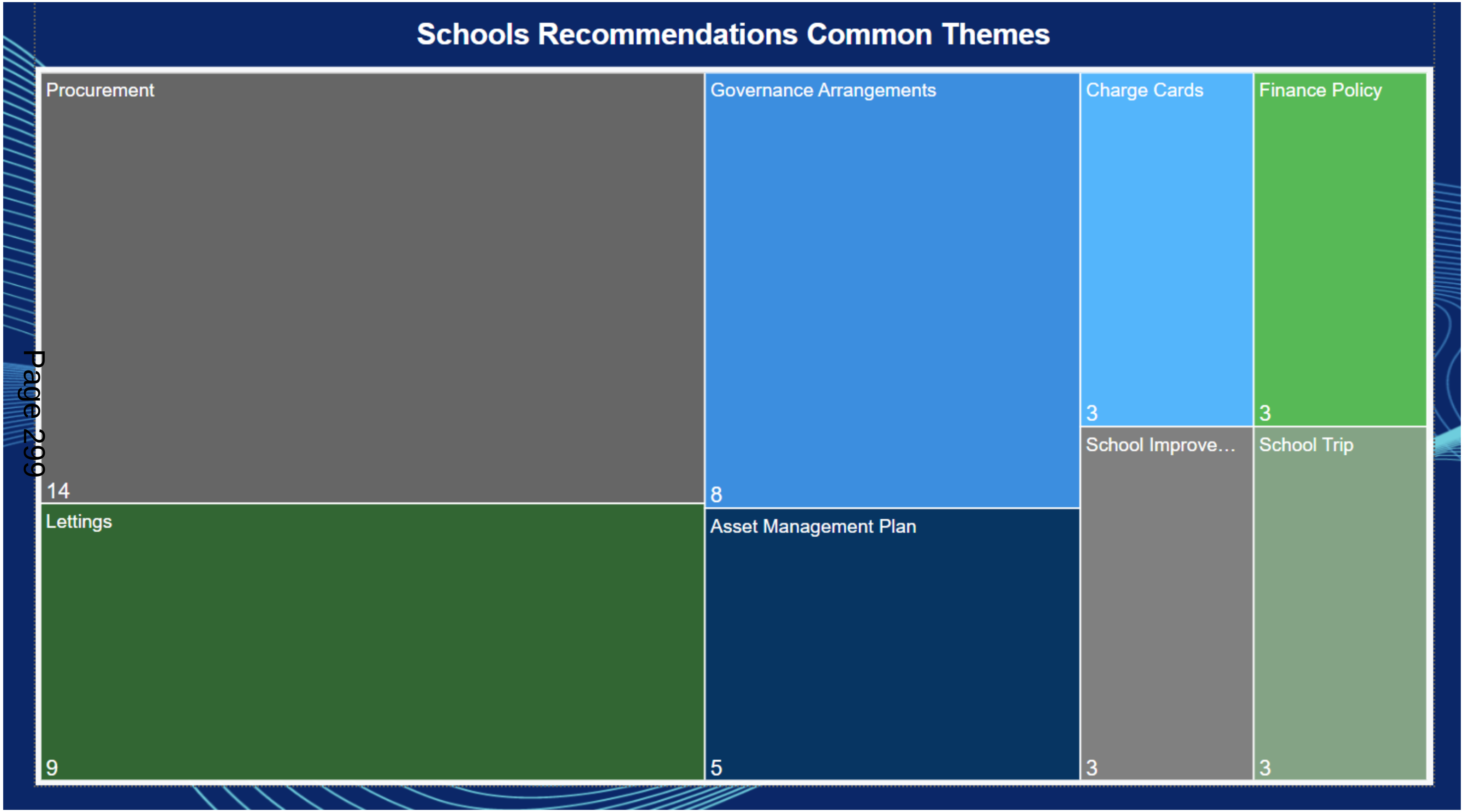
Recommendations raised during the 2023/24 audits identified some common themes across multiple schools, in the following areas;
- Procurement;
- Lettings; and
- Governance Arrangements.

During 2023/24, the service delivered seven Health Checks for maintained schools, four of which had been deferred from 2023. Two academies also bought into the service generating total revenue for 2023/24 of £7,585.00. To date, ten schools have purchased Health Checks for 2024/25

The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the risk based internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

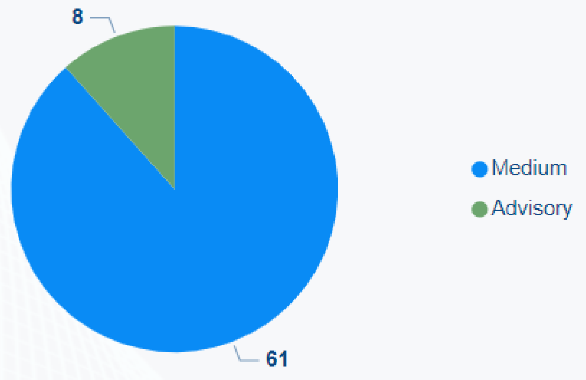
Audit Plan - Schools

Title	Status	Assurance	High Recs	Medium Recs	Advisory Recs	Total	Over due High	Overdue Medium	Total Overdue
Clockhouse - HC (22/23)	Completed	Reasonable	0	3	0	3	0	0	0
Corbets Tey - HC (22/23)	Completed	Reasonable	0	1	0	1	0	0	0
Crownfield Infants - HC	Completed	Reasonable	0	7	0	7	0	0	0
Engayne - T3	Completed	Reasonable	0	1	0	1	0	0	0
Gidea Park - T3	Completed	Reasonable	0	5	2	7	0	0	0
Harold Wood - HC (22/23)	Completed	Reasonable	0	5	2	7	0	0	0
Hilldene Primary - HC	Completed	Reasonable	0	1	0	1	0	0	0
James Oglethorpe - T3	Completed	Reasonable	0	6	1	7	0	1	1
Langtons Infants - T3	Completed	Reasonable	0	1	1	2	0	1	1
Learning Federation - T3	Completed	Reasonable	0	2	0	2	0	0	0
Parklands - T3 (22/23)	Completed	Reasonable	0	2	0	2	0	0	0
RJ Mitchell - T3 (22/23)	Completed	Reasonable	0	5	0	5	0	3	3
Squirrels Heath Junior - HC (22/23)	Completed	Reasonable	0	3	0	3	0	0	0
St Albans - T3	Completed	Reasonable	0	5	0	5	0	0	0
St Patricks - T3	Completed	Reasonable	0	3	0	3	0	1	1
St Ursulas - T3 (22/23)	Completed	Reasonable	0	4	0	4	0	1	1
Whybridge Infants - T3	Completed	Reasonable	0	5	0	5	0	0	0
Elm Park - HC (22/23)	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
Rainham Village Primary - HC	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
St Edwards - HC (22/23)	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
St Josephs - T3 (deferred)	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
St Patricks - HC (22/23)	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
The RJ Mitchell Primary - HC	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
The Towers Federation - HC (22/23)	Deferred to Next Year	Not Applicable	0	0	0	0	0	0	0
Suttons - T3	Draft Report	Reasonable	0	0	0	0	0	0	0
Total			**0**	**59**	**6**	**65**	**0**	**7**	**7**

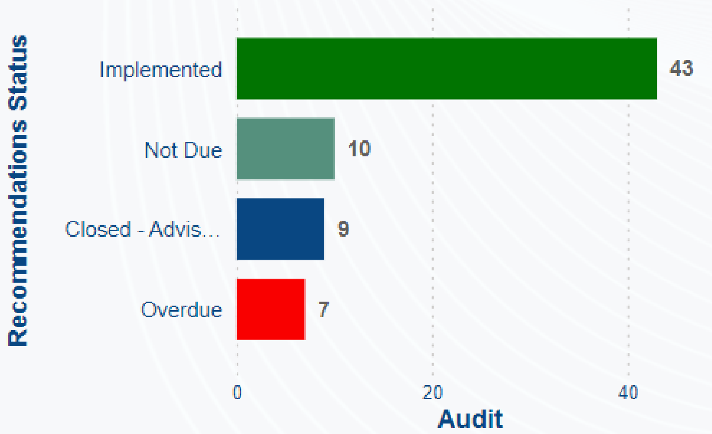

Schools Recommendations Common Themes
Procurement
14
Lettings
9
Governance Arrangements
8
Asset Management Plan
5
Charge Cards
3
Finance Policy
3
School Improve…
3
School Trip
3

Audit Recommendations Update - Schools

Recommendations by Priority



Audit by Recommendations Status



Plan Year	Audit Title	Recommendation Priority	Recommendation Status
2023/24	Clockhouse Primary	Medium	Implemented
2023/24	Clockhouse Primary	Medium	Not Due
2023/24	Corbets Tey - HC (22/23)	Medium	Implemented
2023/24	Crownfield Infants - HC	Medium	Implemented
2023/24	Engayne - T3	Medium	Implemented
2023/24	Gidea Park - T3	Advisory	Closed - Advisory
2023/24	Gidea Park - T3	Medium	Implemented
2023/24	Harold Wood - HC (22/23)	Advisory	Closed - Advisory
2023/24	Harold Wood - HC (22/23)	Medium	Implemented
2023/24	Hilldene Primary - HC	Medium	Implemented
2023/24	James Oglethorpe - T3	Advisory	Closed - Advisory
2023/24	James Oglethorpe - T3	Medium	Implemented
2023/24	James Oglethorpe - T3	Medium	Not Due
2023/24	James Oglethorpe - T3	Medium	Overdue
2023/24	La Salette Catholic Primary	Medium	Closed - Advisory
2023/24	La Salette Catholic Primary	Medium	Not Due
2023/24	Langtons Infants - T3	Advisory	Closed - Advisory
2023/24	Langtons Infants - T3	Medium	Overdue
2023/24	Learning Federation - T3	Medium	Implemented
2023/24	Parklands - T3 (22/23)	Medium	Implemented
2023/24	RJ Mitchell - T3 (22/23)	Advisory	Closed - Advisory
2023/24	RJ Mitchell - T3 (22/23)	Medium	Implemented
2023/24	RJ Mitchell - T3 (22/23)	Medium	Overdue
2023/24	Squirrels Heath Junior - HC (22/23)	Medium	Implemented
2023/24	St Albans Catholic Primary	Medium	Implemented
2023/24	St Albans Catholic Primary	Medium	Not Due
2023/24	St Patricks - T3	Medium	Implemented
2023/24	St Patricks - T3	Medium	Overdue
2023/24	St Ursulas - T3 (22/23)	Advisory	Closed - Advisory
2023/24	St Ursulas - T3 (22/23)	Medium	Implemented

Introduction - Counter Fraud

Counter Fraud Audit Work

The counter fraud service are continuing to follow up, fraud referrals, desk based intelligence checks and investigations with door step visits and Interviews under Caution where necessary The Council take a zero tolerance approach to tenancy fraud and currently have 85 open investigations.

During the period 01/04/2023 to 31/03/2024, 18 non-housing referrals were also received; nine of which were Whistleblowing referrals. Fifteen cases have been investigated and concluded and three referrals are currently being investigated.

Proactive Counter Fraud Investigations
Work undertaken during 01/04/2023 to 15/03/2024

Area	Description	No. Received
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	21
Advice to Directorates	General advice and support to Directors, Heads of Service etc. including short ad-hoc investigations, audits and compliance.	12
National Fraud Initiative	The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years.	Results are currently under review.

Counter Fraud

Reactive Investigation Cases

Four referrals were brought forward from the previous period.

- One case has been concluded; and
- Three remaining cases are still under investigation.

During 01/04/2023 to 31/03/2024 18 referrals were received; nine of which, information was provided by Whistle-blowers:

- Fifteen cases have been investigated and concluded; and
- Three referrals are currently being investigated.

The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications

Description	2022/2023	2023/24 to date
RTB stopped	5	3
Properties recovered	10	14
RTB referred and reviewed	101	94
Number of referrals for investigation	123	127
Notional Saving *	180000	588000
Notional Saving	581000	383820
Total Notional Saving	761000	971820

* Notional saving revised from 2022/23 figures as recommended method uses a standard formula to arrive at an average national cost to the taxpayer per detected tenancy fraud of £42,000

Housing Cases

The following table illustrates the breakdown of cases:

Description	2023/2024 (to date)
RTB stopped **	3
Properties Recovered	14
Pending bailiff action / Eviction	3
Passed to Legal Services for Criminal / Civil Proceedings	9
Open Investigations	68
Number of referrals currently under investigation	84
Number of referrals brought forward	68
Number of new referrals retained for investigation *	59
Number of completed / closed investigations	43
Notice To Quit (NTQ) issued	2
NFA	19
Housing Application cancelled	1
Housing Action	4
Homeless duty discharged	1
Change of Tenancy stopped	1
Awaiting Court Hearing	2

Key:
* Total number of referrals received and triaged was 184. However, only 59 are being investigated as the remaining referrals do not get investigated by the Counter Fraud Team, e.g. Housing Benefit, other LA's.
** Total number of RTB's referred and reviewed was 95.

Housing Services refer Mutual Exchanges and Succession to the Counter Fraud Team to review. A total of 43 Mutual Exchanges and 11 Successions have been referred and reviewed.

Other Arrangements

Risk Management Arrangements

The strategic risks to the achievement of the Authority's objectives are captured within a corporate risk register which is overseen by the Governance and Assurance Board (GAB), reviewed by SLT and progress reported to the Audit Committee. Work continued during 2022/23 to review the risks, overseen by the GAB to ensure that the corporate risk register reflects the risks facing the Council.

During 2022/23 Internal Audit have continued to implement the JCAD Risk System, provided training to Directorates and ensured that Directorate risk registers have been added to the system. Work will continue during 2023/24 to support the general risk management processes.

The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council's systems and procedures, and will be approved by the Audit Committee biannually.

Governance Arrangements

There is an established officer Governance and Assurance Board at LB Havering, which the Head of Assurance attends. The work of Internal Audit informs this group and issues brought to the group and identified in the Annual Governance Statement (AGS), inform the annual audit plan. Governance arrangements are routinely considered as part of all internal audit reviews.

Audit Committee

The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

Appendix 1 : Limited Assurance Reports – Waivers

Background

A 2022/23 review of waivers carried out at the London Borough of Newham (with testing limited only to LB Newham waivers), resulted in a limited assurance audit opinion being given. In order to determine the level of risk at Havering, time was allocated from the emerging risks allowance in the plan to review Havering waivers. The scope of the review was to ensure that waivers complied with the Council's Contract Procurement Rules (CPRs) and were approved in accordance with the Scheme of Delegation.

Assurance Opinion - Limited

Inconsistency of record keeping, combined with the lack of ownership for ensuring compliance with relevant rules increases the risk that waivers breach of both internal and external procurement requirements. In the event of a breach, accountability would be difficult to determine.

Summary Key Findings	Recommendations
The Council's Contract Procedures Rules (circa 2016) are outdated and do not align with local and legislative requirements, or reflect processes currently in operation.	**High** - The current Contract Procedure Rules (CPR) should be reviewed and updated to reflect both local & legislative changes and to assimilate the current operational processes with the governance arrangements set out in the rules.
The waivers process officers are expected to follow has not been made available to officers.	**High** - In the absence of up to date Contract Procedure Rules the current waivers process should be reviewed to ensure that it aligns with core governance requirements set out in both the CPRs and the Council's Constitution and that the process includes robust controls to ensure compliance. Once reviewed the process should be made readily available to officers across the Council.
An accurate and complete record of waivers is not in place.	**Medium** - The service should make changes to the Procurement Projects Register (PPR) to ensure that it provides a robust record of all waivers received, including consideration as to the value that populating the PPR with incomplete historical data will give. Additionally the service should consider whether the current method of labelling waivers to competition, differently to those related to cost / quality weighting provides a comprehensive record of waivers submitted.

It is unclear where responsibility sits for ensuring waivers are justified, compliant with the rules and approved in line with the Scheme of Delegation.	**Medium** - Guidance to officers should clearly outline that waiving the cost / quality weighting set out in the Constitution should be documented and approved via an Executive Decision, unlike all other waivers which should be completed on the waivers template available on the intranet. Additionally, the waiver form should clearly outline the above requirements and ask officers to confirm what supporting documentation is being submitted alongside the waiver, such as an Executive Decision.
	High - To ensure standards are being consistently applied it is advised that the Procurement Team are provided with training to ensure that all officers are aware of the process and understand, and can apply the controls. This should include clear communication of the teams role and responsibilities within the waivers process, such as responsibility for checking waivers are approved in line with the scheme of delegation and that any applicable supporting documents (such as EDs if applicable) have been submitted.
	Medium - The Executive Leadership Team should be clearly notified of the responsibility being assigned to them when approving waivers, including whether this includes responsibility for ensuring that the waiver is justified and compliant with the CPRs.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications or risks arising directly from this report which is for information only.

By maintaining an adequate internal audit service, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Legal implications and risks:

Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to conduct a review of the effectiveness of the system of internal control which must be considered by the relevant committee or by full Council. This report seeks to comply with that statutory obligation and there are no apparent risks in considering the end of year report.

Human Resources implications and risks:

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

Climate Change implications and risks:

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register, added into the Internal Audit Plan and incorporated into the scope of audits where relevant.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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