Public Document Pack

Havering
LONDON BOROUGH

AUDIT COMMITTEE
AGENDA

7.00 pm	Wednesday 24 February 2021	Town Hall, Main Road, Romford

Members 6: Quorum 3

COUNCILLORS:

Conservative Group (3)	Residents' Group (1)	Upminster & Cranham Residents' Group (1)	North Havering Residents Group ((1
Viddy Persaud (Vice-Chair) Roger Ramsey Judith Holt	Gerry O'Sullivan	Gillian Ford	Martin Goode (Chairman)

For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@OneSource.co.uk

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
• Your well-being or financial position; or
• The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

YES ↓ / NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 PROTOCOL FOR VIRTUAL MEETING (Pages 1 - 4)

Protocol attached for noting

5 MINUTES OF THE MEETING (Pages 5 - 6)

To approve as correct the minutes of the meeting held on 27 October 2020 and authorise the Chairman to sign them.

6 ACCOUNTING POLICIES 2021-22 (Pages 7 - 30)

Report and appendix attached

7 CLOSEDOWN TIMETABLE 2020-21 (Pages 31 - 36)

Report attached

8 LBH COUNCIL & PENSION FUND ANNUAL STATEMENT 2019-20 (Pages 37 - 296)

Report and appendices attached

9 AGS 2019-20 SIGNIFICANT ISSUES UPDATE (Pages 297 - 306)

Report and appendix attached

10 CORPORATE RISK REGISTER (Pages 307 - 314)

Report and appendix attached

11 **2021/22 DRAFT INTERNAL AUDIT PLAN** (Pages 315 - 320)

Report and appendix attached

12 **INTERNAL AUDIT & COUNTER FRAUD PROGRESS REPORT** (Pages 321 - 338)

Report and appendices attached

13 **TREASURY MANAGEMENT STRATEGY STATEMENT 2021-22** (Pages 339 - 374)

Report attached

Andrew Beesley
Committee Administration Manager

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LONDON BOROUGH OF HAVERING

PROTOCOL ON THE OPERATION OF AUDIT COMMITTEE MEETINGS DURING THE COVID-19 PANDEMIC RESTRICTIONS

1. Introduction

In accordance with the Local Authority and Police Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panels Meetings (England and Wales) Regulations 2020, all meetings of Audit Committee held during the Covid-19 restrictions will take place in a 'virtual' format. This document aims to give details on how the meetings will take place and establish some rules of procedure to ensure that all parties find the meetings productive.

2. Notification of Meeting

Once the date for a meeting has been set, an electronic appointment will be sent to all relevant parties. This will include a link to access the virtual meeting as well as guidance on the use of the technology involved.

3. Format

For the duration of the Covid-19 restrictions period, Audit Committee meetings will be delivered through video conference call, using Zoom software. Instructions sent with meeting appointments will cover how to use the software. Additional IT support will also be provided to any Member requesting this in advance of the meeting.

4. Structure of the Meeting

Although held in a virtual format, the Audit Committee Meeting will follow, as far as is possible, the standard procedure for these meetings, with the following principal stages:

- Chairnan's annoucnements
- Apologies for absence
- Disclosures of interest
- Minutes of the previous meeting
- Presentation and consideration of reports

5. Technology Issues

Agendas setting out the items for the meeting will be issued in advance in the normal way, to all parties, in accordance with statutory timetables. The agenda will also be published on the Council's website – www.havering.gov.uk in the normal way. The guidance below explains how the meeting is to be conducted, including advice on what to do if participants cannot hear the speaker and etiquette of participants during the meeting.

Remote access for members of the public together with access for the Press will be provided via a webcast of the meeting at www.havering.gov.uk.

If the Chairman is made aware that the meeting is not accessible to the public through remote means, due to any technological or other failure of provision, then the Chairman shall temporarily adjourn the meeting immediately. If the provision of access through remote means cannot be restored within a reasonable period as determined by the Chairman in consultation with the Clerk, then the remaining business will be considered at a time and date fixed by the Chairman. If he or she does not fix a date, the remaining business will be considered at the next scheduled ordinary meeting of the Audit Committee.

6. Management of Remote Meetings for Members

The attendance of Members at the meeting will be recorded by the Democratic Services Officer clerking the meeting. The normal quorum requirements for meetings as set out in the Council's Constitution will also apply to a virtual meeting of Audit Committee.

Democratic Services Officers will monitor participant involvement during the virtual call to ensure that there are no drop outs. Members will be informed at the beginning of the meeting to use the chat function if they have missed part of the debate, and to request for the clerk or Chairman to recap briefly over what was said.

In the event that a Member's video feed has failed but he/she is able to hear what is being said then the Member should confirm as such using the chat function to the clerk.

In the event that a Member's audio and video feed has failed then the Chairman will invite the Committee to determine whether to proceed or adjourn the meeting to a later date.

7. Etiquette at the meeting

For some participants, this will be their first virtual meeting. In order to make the hearing productive for everyone, the following rules must be adhered to and etiquette observed:

- The meeting will be presided over by the Chairman who will invite participants to speak individually at appropriate points. All other participants must remain silent or muted until invited to speak by the Chairman;
- If invited to contribute, participants should make their statement, then wait until invited to speak again if required;
- If it is possible, participants should find a quiet location to participate in the Zoom meeting where they will not be disturbed as background noise can affect participants.
- If there are intermittent technological faults during the meeting then the Chairman will ask the speaker to repeat from the point where the disruption started. Whilst intermittent disruption is frustrating, it is important that all participants remain professional and courteous.
- The Committee Procedure Rules as shown in the Council's Constitution will apply to the meeting in the normal way, as far as is practicable.

8. Meeting Procedures

Democratic Services Officers will facilitate the meeting. Their role will be to control conferencing technology employed for remote access and attendance and to administer Member interaction, engagement and connections on the instruction of the Chairman.

The Council has put in place a technological solution that will enable Members participating in meetings remotely to indicate their wish to speak via this solution. This will be via the ‘raise hand’ function in the Participants field of the Zoom software used for the meeting.

The Chairman will follow the rules set out in the Council’s Constitution when determining who may speak, as well as the order and priority of speakers and the content and length of speeches in the normal way.

The Chairman, at the beginning of the meeting, will make reference to the protocol for the meeting.

Members are asked to adhere to the following etiquette during remote attendance at the meeting:

- All Councillors and participating officers are asked to join the meeting no later than twenty minutes before the start to allow themselves and Democratic Services Officers the opportunity to test the equipment.
- Any camera (video-feed) should show a non-descript background or, where possible, a virtual background relating to Havering and Members should be careful to not allow any exempt or confidential papers to be seen in the video-feed.
- During general discussion, rather than raising one’s hand or rising to be recognised or to speak, Members attending remotely should avail themselves of the remote process for requesting to be heard and use the ‘raise hand’ function in the participants field of the Zoom software.
- Members may only speak when invited to by the Chairman of the meeting.
- Only one person may speak at any one time.
- All speakers and attendees, both Councillors and members of the public, are welcome to remain on the Zoom call until the conclusion of the meeting. The meeting will also be webcast so that it can be viewed by non-participants.
- When referring to a specific report, agenda page, or slide, participants should mention the report, page number, or slide so that all Members have a clear understanding of what is being discussed at all times

Any voting will be conducted using the electronic voting function within Zoom. The Democratic Services Officer will announce the result of the vote and the Chairman will then move on to the next agenda item.

A record of votes and how individual Members voted will be appended to the minutes, following the meeting.

Any Member participating in a remote meeting who declares a disclosable pecuniary interest, or other declarable interest, in any item of business that would normally require them to leave the room, must also leave the remote meeting. The Democratic Services Officer or meeting facilitator will move the Member to the Zoom waiting room until the item is complete, and then return them to the meeting.

9. Public Access to Meeting Documentation following the Meeting

Members of the public may access minutes, decision notices and other relevant documents through the Council's website. www.havering.gov.uk

For any further information on the meeting, please contact luke.phimister@onesource.co.uk, tel: 01708 434619.

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Virtual Meeting
28 October 2020 (Times Not Specified)

Present:

COUNCILLORS:

Conservative Group	Roger Ramsey, Judith Holt and Robby Misir (In place of Viddy Persaud)
Residents' Group	Gerry O'Sullivan
Upminster & Cranham Residents' Group	Gillian Ford
North Havering Residents Group	Martin Goode (Chair)

Apologies were received for the absence of Councillors Persaud.35 members of the public and a representative of the Press were present.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

54 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 28 July 2020 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

55 **HEAD OF ASSURANCE - PROGRESS REPORT QUARTERS ONE AND TWO 2020/21**

The report presented to the Committee outlined the work that had been undertaken by the Assurance Service during the period of 1st April to 30th September 2020.

It was noted by the Committee that as schools had been closed due to COVID-19, the audit had to be completed remotely and the audit of housing was ongoing with high risk recommendations having been implemented with updates being tracked through the Governance and Assurance Board. A full list of updates from the Board would be brought to the next Audit Committee meeting.

The members noted that the Council's fraud work had been disrupted due to COVID-19 but internal referrals had stayed steady. Issues relating to cyber security was then presented to the Committee and it as noted that the Council had some issues with regards to the resilience of the firewall but fixes had been implemented.

The Committee **noted** the report.

56 **TREASURY MANAGEMENT MID YEAR REPORT 2020-21**

The report presented to the Committee was an update on the mid-year Treasury Management which had been approved by full council on 26th February 2020. Members noted that this report was to ensure investment of surplus cash and to have an adequate for borough funding. Members noted that £90million had been invested in other Local Authorities as they provided better rates. It was also noted that the PWLB fund's rate was high and the consultation with the requirement of long-term borrowing had been published. Members were updated that the cash balance was £120.9million and Rockfire Capital Ltd had repaid their amount early with accrued interest.

The Committee **noted** the report.

57 **WHISTLEBLOWING POLICY**

The report presented to the Committee gave an update on the Council's Whistleblowing Policy which had been agreed in January 2020 but last reviewed in 2015. The document was updated and included newer contact details. The Committee noted that all new staff receive training on whistleblowing as part of the induction and updated training for managers had been rolled out. Members commented that the document gave residents and staff the confidence to contact relevant officers confidentially.

The Committee **noted** the report and **approved** the updated Confidential Reporting Policy.

58 **EXCLUSION OF THE PUBLIC**

59 **PREPARATIONS FOR THE END OF THE EU TRANSITION PERIOD**

The report presented to the Committee advised Members on the ongoing preparations for the end of the European Union (EU) Transition Period.

The Committee **noted** the report.

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Chairman

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Accounting Policies 2020/21 & 2021/22
SLT Lead:	Jane West
Report Author and contact details:	Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2020/21 & 2021/22
Financial summary:	There are no direct financial implications to the report.

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[X]
Connections making Havering	[]

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2020/21 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes to the 2020/21 policies will be highlighted to the committee in the Statement of Accounts report in July 2021.

- The report presents the accounting policies applicable to the financial year 2020/21 and will be reflected in the published statement of accounts. These policies will also provide the basis for the 2021/22 policies. At this stage there are no changes for 2020/21 identified. The Leasing Standard IFRS 16 which was due to be adopted on 1st April 2020 by Local Government has been delayed till the 2022/23 financial year– this will bring leased assets worth over £10,000 onto the balance sheet where the lease period exceeds one year.
- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis. Adoption of the 2021/22 policies also means draft policies are in place for the start of the financial year to which they relate.

Appendix A includes the revised accounting policies for 2020/21 and 2021/22 combined into one document – differences are highlighted. The policies for both years are the same except where marked for leased assets and the changes to policy section. Relevant dates will be updated for the 2021/22 policies.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial year 2020/21 & 2021/22

REPORT DETAIL

1. Introduction

1.1 This report sets out the revised accounting policies that will be applied during the financial years 2020/21 and 2021/22 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.

1.3 The audited Statement of Accounts for 2020/21 will be presented to the July 2021 Audit Committee for approval. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers.

2. Purpose of Accounting Policies

2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".

2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:

- Are **relevant** – providing appropriate information on the stewardship of Authority monies.
- Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
- Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
- Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
- Reflect **material** information – significant transactions must be incorporated in the financial reports.
- Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
- Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.

2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

3. Contents of Accounting Policies

3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:

1. **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices.
2. **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.
3. **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
4. **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
5. **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
6. **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
7. **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in Accounting Policies for 2020/21

4.1 The application of most accounting policies is applied consistently from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.

4.2 There are no material changes proposed to Havering's accounting policies for the 2020/21 accounts.

5. Changes in Accounting Policies for 2021/22 and 2022/23

No material changes to the 2021/22 policies are expected. . From 1 April 2022 all leased in assets (where the agreement is longer than one year) have to be brought onto the balance sheet from 1 April 2022. Officers are working to identify all leased assets and will agree the proposed accounting treatment with EY prior to the 2022/23 closedown. An item of consideration will be if the de-minimis level.

Guidance refers to the value of a small vehicle as being a guideline minimum level for consideration. Therefore a £10,000 de-minimis has been selected. A number of other Councils are adopting the same lower limit. This change in accounting treatment will not have a material impact upon the Council's usable financial resources as the amounts payable under the leases will remain the same.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report.

Human Resources implications and risks:

No implications

Equalities implications and risks:

No implications

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.

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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 by 31 May 2021, 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 of 4.5% 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.

Leases (2022/23 Revised Policy)

The Authority as Lessee

From 1 April 2022, where the Council is leasing an asset for more than 12 months and has a value in excess of £10,000, the asset will be accounted as if the asset was owned by the Council. Costs for assets Items under the de-minimis level are recognised as revenue expenditure.

The initial recognition of the asset is at fair value of the property the Council has a right to use. A liability is also recognised which will reduce as lease payments are made.

The Authority as Lessor

Where the Council is the lessor for a lease, the asset is not recognised on the balance sheet, however a long term debtor at the present value of minimum lease payments is recognised. Income received is split between capital – credited against the debtor and finance income – credited to the Comprehensive Income and Expenditure Statement as interest receivable.

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

(2020/21Policy Document only will be updated for draft accounts following receipt of CIPFA guidance)

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:

(a) Amendments to IFRS 9 Financial instruments

Amendment relates to prepayment features with negative compensation, to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Authority has no loans of this nature.

(b) Amendments to IFRS 16 – Leases

The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022.

(c) Amendments to IAS 40 Investment Property - Transfers of Investment Property

This provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Authority as it already complies.

(d) Other accounting standards for awareness::

IFRIC 22 Foreign Currency Transactions and Advance Consideration, IFRIC 23 Uncertainty over Income Tax Treatments, IFRS 1 First Time Adoption of International Financial Reporting Standards, IFRS 12

Disclosure of Interests in Other Entities, IAS 28 Investment in Associates and Joint Ventures. These standards do not have a material relevance for this Authority.

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Closure of Accounts Timetable 2020/21
SLT Lead:	Jane West
Report Author and contact details:	Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2020/21
Financial summary:	There are no direct financial implications to the report, however an efficient closedown allows the Council to plan its future financial strategy with more certainty

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[X]
Connections making Havering	[]

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2020/21 Accounts.

RECOMMENDATIONS

The Committee is asked to note the content of the report in particular the risk areas and the key dates in connection with the closure of the 2020/21 accounts.

REPORT DETAIL

1. Background

The Council closed its accounts and prepared its Financial Statements for 2019/20 in the first week of July 2020. However the external audit of the accounts is still ongoing at January 2021 – it was due to be completed by the 30th November 2020 extension for Covid-19 (normally 31st July).

The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and that roles and responsibilities have been identified and understood.

2. Preparing for Closedown

2.1 The statutory deadline under the Accounts and Audit Regulation is for having the 2020/21 draft accounts published by 31st May 2021 and the statutory deadline to have the accounts audited is 31st July 2021. At the time of writing, draft legislation subject to consultation has been published. The publication of draft accounts is to be no later than the first working day in August and the audit deadline is 30th September. Once the legislation has been confirmed, the then the timetable will be finalised, however there is still the need from a Corporate financial management point of view to report the revenue outturn to Cabinet in May even if some technical adjustments that no not affect usuable resources (such as for IAS19) can be made to the accounting statements afterwards. Legislation that defers the publication date would give scope for fewer estimates to be used in areas such as investment values in the IAS19 report – this would reduce the need for the audit review of estimates against actuals.

2.2 To be able to meet the statutory deadlines, it's imperative that the key dates within the closedown timetable are met. Any delay from one activity has a cascading impact which could jeopardise Havering closing its accounts within the required timeframe. This will mean Committee papers will be out earlier as well in line with this timescales. There will be a training session for members of the Audit Committee between the end of May and the approval Committee, to familiarise members with the Statement of Accounts. It is also key for SLT Members to be aware of the key deadlines and support to ensure that the outturn report is produced on time but also the deadline for the accounts publication is achieved.

3. Closedown Timetable

Following consultation with key officers, the 2020/21 closedown timetable was issued which incorporates the feedback from the consultation, and in line with project management methodology clearly sets out the critical path and named owners for each activity. This is being monitored regularly by Financial Control. Any slippages identified will be addressed before year-end.

4. Interim Audit

For 2020/21, the Financial Control team are focusing on some of the risk areas identified last year but also to improve streamlining the preparation of accounts where possible. Also during this period, the Financial Control team is working with the external auditors in order to provide the required information for the interim audit in early 2021. The interim audit is likely to focus on walk-through process testing and confirmation that the Fusion opening balances match the Oracle closure balances. Fusion is the Council's new financial management system. The date of the final audit will be confirmed in the audit plan to be tabled at Committee in April. Officers will be working closely with the auditors to ensure the audit opinion for 2020/21 is provided quickly – progress of the audit will be closely monitored to ensure it is progressing and potential delays are addressed

5. Risk areas

5.1 The closedown planning process began in earnest in November 2020 which we have identified a number of risk areas that could cause delays or problems with the audit. These have been reviewed and a plan to mitigate the risks included. One of the more complex areas is the formation of group accounts. As Havering has a 100% subsidiary and three joint ventures, a line by line consolidation is needed to incorporate the entity into Havering's accounts. In order for this to be completed, the draft set of Mercury Land Holdings and the joint venture accounts would need to be provided in late April. In addition an audited version would need to be prepared and signed off in May in order to avoid any amendments to Havering's accounts. In the event of any changes to the accounts in June or July, there is a risk that these changes could prompt an ISA260 comment as part of the Annual Audit Report.

5.2 The ongoing 2019/20 audit is presenting a risk to the 2020/21 closedown process as the roll over of the fixed asset accounting module cannot be done until the auditors have confirmed they will not request any changes to the 31st March 2020 balances.

5.3 A risk to the closedown is if the reconciliation of debtors and creditors on the balance sheet is not kept up to date during the year. During 2020/21, finance and service staff has been asked to reconcile on a quarterly basis to check this are taking place sufficiently. Currently the Financial Control team is working with specific services to ensure that reconciliation are sufficient and are provided in a timely manner now the new Fusion system is in place.

5.4 The key deadlines in the draft timetable include the following:

Deadline	**Task**
Thursday 25th March 2021	Final deadline for service capital journals
Friday 26th March 2021	Final date for invoices to be raised and paid for to be automatically included in 2020/21 accounts
Tuesday 6th April 2021	Final deadline for Services journals to be provided to business partnering for review
Tuesday 13th April 2021	Open CP (Collaborative Planning) module to allow outturn variance reasons be recorded on system (Subject to change)
Friday 16th April 2021	Final Corporate adjustments
Friday 16th April 2021	All Balance Sheet reconciliations provided to Financial Control
Friday 30th April 2021	Receipt of Group Accounts from Mercury Land Holdings and Joint Ventures.
Tuesday 4th May 2021 (tbc)	SLT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Thursday 27th May 2021 (tbc)	Draft Statement of Accounts signed by Section 151 Officer. Draft legislation subject to consultation defers the draft accounts publication date to no later than the first working day in August
Friday 30th July 2021 (tbc)	Audit sign off of the Accounts per current Accounts and Audit Regulations. This is likely to be deferred, the draft legislation has an audit deadline of 30th September 2021.

The above timetable is intended to be a guide to key closedown dates, however dates might be amended as matters arise.

IMPLICATIONS AND RISKS

Financial implications and risks: There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:
There are no apparent legal implications in noting the content of the report.

Human Resources implications and risks:
There are no apparent human resources implications in noting the content of the report.

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, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

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.
There are no Equality implications regarding this matter.

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Havering LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Annual Statement of Accounts 2019/20 & External Audit report to those charged with Governance
SLT Lead:	Jane West
Report Author and contact details:	Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	Audit Committee responsible for approving accounts
Financial summary:	There are no direct financial implications to the report

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[X]
Connections making Havering	[]

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts. The accounts timetable for 2019/20 has been extended until 30 November due to COVID19, therefore officers are tabling the audited accounts for 2019/20 at this Audit Committee for approval. The draft accounts were published on the Council website on the 6th July 2020.

Members are invited to ask questions on the accounts. It would be appreciated if any questions are emailed in advance of the meeting to provide an opportunity to provide a response at the committee meeting.

RECOMMENDATIONS

The Committee is asked to:

a) Consider the contents of this report and the Statement of Accounts (Appendix A), alongside the "External Audit Report to those charged with Governance" (Appendix B – *to follow*) and any verbal updates by the External Auditor under that agenda item, following their examination of the Council's accounts.

b) Note that the audited accounts must be published at the earliest opportunity following the audit.

c) Note any requested amendments to the accounts arising from the audit. ***At the time of writing no material amendments had been recommended that changed usable resources of the Council***.

d) Approve the Statement of Accounts for the financial year ended 31st March 2020, having regard for the auditor's Report.

e) Agree that the Chair of the Committee, in consultation with the Chief Operating Officer (Statutory Chief Finance Officer) be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as a result of audit completion procedures.

f) To approve the Letter of Representation (Appendix C – ***to follow***).

REPORT DETAIL

1. Statement of Accounts 2019/20

1.1 The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively. However due to disruption caused by the COVID 19 virus, legislation was passed to delay the statutory publication date until 31st August and the audit opinion until the 30th November 2020. EY were not able to complete their audit by November, so the accounts are being tabled at this meeting.

1.2 The Council published the draft accounts on the website on 6th July 2020. These were approved for issue by the Chief Operating Officer. The Council external auditors, Ernst and Young (EY), conducted their main audit programme in August and September. Some interim audit work was conducted in February and March. The draft audit opinion is being presented to this Committee. This will also include a Value for Money opinion.

1.3 The Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee. No further material changes to the Accounts are expected. The draft accounts were tabled at an earlier Committee and a training session on the financial statements was provided prior to the October meeting.

1.4 **Property, Plant & Equipment**

No amendments to the 2019/20 property, plant and equipment valuations on the 31st March 2020 balance sheet have been requested by the auditors at the time of writing this report.

1.5 **Earmarked Reserves**

£11.6m of earmarked reserves were applied during 2019/20 – mainly £5.3m of school reserves and £6.1m of the risk reserve. Other reserves have increased by £7.2m due to COVID19 funding from the Government – it is likely that this will be used during 2020/21.

1.6 **Collection Fund**

There is no surplus at 31st March 2020 for Council Tax, in line with the January 2020 forecast. However the NNDR element of the collection fund shows a £2.9m deficit – this is due to lower NNDR being collectable, mainly as a result of appeals. The Council's share of the £2.9m deficit is £1.5m and has been factored into the medium term financial strategy. Membership of the London wide NNDR pool has generated income that will help offset some of this deficit.

Housing Revenue Account

1.7The HRA is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 9,128 dwellings. The HRA balance as at 31st March 2020 is £9.8 million, up £4.9 million – this is mainly due to lower expenditure in the year.

Pension Fund Liability

1.8 The IAS19 pension valuation report shows that the estimated pension fund deficit had fallen by around £116m during the year. This was mainly due to a higher discount rate used to calculate the net present value of future pension payments. This change has no impact on the usable financial reserves of the Council.

1.9 **Presentational**

1.10 There are no significant format changes from the previous year.

1.11 The Accounts closing team have taken full consideration of the issues raised in the 2018/19 audit and made arrangements to ensure every issue raised is reviewed in detail and steps are in place to improve the process to reduce such errors.

1.12 Following approval of the recommendations by this Committee, the accounts and Letters of Representation must be signed by the Chair of the Committee and the Chief Financial Officer.

2. Accounting Policies

The Audit Committee meeting of 28th January 2020 noted the accounting policies to be applied to the financial year 2019/20, and these are reflected in the draft Statement of Accounts. The accounting arrangement around the group has been applied to consolidate Mercury Land Holdings within Havering's accounts as per last year along with the three joint venture arrangements for the first time.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

As stated above the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020/404 amended the timetable for Local Authority accounts.

The guidance letter accompanying the Regulations from MHCLG dated 22 April stated the effect of the amendments as follows:

"The publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies.

The Authority has failed to approve and publish the final, audited Accounts within the extended statutory timetable for the reasons set out in the Report. The consequences of this failure, if any, can be mitigated by approving the Accounts now, albeit late.

Otherwise there are no apparent legal implications in adopting the recommendations set out in this Report.

Human Resources implications and risks:

Not applicable.

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, 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.

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Havering Pension Fund
Audit results report

Year ended 31 March 2020

24 February 2021

Havering Pension Fund

24 February 2021

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 audit conclusion in relation to the audit of Havering Pension Fund for 2019/20.

At the date of this report our audit of the Fund's accounts for the year ended 31 March 2020 is substantially complete, subject to concluding the outstanding matters listed in our report. We anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. The Covid-19 pandemic has impacted the Pension Fund's financial statements and also the scope of audit procedures we were required to perform as outlined in our Audit Planning Report.

We would like to thank your officers for their assistance during the audit given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you, as well as provide a verbal update, at the Audit Committee meeting on 24 February 2021.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

Yours faithfully

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

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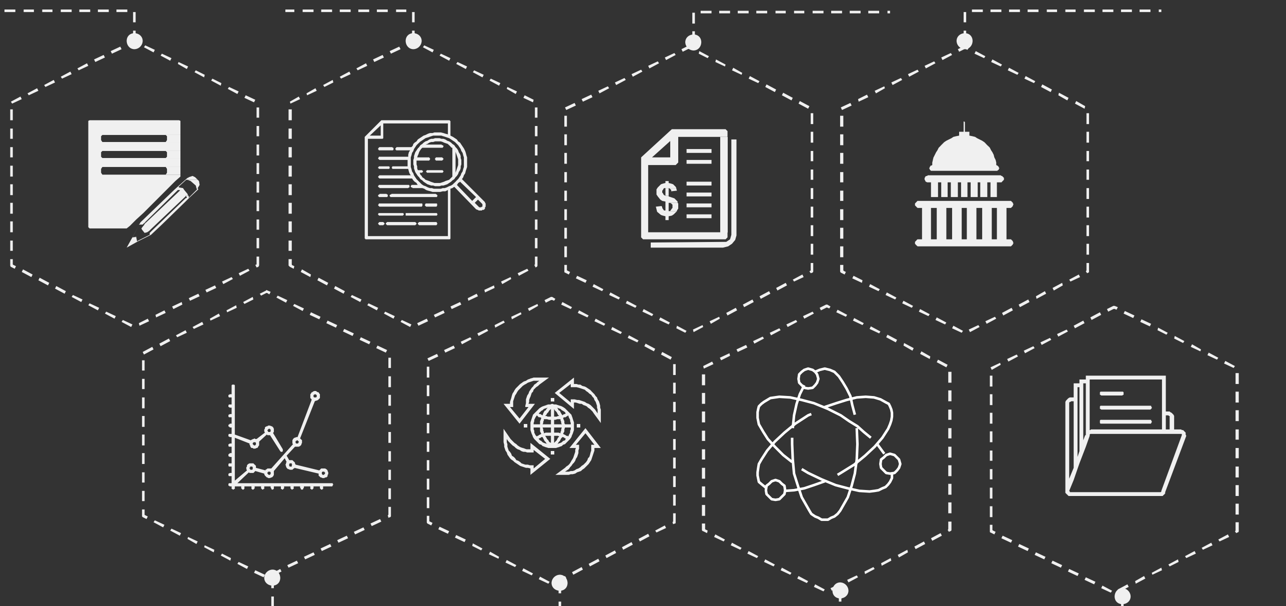
Contents



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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the Audit Committee meeting on 28 July 2020, we provided you with an overview of our audit scope and approach for the audit of the Pension Fund's 2019/20 financial statements. The Covid-19 pandemic has impacted both the scope and delivery of the Pension Fund's financial statement audit for the year end 31 March 2020. The key changes were outlined in our Audit Plan. We have delivered our audit as outlined in our Plan with the following updates.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. The updated materiality figures are set out below.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the prior year's net assets, consistent on 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 related to the primary statements (net asset statement and fund account) greater than 5% of planning materiality
Planned	£7.33 million	£5.5 million	£0.37 million
Final	£7.28 million	£5.46 million	£0.36 million

Executive Summary

Status of the audit

We have substantially completed our audit of Havering Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan.

Subject to satisfactory completion of the outstanding items noted in Appendix B of this report, we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Audit differences

To date we have identified audit differences totalling £2.9 million, in relation to investment valuations. Management's view is that this difference is not material to the Pension Fund accounts, and they have therefore elected not to make the amendments.

Our audit has also identified a small number of disclosure differences which management has agreed to adjust. We include further details in Section 4

Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error – Incorrect posting of journals relating to investment income and assets	We have completed our audit procedures in relation to this risk and we have found no indications of misstatements due to fraud or error as a result management override of controls. We have no issues to report.
Valuation of complex investments (Level 3 investments including pooled property funds)	We have completed our audit procedures in relation to this risk and we have identified an audit difference totalling £2.9 million in respect of investment valuations as at 31 March 2020.

Other area of audit focus	Findings & conclusions
Going concern disclosures (to reflect the impact of Covid-19)	We are currently completing our going concern procedures. This includes, reviewing the evidence provided (going concern assessment including cash flow forecast) and accompanying disclosure for the financial statements, to ensure they reflect the impact of Covid-19. We will also consult internally on the adequacy of the going concern disclosures.
Disclosures of events after the balance sheet date (in context of Covid-19)	We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.

Executive Summary

Areas of audit focus (continued)

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 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.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Other reporting issues

We are required to give a consistency opinion on the Pension Fund's Annual Report. Our final review and consistency check procedures, comparing the Pension Fund's Annual Report to the Pension Fund's financial statements, are currently in progress. We anticipate that we will have no matters to report in relation to this.

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?

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 concluded that the main area where management override may occur is the incorrect posting of investment journals posted into the general ledger. We have outlined our response to this risk on the next slide.

What judgements are we focused on?

In addition to the standard areas of risk related to fraud and error we have identified management override of controls relating to the posting of journals relating to the valuation of investment assets, as the main area of risk.

What are our conclusions?

Based on our procedures performed to date, which are substantially complete:

- 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 other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

What did we do?

In order to address this risk we:

- Identified potential fraud risks during the planning stages of the audit
- Made inquires of management about risks of fraud and the controls put in place to address those risks.
- Made inquires of those charged with governance to understanding the oversight given in management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks which included:
    - Testing of journal entries and other adjustments in the preparation of the financial statements,
    - Review of material estimates for evidence of management bias,
    - Review of any significant unusual transactions for the Pension Fund.

Significant risk

Misstatements due to fraud and error: Incorrect posting of investment valuation journals

What is the risk?

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 did we do and what judgements did we focus on?

In respect of year end investment valuations and investment income journal entries we have:

- Verified agreement of the Custodian's valuation report to that of individual Fund Manager valuation reports for the pension fund's investment assets valuations as of 31 March 2020 and investment income recognised during 2019/20
- 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?

We did not identify any differences between the valuation of investment or investment income, as recognised in the Pension Fund's net asset statement and fund account, and independent third party valuation reports. We are therefore satisfied that there is no evidence of incorrect posting of investment valuation and investment income journals for the year end 31 March 2020.

Significant risk

Valuation of complex investments (Level 3 investments including pooled property funds)

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.

Covid-19 has created an uncertain economic environment immediately prior to the Pension Fund's reporting date of 31 March 2020. As a result, the valuation of these complex investment assets as of 31 March 2020 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.

What did we do and what judgements did we focus on?

To gain assurance over the valuation of complex investments, for a sample of Level 3 investments, including pooled property funds we have:

- Made enquiries of the Pension Fund and it's Investment Managers to understand how the valuation impact of Covid-19 has been assessed.
- Reviewed the basis of valuation for level 3 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.
- Reviewed the latest audited financial statements of the investment funds to corroborate net asset values used in determination of investment valuations.
- Performed analytical procedures, in light of Covid-19, to verify the valuation output (from fund managers) 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.

Significant risk

Valuation of complex investments (Level 3 investments including pooled property funds)

What are our conclusions?

We have identified audit differences with a net impact of £2.9 million, in relation to the valuation investment assets. Management have chosen not on amend these based on their assessment that these differences are not material to the Pension Fund accounts.

Consideration of the potential impact of Covid-19 on the valuation of Level 3 investment assets including pooled property funds

- The Royal Institute of Chartered Surveyors (RICS) issued guidance in light of Covid-19 advising the use of a material valuation uncertainty clause in 31 March 2020 valuations due to the uncertainty associated with the market value of property. Upon the receipt of the draft 2019/20 financial statements it was confirmed that such material valuation uncertainty clauses have been included across some of the pooled property funds included in the Pension Fund financial statements.
- The value of the pension fund's Level 3 investments, including pooled property funds, as at 31 March 2020, was £133.7 million (18.9% of the pension fund's total net assets).
- We will need to consult on whether we need to include an 'Emphasis of Matter' paragraph in our audit report in respect of the material uncertainty disclosures included by valuers regarding the valuation of property assets due to the impact of Covid-19 as at 31 March 2020. We have highlighted this within an 'Emphasis of Matter' paragraph within our Audit Report and through enhanced disclosures in Note 5 and 14. This assessment is based on a sensitivity analysis that indicates that there would need to be a 5.4% change in value of level 3 investments for there to be a material impact of the pension fund's financial statements. As such we consider that there is a potential impact of Covid-19 of the pension fund's level 3 investment asset valuations.

Areas of Audit Focus

Going concern disclosure

What is the risk?

We have identified a risk regarding the impact of the Covid-19 pandemic on the Pension Fund and the adequacy of related going concern disclosures. Considering the financial position of the Pension Fund we do not believe this as a significant risk, but is an area of audit focus.

There is presumption that the Pension Fund accounts should be prepared on a going concern basis under CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. Covid-19 has however created a number of financial pressures and uncertainties throughout local government and the wider economy that could directly impact the Pension Fund. As a result the Pension Fund needs to undertake a more detailed going concern assessment and provide an expended disclosure in it financial statements.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, also 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. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Pension Fund's assessment will also need to cover this period, which for the current year will therefore extend to December 2021.

What did we do and what are our findings

The Pension Fund's draft accounts included limited disclosure in respect of going concern. The Pension Fund have provided a revised going concern disclosure and supporting assessment, including cash flow forecast analysis.

We have yet to conclude our review of this updated disclosure, assessment and cash flow forecast. As part of this work, we will consider:

- the impact on the carrying value of Fund assets;
- the level of reliance on investment income to pay benefits; and
- the ease and speed with which investment assets can be converted to cash if necessary to support liquidity.

Once we have completed these procedures we are required to consult internally on the conclusion from this assessment and the adequacy of the disclosure in the financial statements.

Areas of Audit Focus

Events after the balance sheet date

We have also identified a risk regarding disclosures of events after the balance sheet date relating to the impact of the Covid-19 pandemic on the Pension Fund. As the Covid-19 lockdown was a pre balance sheet event we did not identify this as a significant risk, but an area of focus.

The Pension Fund is required to disclose material events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Covid-19 has resulted in unprecedented circumstances and economic uncertainty on the global markets. Therefore, it is important that the Pension Fund gives due consideration to the disclosure of events after the reporting date within their financial statements. Examples of notable subsequent events include significant movement of investment asset valuations since 31 March 2020 or if there are significant problems with admitted bodies making pension contributions.

We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.

03 Audit Report

Draft Audit Report

Our draft opinion on the financial statements is subject to final EY consultation

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING – DRAFT

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2020 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 2019/20.

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 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 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.

Emphasis of matter – Pooled property funds

We draw attention to Note 5 – Assumption made about the future and Other Major Sources of estimation uncertainty and Note 14 – Analysis of Investments, of the financial statements, which describe the valuation uncertainty the Pension Fund is facing as a result of COVID-19 in relation to pooled property funds. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the "Statement of Accounts 2019/20", other than the London Borough of Havering and London Borough of Havering Pension Fund financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

Audit Report

Our opinion on the financial statements

Matters on which we report by exception

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

We have nothing to report in these respects.

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Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts set out on page 17, the Chief Operating 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 2019/20, and for being satisfied that they give a true and fair view.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of London Borough of 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 Pension Fund and the London Borough of Havering 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.

Summary of unadjusted and adjusted differences

We highlight misstatements greater than £0.36 million which have been identified during the course of our audit.

<u>Unadjusted Audit Differences</u>

Valuation of investments:

We have identified audit differences in relation to the valuation of level 3 investment assets as of 31 March 2020, with a net impact totalling £2.9 million.

This audit difference has arisen due to the fact that the valuations included within the Pension Fund’s accounts are based on estimated values. As part of our audit we have obtained and considered the most recently available information for the valuation of level 3 investment assets as of 31 March 2020. This has identified a net reduction in the value of investment assets of £2.9 million. It is likely that this reduction is due to the impact of Covid-19.

<u>Adjusted Differences</u>

Our audit also identified a limited number of minor disclosure misstatements mostly relating to the narrative of 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.

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 financial and non-financial information in Havering Pension Fund Annual Report with the audited financial statements. This work is substantially complete and is subject to final review. We anticipate that we will have no matters to report in relation to this matter.

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 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 Fund’s financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report dated 28 July 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 February 2021.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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 table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As 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.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan and subsequent reporting to the Audit Committee, we have communicated our proposal to increase the scale fee for 2019/20 to £55,000. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals but does include an estimate of the fee increases due to the additional audit procedures we have taken due to changes in the scope of our work and risks identified as outlined in this report. On completion of the audit we will finalise our fees and provide supporting details to the Chief Finance Officer for agreement. Any fee increases in relation to Code work also need to be approved by PSAA.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	16,170	16,170	16,170
Additional work and associated fees:			
IAS 19 Assurance Work – annual approach (note 1) - non Code work	8,000	TBC	5,500
Triennial Review Procedures (note 2) – non Code work	3,000 - 4,000	-	-
Going concern and PBSE assessments and disclosures, including EY consultations (note 3)	4,000 - 8,000	-	-
Total indicative Pension Fund fee	31,170 – 36,170	TBC	21,670

Fee analysis

Notes

1. The auditors of London Borough of Havering request IAS 19 assurances over information that the Pension Fund submits to the actuary on an annual basis to inform the Council's IAS 19 pensions results report. As auditors of the Pension Fund, we perform the assurance procedures requested and report, via an assurance letter, back to the auditors of London Borough of Havering. The scope of these procedures are not include in the PSAA base scale fee and is non code work.

2. We reported in our Audit Plan that as a result of the triennial valuation of the Pension Fund, we would be required to undertake additional testing of membership data submitted to the actuary on a triennial basis. This work is complete (subject to Manager and Associate Partner's review) and we will quantify the final fee on completion. This is again non Code work.

3. We noted in this report that we needed to carry out additional work to review, assess and challenge the Pension Fund's going concern assessment and associated disclosure, as well as events after the reporting period disclosures. We have also had to consider the impact of the material uncertainty referred to in relation to the valuation of the Funds poled property assets and whether we need to include an emphasis of matter in relation to this in our audit report. We also highlighted that to ensure that we are giving the appropriate level of assurance to the Pension Fund, EY have put in place a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services Remuneration advisory services Internal audit services Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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 year end 30 June 2020: https://www.ey.com/en_uk/who-we-are/transparency-report-2020

08 Appendices

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

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Membership data testing	We selected a sample of 125 fund members to test to inform our work on the triennial valuation – this work is complete subject to review by Manager and Associate Partner	EY
Going concern	We are currently completing our going concern procedures, which may result in further queries for Management. We also need to undertake internal consultation on the adequacy of going concern disclosures	EY and Management
Level 3 Investments and Journals testing	Work completed subject to clearance of review notes from Manager and Associate partner review.	EY
Final version of the Financial Statements	Review of the final version of the financial statements; Completion of final consistency checks between the Pension Fund's Annual Report and the London Borough of Havering full Statement of Accounts pack, which includes the Pension Fund's financial statements	EY and Management
Conclusion procedures	This is currently in progress	EY
Clearance of queries arising from review by Associate Partner and Manager	In progress	EY
Management representation letter	To be sent by EY and signed by Management once audit complete	EY and Management
Completion of subsequent events review	Procedures to be performed up to the date of signing	EY and Management

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 July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report July 2020
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 February 2021

Appendix C

Required communications	What is reported?	Our Reporting to you 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 February 2021
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 February 2021
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 February 2021
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 February 2021

Appendix C

		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 February 2021
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.	Audit planning report July 2020 Audit Results Report February 2021
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 July 2020 Audit Results Report February 2021

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 February 2021
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 February 2021
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 February 2021
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report February 2021

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Appendix D

Regulatory update

There have been a number of recent regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on London Borough of Havering Pension Fund
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. • Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard 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.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. • We do not undertake any non-audited services for the Fund.

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London Borough of Havering
Audit results report

Year ended 31 March 2020

24 February 2021

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Building a better working world

24 February 2021

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 preliminary audit conclusion in relation to the audit of the London Borough of Havering for 2019/20.

As set out on pages 5 and 6, a number of issues have arisen as a result of Covid-19 which impacted on our audit. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Although we are proposing no qualifications or modifications to our audit report, we do need to consider whether we need to include in our audit report an emphasis of matter which draws attention to the disclosures included in the Council's financial statements as a result of Covid-19. These include assertions on going concern and material uncertainty expressed by the Council's professional valuer on the valuation of the Council's other land and buildings and investment property in response to the uncertain market conditions as at the balance sheet date. We need to consult internally on this issue.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 February 2021.

Yours faithfully

Debbie Hanson

Associate Partner
For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 (updated April 2018)’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report, presented at the 28 July 2020 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 reporting timescales - As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited financial statements from 31 July to 30 November 2020 for all relevant authorities.

Changes to the scope of our audit as a result of Covid-19 – In addition to the impacts from Covid-19 detailed in our Audit Planning Report, we set out the following changes to our risk assessment:

Changes to significant and higher inherent risks

- Valuation of land and buildings (part of the property, plant and equipment balance in the accounts) and investment property – The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impacts, in particular, on investment properties and any other land and buildings valued at fair value due to the uncertainty over the future of rental income and predicted yields. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings and investment property. We had already identified the valuation of investment property as a significant risk and the valuation of land and buildings as a higher inherent risk in our Audit Planning Report.

One other area to bring to your attention as a result of Covid-19:

- Adoption of IFRS 16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. This is therefore not an area of audit focus for 2019/20.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of 1.8% of gross expenditure, we recalculated our overall group materiality assessment and this remains at £10.3 million (Audit Planning Report – £10.3 million). Our performance materiality, at 75% of overall materiality therefore remains £7.7 million and our threshold for reporting misstatements also remains £0.518 million.

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.

Scope update

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19:

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. In addition, following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, EY (in common with other firms) introduced a rigorous consultation process for all auditor reports to ensure that we are providing the appropriate assurance to the readers of financial statements.

We have noted the impact of the above issues on our audit fee at Section 9.

Executive Summary

Status of the audit
We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report as set out in Section 2. We have set out in Appendix B the areas that remain to be completed and the reasons. Based on the work completed to date, we have not identified any issues that would lead to a qualified audit opinion. However, until all of our work and Associate Partner review has been completed, and we have completed our consultation processes in relation to the impact of Covid-19 on financial statement disclosures, we are not able to confirm the final form of our audit report. We are currently consulting internally on whether our audit opinion will need to include emphasis of matter in relation to the following areas. An emphasis of matter is not a modification or qualification of our audit report and merely directs a reader's attention to a disclosure in the Council's financial statements: Going concern disclosure: There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over local government funding as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience, and to include commentary in the financial statements about the risks and uncertainties regarding its financial position. Management included disclosure in relation to the preparation of the accounts on a going concern basis within the draft financial statements. We reviewed this disclosure and asked the Council to expand the disclosure. We are currently completing our review of these updated disclosure and our associated going concern procedures. This includes review of supporting working papers and challenge of the assumptions underpinning management's assessment, as well as consulting internally on the adequacy of these disclosures. Land and buildings and Investment property valuations: The Council's valuers have followed the RICS guidance and included material uncertainty statements in their valuation reports for the year ended 31 March 2020. Following our review of the draft financial statements, the Council has amended the disclosure relating to estimation uncertainty to make reference to this material uncertainty. We are currently reviewing this amended disclosure and supporting information. We will also need to consult internally on the adequacy of this disclosure and whether we need to include an emphasis of matter in our audit report in relation to the material uncertainty included in the valuers report and the reference to this in the Council's financial statements. We have carried out procedures to satisfy ourselves that the land and building and investment property valuations within the Council's financial statements are supportable and not materially misstated.

Executive Summary

Audit differences

To date, we have identified two reclassification adjustments, one of which has been adjusted by management and one which management have chosen not to adjust due to materiality. The net impact of the reclassifications identified in the accounts were both nil. Further details are provided in Section 4.

Further differences may arise in relation to the outstanding areas noted in Appendix B. An update will be provided to the Audit Committee on any new differences identified subsequent to the release of this report.

We have also identified a small number of disclosure differences which management has agreed to amend.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	At the time of writing, the work on journals and estimates are still ongoing. We will provide a verbal update during the Audit Committee concerning this matter.
Incorrect capitalisation of revenue spend	We have completed our audit work on capital additions and have not identified any misstatements.
Valuation of investment properties	We have identified, verified and tested the significant assumptions used by the Council's valuer with the assistance of our specialist, EY Real Estates team, and identified no issues. Following our review of the draft financial statements, the Council amended the disclosure relating to estimation uncertainty to make reference to the material valuation uncertainty included in the valuers report. We are currently reviewing this amended disclosure and supporting information. Once completed we will need to consult internally on the associated disclosures included in the accounts and the potential emphasis of matter in our audit report in relation to this disclosure.
Valuation of land and buildings	We have completed our review of land and building valuations, including a review of assets not revalued in year. We have not identified any material misstatements based on the work completed. This is subject to review by Manager and Associate Partner. In the same way as for investment properties, we are reviewing the amended disclosure and supporting information relating to the material valuation uncertainty included in the valuers report and will need to consult on the associated potential emphasis of matter in our audit report.
Pensions liability valuation	We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. We confirmed that the changes to the arrangements did not have a material impact for the London Borough of Havering for the year ended 31 March 2020. We have not yet received the formal assurance report from the Havering Pension Fund Auditor. However on the basis of the information we have been provided with to date, we have considered the impact of the difference in the valuation of investments asset values reported by the Pension Fund Auditor which are due to the values in the pension fund accounts being based on the actuary's estimate. We are satisfied that the impact of these differences is not material to the Council and the pension liability is therefore materially accurate.

Executive Summary

Areas of audit focus	
Our Provisional Audit Planning Report and Update identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.	

Risk	Findings & Conclusions
Accounting for the Council's regeneration assets	We have completed our work in this area and have not identified any issues.
Group financial statements	Our work on confirming the material accuracy of the group consolidation is largely completed, and are currently concluding on the consolidation reclassification in the Council's Group accounts. We are also waiting for some assurances and responses from the auditors of Bridge Close.
Going concern disclosure	Management included a going concern disclosure within the draft financial statements in Note 1, Accounting Policies. We have reviewed the initial disclosure and requested that management made a number of enhancements to this. We are currently completing our review of the updated disclosure and our associated going concern procedures. This includes review of supporting working papers and challenge of the assumptions underpinning management's assessment. Once complete we will need to consult internally on the adequacy of these disclosures and whether we need to include an emphasis of matter to draw attention to the disclosure. This is not a modification or qualification to our audit opinion.

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We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the committee.

Executive Summary

Control observations

We have identified one control issue which we wish to bring to your attention related to the proper maintenance of contract registers. Our testing identified a number of contracts that had been extended but we were unable to agree the total amount of these contracts in the contract registers. There was also a contract which had no completion date included in the contract registers. We recommend that the Council reviews its processes for maintaining and updating its contracts register to ensure information is accurate and complete.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report, we noted that we had identified significant risks in relation to:

- Financial planning and the achievement of savings in the medium term; and
- The governance of the regeneration schemes being delivered through the joint ventures;

We have completed our work on these areas and have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. We have however noted some areas for improvement as included in Section 5.

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.

Alongside our work on the financial statements, we will also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. The Council is above the £500 million threshold for review in line with the NAO's group instructions. We will complete our work on the WGA return once we have concluded our audit of the financial statements. We are not able to issue our certificate of conclusion of the audit until we have completed this work.

Independence

Please refer to Section 9 for our update on Independence.

02 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;
- 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 of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates, such as the provisions for the impairment of bad debts and business rates appeals, for evidence of management bias, and evaluating the business rationale for any significant unusual transactions.

What are our conclusions?

Our testing of journals and estimates is ongoing at the time of writing. We will provide a verbal update during the Audit Committee concerning this matter.

We have also tested other material estimates such as the pensions liability and land and building and investment property valuations and have not identified any issues with these estimates

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?

We:

- Sample tested additions to property, plant and equipment and investment property to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- Reviewed and tested Revenue Expenditure Funded from Capital Under Statute (Refcus), to verify that revenue costs have not been inappropriately funded from capital.
- Tested year end journals which move expenditure from revenue to capital.

What are our conclusions?

We have completed our work on additions and Refcus and have not identified any expenditure that were incorrectly capitalised.

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.

Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields.

As this balance is material, we have identified the risk of material misstatement of the value of these assets as a significant risk in the Council's 2019/20 financial statements.

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;
- 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;
- Ensured that appropriate disclosure had been made in the financial statements concerning the material uncertainty relating to year end valuations; and
- Engaged our internal valuation experts to assist in our review of whether the key assumptions in relation to the valuation of investment property are within an acceptable range based on comparative market data.

What are our conclusions?

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.

The Council's external valuer, Wilks Head & Eve (WHE) have reported on the basis of 'material valuation uncertainty' as per VPS 3 and VGPA 10 of the RICS Red book Global. Consequently, less certainty- and a higher degree of caution attached on their review and valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, WHE recommended to keep the portfolio's valuation under frequent review.

We have identified, verified and tested the significant assumptions used by the Council's valuer with the assistance of our specialist, EY Estates Real Estates. All significant assumptions and values are found to be supportable and the resulting valuations within range.

We also considered the adequacy of the disclosure in the draft accounts as a result of the material uncertainty clause referred to above. We requested amendments to this disclosure to make reference to this and are currently reviewing the updated disclosure. We will need to consult internally in relation to this disclosure and the potential emphasis of matter in our audit report in relation to this. For clarity, this is not a modification or qualification to our audit opinion.

Other areas of audit focus

What is the risk/area of focus?

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.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuer.

We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings.

What did we do?

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 2019/20 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.
- Carried out procedures to satisfy ourselves that the property valuations are reasonable in light of the material uncertainty statements in their valuation reports for the year ended 31 March 2020, including engaging our own internal valuation experts to review a sample of valuations.
- Requested enhanced disclosure around this material uncertainty to be included within the estimation uncertainty note in the Council's financial statements.

We have completed the work above and our findings are set out on the following slide.

This work is still subject to Manager and Associate Partner review.

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 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 2019/20 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. The work is currently in review with Manager and Associated Partner.

We note that the Council's valuations were undertaken as at November 2019 and we have therefore undertaken additional procedures to gain assurance that there are no material changes to asset values as at 31 March 2020. This is particularly relevant in light of the potential impact of Covid-19 on land and building values and the RICS guidance on material uncertainty disclosures to be included in valuation reports relating to 31 March 2020 valuations. Based on the procedures we have undertaken, we are satisfied that the property valuations are reasonable in light of the material uncertainty statement in the valuation reports for the year ended 31 March 2020.

We have asked the Council to enhance its disclosure around the valuers material uncertainty within the estimation uncertainty note in the Council's financial statements. The Council has provided an updated disclosure which we are currently in the process of reviewing to confirm its accuracy.

We are also consulting internally in relation to the adequacy of these disclosures and the associated potential emphasis of matter in our audit report. For clarity, this is not a modification or qualification to our audit opinion.

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 2020, this totalled £423 million (31 March 2019 - £539 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.

An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Havering Pension Fund. For example private equity investments, where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.

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.
- Considered the movement in fund asset values between the actuary's estimate and year end.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

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 considered the Council's response to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April 2015 to be eligible for remedy.

Our EY Pensions team has reviewed the approach taken by the Pension Fund actuary, Hymans Robertson, and confirmed that they would expect the McCloud impact to be close to nil due to the salary increase assumption being equal to the CPI. We are therefore satisfied that the IAS 19 report used in the preparation of the draft financial statement is based on appropriate assumptions. We have also considered the impact of another recent legal ruling (referred to as Goodwin) and are satisfied based on the current guidance we have that the impact of this is not material to the Council's financial statements. Therefore no adjustments are required.

We will also consider the assurance report from the Havering Pension Fund Auditor once finalised. Based on the information we have received to date, we have considered the impact of the difference in the valuation of investments asset values reported by the Pension Fund Auditor which are due to the values in the pension fund accounts being based on the actuary's estimate. We are satisfied that the impact of these differences is not material to the Council and the pension liability is therefore materially accurate.

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
Accounting for the Council’s regeneration assets Our 2018/19 Audit Results Report noted that our testing of property, plant and equipment identified a number of significant audit differences which resulted in material errors in the draft financial statements. These differences arose as a result of the Council failing to appropriately consider the implications of assets subject to re-development as part of the significant regeneration project being undertaken throughout the borough on the classification and valuation of assets and failing to inform the Council’s valuer of the full facts and circumstances relating relevant to the valuation of those assets. The Council’s regeneration programme has continued during 2019/20 and therefore there is a risk that changes in the status of assets and resulting valuation will again be material.	We: • Identified those assets relating to the Council’s regeneration programmes; • Considered the classification of these assets to confirm this is in line with their current usage and CIFPA Code requirements; • Ensured the valuation basis adopted is appropriate; and • Reviewed the associated accounting treatment. Our work did not identify any issues.
Group financial statements The Council has entered into three Joint Venture 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 will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria). If they are consolidated as this will be the first year of consolidation for the joint ventures there is a risk that they may not be prepared accurately.	We: ➢ Considered the Council’s assessment of whether these arrangements should be reflected within its group financial statements and agreed with the Council’s assessment to consolidate the three joint venture arrangements ➢ We reviewed the associated disclosures in the financial statements and concluded they were appropriate. Our work on confirming the material accuracy of the group consolidation is largely completed, and are currently concluding on the consolidation reclassification in the Council’s Group accounts. We are also waiting for some assurances and responses from the auditors of Bridge Close.

Other areas of audit focus (continued)

What is the risk/area of focus?

Going concern disclosures

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis.

However, International Auditing Standard 570 Going Concern, 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. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What did we do?

We have:

- Reviewing management's going concern assessment in the draft financial statements. We asked management to make a number of amendments and enhancements to the disclosure, in particular to include reference to the estimated future levels of reserves and cash and liquidity. Management have provided an updated assessment which includes this information.
- 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

We are currently in the process of completing our:

- Review, testing and challenge of supporting evidence provided by management to assess the reasonableness of projections of the financial impact of Covid-19 on the Council in 2020/21 and 2021/22.
- Testing and assessing the reasonableness of the Council's cash flow forecasts to March 2022.
- Checking the levels of current and proposed borrowing against the Prudential Borrowing Limit to confirm that the Council plans to remain within that limit;
- Stress testing and undertaking sensitivity analysis on the Council's assumptions, taking into account the levels of additional expenditure and lost income in 2020/21.

At the time of writing, we are currently completing our going concern procedures as noted above. Once complete we will need to consulting internally on the adequacy of going concern disclosures and whether our audit report needs to include an associated emphasis of matter in relation the this matter. We will update the Committee if any further matters arise as a result of the consultation.

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 - DRAFT

Opinion

We have audited the financial statements of London Borough of Havering for the year ended 31 March 2020 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
- the Collection Fund and the related notes 1 to 3

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and Group as at 31 March 2020 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 2019/20

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 London Borough of Havering 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 (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.

Emphasis of matter, Material Uncertainty on valuation of Property, Plant and Equipment and Investment Properties (if required)

We draw attention to Note 3 to the financial statements which describes the consequences London Borough of Havering is facing as a result of COVID-19 impacting disclosures of an uncertainty in the valuation basis for Property, Plant and Equipment and Investment Properties. Our opinion is not modified in respect of this matter.

Emphasis of matter – Going Concern (if required)

We draw attention to Accounting Policies, Note 1 - Going Concern section of the financial statements which describes the financial and operational consequences London Borough of Havering is facing as a result of COVID-19 and the additional cost pressures that this presents. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Audit Report

Our opinion on the financial statements

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

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Audit Report

Our opinion on the financial statements

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities set out on page 17, the Chief Operating Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Audit Report

Our opinion on the financial statements

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. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Delay in certification of completion of the audit

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

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 London Borough of Havering and 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.

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted in Appendix B of this report. An update will be provided to the Committee new differences identified, if any subsequent to the release of this report.

Summary of adjusted differences

We identified the following audit adjustments that have been adjusted through the course of our audit based on the work completed to date.

The reclassification of changes in the value of investment property amounting to a £1.352 million reduction in value: currently classified under ‘Other Service Expenditure’ which should be classified under ‘Interest and Investment’. The net impact of the reclassification in the overall surplus is nil.

We also identified some disclosure adjustments and management has agreed to amend for all disclosure adjustments.

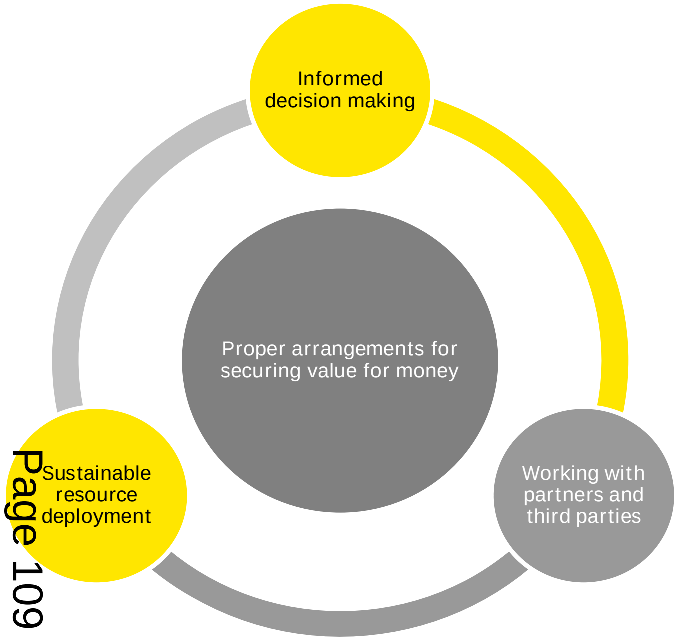
Summary of unadjusted differences

We have identified the following audit differences in the financial statements and/or disclosures which were not corrected by management based on our work completed to date.

A reclassification of payment of £0.6 million relating to Health Authority Debtors that was credited to Other Sundry Debtors. The net impact of the reclassification to Debtors accounts is nil.

05 Value for Money

Value for Money



Background

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. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of Covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 value for money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 value for money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 value for money arrangements conclusion.

Overall conclusion

We identified the following areas as potential significant value for money risk in our Audit Plan:

- Financial planning and the achievement of savings in the medium term.
- The governance of the regeneration schemes being delivered through the joint ventures.

Following completion of our planning procedures we concluded that financial planning and the achievement of savings in the medium term was not a risk.

We considered the updated guidance from the NAO and did not identify any additional risks as a result of Covid-19

We have completed our work to address the risk of the governance of the regeneration schemes identified above as outlined on the following slides and have no issues to report in relation to the Council's arrangements for value for money.

Value for Money

What is the significant value for money risk?	What arrangements did the risk affect?
<u>Governance of the regeneration schemes being delivered through the joint ventures</u> In 2018, the Council entered into joint venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. Funding these schemes committed the Council to significant levels of borrowing. Given the significance of these decisions to the Council's strategic, operational and financial priorities, the effectiveness of the related governance and risk management arrangements is clearly important. The JVs had limited activity in the financial years prior to 2019/20 2018/19. Now that the levels of activity are increasing and will become highly material there is a risk that governance arrangements may not be adequate to protect and support the Council's strategic, operational and financial priorities. The effectiveness of the governance and risk management arrangements related to the operation and management of these JVs are critical.	• Take informed decisions; • Deploy resources in a sustainable manner; and • Work with partners and other third parties

What did we do?

We reviewed the arrangements relating to the three JVs to assess whether:

- the Council has proper governance arrangements, which give it access to appropriate and reliable financial and performance information relating to the housing regeneration schemes, which it uses to take informed decisions;
- the Council is working effectively with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e. affordable housing and income); and
- the Council's financial plans appropriately reflect significant changes to the funding / benefits expected from the housing regeneration schemes.

In undertaking our work we focused on Bridge Close, 12 Sites, Rainham and Beam

Value for Money

What is our conclusion?

The Council has put in place effective governance and risk management arrangements related to the establishment and management of the JVs

We did however note some areas for improvement in relation to the level of formal communication with Cabinet in relation to the issue with Bridge Close. The Council should consider ensuring that more regular formal communications and updates are provided to members on the progress o f the JV and any future issues that may arise.

We also noted that due to the annual financial planning processes of the Council it was not cleat how changes to the schemes which may have a future financial impact on the Council are taken into account in formal decision making throughout the year. The Council may therefore want to consider how the impact of such issues are reflected in the Council's medium term financial plans where significant issues emerge between the annual MTFS updates.

What are our findings?

Governance arrangements:

The Council has appropriate governance arrangements, with a robust governance structure in place to deal with its regeneration programmes. The Client Board and Regeneration Board have been specifically created to monitor performance and to ensure the right level of scrutiny of JV matters. There arrangements gave the Council access to detailed information which included both financial and non-financial data. The flow of the information between the different levels of the governance structure provides the Council with the ability to take informed decisions.

The governance structure in place to monitor the activity of the JV allowed for consistent communication and access to information through periodic meetings and discussions in relation to the issues with the Bridge Close scheme. Formal reporting to Cabinet on in relation to the Bridge Close issue during 2019/20 was however very limited, although there is evidence that regular briefings were provided for Members in the intervening periods to ensure Members were fully aware of the issues regarding the scheme. The governance structure in place to monitor the activity of the JV also allowed for consistent communication and access to information through periodic meetings and discussions, where the Council considered several remedies once the viability issue had been identified in relation to Bridge Close.

Value for Money

What are our findings?

Effectiveness of partnership working:

Our review showed the Council worked effectively with the JVs to deliver its objectives for the 12 Sites, Rainham and Beam projects. This was evidenced by a good record of communication and delivering the milestones as set by the regeneration objectives.

During 2019/20 however, difference emerged between the Council and the JV in relation to the visions and priorities for Bridge Close. These differences were clarified in September 2019 when a change to the housing mix was formally proposed by the JV to enable achievement of a more commercial margin. The Council considered several remedies once the viability issue had been identified. However, no solution was reached that would satisfy both the commercial expectations of the private sector partner and the Council's commitment to regeneration priorities. Cabinet approved the proposal to acquire one of the JV partner's interests in the JV through a nominee company and the Council has continued the Bridge Close Scheme in collaboration with this wholly owned nominee company.

The viability issues and the need to reconsider the delivery arrangements of the Bridge Close regeneration scheme, is an indication of ineffective collaboration with private sector partner in relation to this particular scheme. The evidence in relation to the other JV schemes however provides evidence of positive partnership working.

Financial management:

The Council updates its MTFS on an annual basis. The impact of the JVs on the MTFS is based on the regeneration scheme's Business Plan which is approved by the Cabinet an annual basis. The MTFS and Capital Strategy are therefore being updated annually in line with updated business plans

As a result of the annual basis of the updates to the MTFS, although Members and Officers were aware of the changes in the projected profitability of Bridge Close referred to above, these were not reflected in the MTFS. It is therefore not transparent how these changes were taken into account in formal decision making throughout the year. We are however aware that since the viability issue with Bridge Close was identified there was a large amount of communication on the issue. This indicates that the Council was fully aware of the issue and was considering the financial impact of different scenarios for the year 2020/21.

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 2019/20 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.

Financial information in the Council's Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

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 (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. The Council is above the £500 million threshold for review as per the NAO's group instructions. We will complete our work on the WGA return after we have concluded our audit of the financial statements.

We are not able to issue our certificate of conclusion of the audit until we have completed this work.

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 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;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no significant matters to report in relation to the above.

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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 one control issue which we wish to bring to your attention related to the proper maintenance of contract registers. Our testing identified, a number of contracts that had been extended but we were unable to agree the total amount of these contracts in the contract registers. There was also a contract which had no completion date included in the contract registers. We recommend that the Council reviews it's processes for maintaining and updating its contracts register to ensure information is accurate and complete.

08 Data Analytics

Data analytics

Analytics Driven Audit

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Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Council's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal entry analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

09 Independence

Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report in July 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 February 2021.

We confirm that we have undertaken non-audit work in relation to the certification of the housing subsidy grant claim. 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.

As part of our reporting on our independence, we set out here a summary of the fees due to us for the year ended 31 March 2020.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee – Code work	116,920 (note 2)	116,920
Scale fee variation	TBC (note 3)	27,853 (note 1)
Total including fee variation	TBC	144,773
Other non-audit services not covered above	12,000 (note 4)	18,500
Total fees	TBC	163,273

Independence

Confirmation and analysis of audit fees - continued

Note 1 - The final fee for 2018/19 includes a variation of £27,853 for to the additional work in relation our significant risks and the significant audit differences identified in relation to the valuation and classification of property, plant and equipment.

Note 2 – As set out in our Audit Plan Update, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. This results in an increase in the scale fee of £91,147. Our fees set out here do not include the scale fee review which is currently underway with PSAA to agree.

Note 3 – As also noted in our audit plan, for 2019/20, the scale fee will be impacted by a range of factors which are reflected in the risks noted in our Audit Plan and this Report. these include but are not limited to:

- Additional work to address the opinion risks which require additional audit procedures and the need to engage specialists in some cases. These include, but are not limited to the valuation of property and the net pension liability and accounting for the Council's regeneration assets.
- Work to address the value for money risks identified.
- Audit of the consolidation of the JVs into the group accounts.
- Additional work to consider and challenge the Council's going concern assessment.

Covid-19 has also impacted on the work we have had to undertake, in particular, we have had to undertake consultation associated with disclosures on the material uncertainties disclosed in relation to property valuations and going concern.

We will update the Audit Committee on the impact of these issues on the final fee once we have completed the audit.

Note 4 – The current year fee for non audit services relates to the certification of the housing subsidy grant claim of £12,000, In 2018/19 we also undertook the certification of the Teacher's pensions return amounting to £6,500.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, senior management and its affiliates, including all services provided by us and our network to your Council, 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 01 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

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Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Independence

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

10 Appendices

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.

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going concern	Currently completing our going concern procedures which may result in further queries for Management. We also need to undertake internal consultation on the adequacy of going concern disclosures	EY and Management
Investment property valuation	Internal consultation relating material valuation uncertainty raised by Council's valuer to investment property to be completed. Work in-review by Associate Partner.	EY
Property, plant and equipment valuation	Work completed and in-review by Manager and Associate Partner. Internal consultation also on-going as above.	EY
Pension liability	Work completed awaiting for clearance of review notes raised by Manager. On-going review process by Manager and Associate Partner.	EY
Journals testing & estimates	Journals testing is on-going. Work on estimates is complete and awaiting clearance of review notes raised by Manager. On-going review process by Manager and Associate Partner.	EY
Group financial statements	Work on group consolidation largely completed - currently concluding on the consolidation reclassification and awaiting assurances from Bridge Close auditor. On-going review by Manager and Associate Partner.	EY and Management
Substantive procedures and completing of work on various accounts	Investments – awaiting for confirmation from Lloyds Bank of the Investment balance Cash and cash equivalents – awaiting confirmation from Lloyds Bank of the bank balance Short term creditors – one query outstanding to complete the testing Unrecorded liabilities testing – required to be performed up to audit opinion date Payroll – queries on substantive analytical review of the balance outstanding Non-domestic rates provision – work currently in progress All other disclosures (Annual Governance Statement, Cashflow statements, all other immaterial notes, financial instruments, Expenditure and Funding Analysis) – work on these areas is largely completed Officers remuneration and exit packages – in-review by Associate Partner	EY and Management

Appendix B

Outstanding matters - continued

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Value for money	Conclude subject to final Associate Partner review	EY
Completion of procedures required for whole of government accounts	Work ongoing and submission of assurance statement to be undertaken	EY and Management
Conclusion procedures	Work currently in progress	EY
Clearance of queries arising from review by Associate Partner and Manager	In progress	EY
Receipt and checking the final version of the Financial Statements	Review of the final version of the financial statements	EY and Management
Management representation letter	To be sent by EY and signed by Management once audit complete	EY and Management
Completion of subsequent events review	Procedures to be performed up to the date of signing	EY and Management

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 – July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – July 2020
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 – February 2021

Appendix C

		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 Planning Report – July 2020 Audit Results Report – February 2021
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 – February 2021
Subsequent events	• Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – February 2021
Fraud	• Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • 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 Council, 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 – February 2021

Appendix C

		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 Council	Audit Results Report – February 2021
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.	Audit Planning Report – July 2020 Audit Results Report – February 2021

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We are still awaiting confirmations from Lloyds Bank for the Council's Bank account and Investment balances
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 – February 2021

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we request from management and/or those charged with governance	• Written representations we request from management and/or those charged with governance	Audit Results Report – February 2021
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 – February 2021
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – February 2021
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 – July 2020 Audit Results Report – February 2021
Certification work	• Summary of certification work	Audit Results Report – February 2021

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact
IFRS 16	• The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. In particular, full compliance with the revised standard for 2022/23 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2022 in order to identify: • all leases which need to be accounted for • the costs and lease term which apply to the lease • the value of the asset and liability to be recognised as at 1 April 2022 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2021/22 audit.

Appendix D

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Rochford District Council
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. • Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard 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.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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Havering
LONDON BOROUGH

Statement of Accounts 2019/20

CONTENTS

Dear residents,

Andrew Blake-Herbert, Chief Executive, London Borough of Havering

Havering as ever has had an eventful year – with many successes to celebrate but also the huge challenge presented by the Covid-19 pandemic.

We saw big progress towards our ambition to provide more affordable homes for local people. The demolition of Napier and New Plymouth Houses in Rainham and Solar, Serena and Sunrise Court in Hornchurch is underway as part of the 12 Estates project with our joint venture partner Wates Residential. Over the next 15 years, the 12 Estates project with Wates Residential and joint venture in Rainham with Notting Hill Genesis, will greatly increase the number of affordable homes for local people. We are committed to creating not only homes but communities, and each of these milestones bring us a step closer to achieving this.

At last year's budget, we agreed significant investment over four years to improve our roads and pavements. So far we have already fixed 26 miles of roads and pavements on a worst first basis. We have also fixed over 1,000 potholes.

Our extra investment of £400,000 for street cleaning has seen the frequency in residential streets increased from once every three weeks to fortnightly. Complaints of dirty streets in February were down 22% from the previous six months. We agreed £18.8 million of capital expenditure for more school places. New school extensions have been or are being built, providing new classrooms and more room for our growing population of young people.

Last year we pledged around £300,000 a year in policing over the next three years, to provide an increased police presence in the community. Through this investment we were able to fund five new police officer posts. They arrived in the Borough earlier this year and are now walking the Havering beat, helping to improve safety for our residents.

To support our commitment on leisure centres, £11.9 million was agreed. A new leisure centre will open in Hornchurch in early 2021 and we are progressing the planning for capital financing of a new leisure facility in Rainham. We are one of the few councils who are actually investing in leisure centres when others are cutting back.

We have again managed to operate within existing budgets, taking a prudent approach in keeping with Havering's reputation during what are increasingly challenging times. The Council has had to find ways to manage the demographic pressures of an ageing population and reduced government funding through developing innovative shared service arrangements and income generation opportunities.

Our work to create a more efficient council continued with an ambitious transformation programme. This included the launch of Smart Working – an investment in remote enabled IT that allows staff to work from anywhere.

What is clear now is the year ahead will be full of unknowns after the unprecedented challenge caused by Covid-19. This means our plans for the year ahead are being completely rewritten. The impact on the Council's budget has also been unprecedented. The Government have gone some way to supporting us and other councils financially, but the pandemic will still leave us with a huge challenge on how we balance the budget this year and in the years ahead.

As part of this, our staff have stepped up and we are proud of how everyone has responded, as have our voluntary sector and wider community. We have had to change the way we work making sure all remain safe with many working from home. At the same time, as leaders in the community, we will work with our partners, businesses and the wider community to support our borough through recovery.

The impact of Covid-19 on the Council has also accelerated our ambitious transformation programme, further embracing technology to run services in a different and more cost-effective way, taking into account different working practices. Covid-19 will have a long lasting impact on the Council, our residents and in how we deliver our services as we look to recovery. The year ahead is not without challenges and only together will we be able to make sure Havering remains one of the best places to live and work in.

Andrew Blake-Herbert,

Chief Executive, London Borough of Havering

2019/20: 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 explains how we plan to make a difference to the lives of people who live, work and learn in Havering. The plan informs the allocation of resources through our revenue budget and capital investments and creates the basis for the planning of services across the Council. Even now, the budget-setting process for Havering has started for 2021/22.

The Corporate Plan sets out the Council's vision and how the vision will be achieved through delivery of the four corporate priorities of Communities, Places, Opportunities and Connections. Each priority is put into practice by the development of target outcomes and action plans that link to these priorities. Key performance indicators are also created to monitor the progression of those plans and hopefully the eventual demonstration of success. It is important to recognise that not all plans will succeed but that has never stopped the resilience of Havering at re-thinking the old and piloting the new.

COMMUNITIES — **A helping hand**

Helping young and old fulfil their potential through high-achieving schools and by supporting people to live safe, healthy and independent lives.

PLACE — **Great place to live**

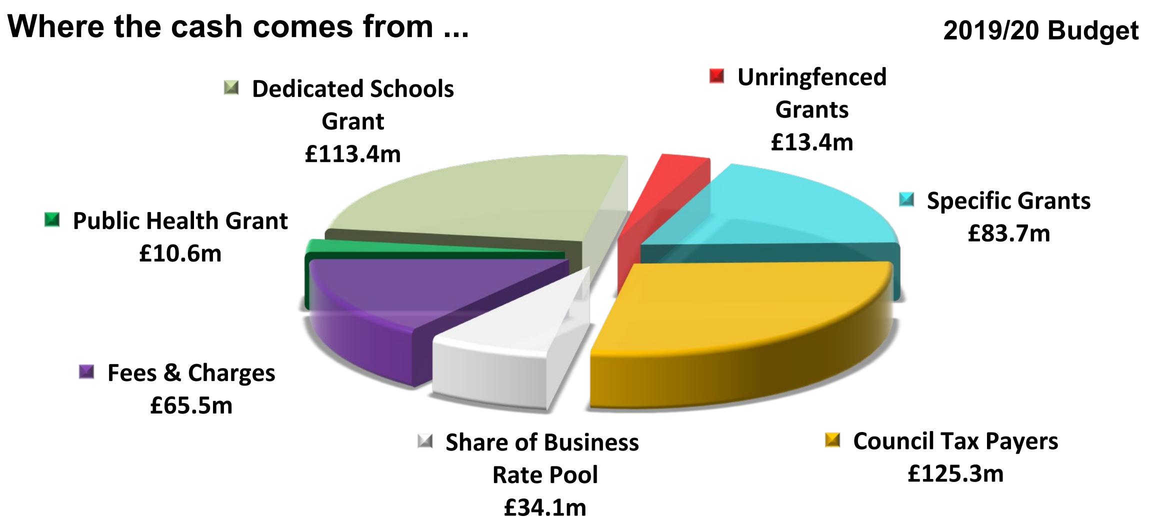
Making sure that our neighbourhoods are a great place to live by investing in them and keeping them clean, green and safe with access to quality parks and leisure facilities.

OPPORTUNITIES — **Making life better**

Helping people get on in life by creating jobs and skills opportunities and building genuinely affordable homes.

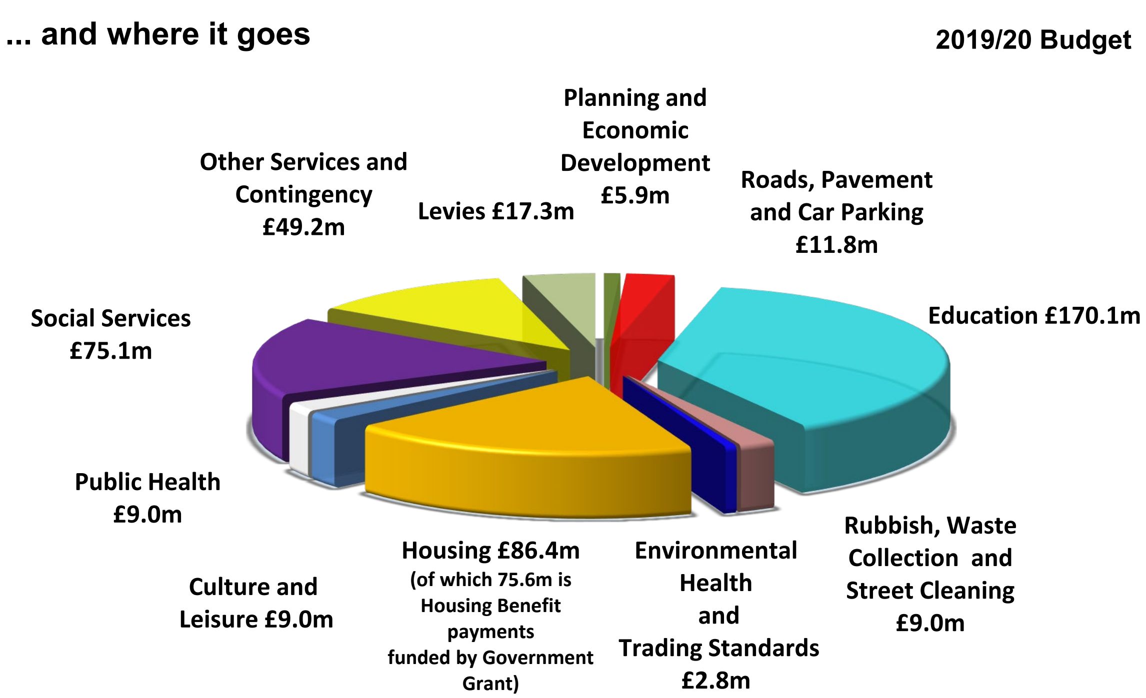
CONNECTIONS — **Making life easier**

Making it easier for people to get around and online by investing in road, transport links, faster internet and free Wi-Fi in town centres.



Cash In and Cash Out

Understanding the financial picture requires an understanding of where we receive our income and how we spend it. A historic source of funding that came without restrictions (Revenue Support Grant) had been phased out by 2019/20. Approximately half of the monies, such as Dedicated Schools Grant (£113.4m) 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 over £400m 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 is allocated based on the 2019/20 budget.



Pooling of Business Rates

Central Government intends to fundamentally reform the system for funding local government with the purpose of all local authorities moving to self-sufficiency, and this has been piloted through the introduction of business rates pooling arrangements. In 2019/20, all councils in London agreed to a 75% retention pooling arrangement with the Ministry of Housing, Communities & Local Government (MHCLG) with the Greater London Authority (GLA) acting as the lead body. The scheme helps to share the benefits of business rates growth locally.

It means if such schemes are successful, the Council will benefit by investing in the local economy and retaining local growth, allowing reinvestment in key services and infrastructure improvements. For 2019/20 a retention scheme of 75% was agreed with the central government (MHCLG), again with the GLA as lead for London Boroughs. Going forward into 2020/21 there has been a change to a 67% share on the London Pool retention scheme.

The recent Covid-19 virus has led to reductions in collectable NNDR income for 2020/21 due to additional allowances to businesses. This reduction in income will be taken in account with the medium term financial strategy as outlined below. Additional Government s31 grants will be received to offset some of the reductions in collectable NNDR and it is being established how much income will be received from the London Pool against the remaining potential income shortfall.

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 for setting a robust budget for 2019/20.

In February 2020 full Council agreed a balanced budget for 2020/21. The budget was set before the Covid-19 pandemic took hold in March and therefore was based on an assumption that the Council operations would be as in a normal year. The medium term financial gap was as set out in the table below.

Medium Term Financial Strategy	2020/21	2021/22	2022/23	2023/24	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	13.752	15.560	5.518	1.094	35.924
Demographic Pressures	7.056	3.131	5.026	4.923	20.136
Inflationary Pressures	2.382	2.187	2.207	2.227	9.003
TOTAL PRESSURES	**23.190**	**20.878**	**12.751**	**8.244**	**65.063**
Funded By					
Updated savings previously agreed	-7.438	-9.853	-7.440	-0.500	-25.531
New Savings Proposals	-7.079	-2.667	-1.535	-2.293	-13.574
New Social Care Grant	-3.732				-3.732
Adult Social Care Precept	-2.528				-2.528
1.95% Council Tax Increase	-2.413				-2.413
REVISED POSITION	**0.000**	**8.358**	**3.776**	**5.451**	**17.585**

The budget included a package of £14.5m of savings which had been developed and reviewed throughout the budget process. This meant that a number of the savings proposals were already in place at the start of the year but the majority were based on assumed actions during the remainder of 2019/20 and during the course of 2020/21.

The budget also included a full appendix setting out the proposed fees and charges for the year and as set based on an assumption that this income would be received throughout 2020/21.

The Council's financial position for 2020/21 has changed in a way nobody could have imagined a few months ago. 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.

The Council is experiencing pressures currently in three main areas

- Expenditure directly relating to Covid-19
- Loss of income during and following the lockdown
- Delayed or unachievable savings

To date the Government have provided Havering £13.5m of unringfenced grant to mitigate these pressures. This has been supplemented by further grants to support Infection Control, Homelessness, Outbreak Management plus grants to local businesses and support for residents receiving Council Tax Support.

The majority of expenditure relating to the Covid-19 pandemic is in Social Care and will continue as long as vulnerable people require support. The Government is easing the lockdown but there remains a significant risk of a second spike particularly in the autumn for vulnerable clients.

The Council has lost income in first months of the year in Council Tax, Business Rates and more generally across sales fees and charges. Losses in the Council Tax and Business Rates will result in a deficit in the collection fund which will need to be balanced for the 2021/22 budget. This is a national problem and it is hoped the Government will provide support as the figures become clearer.

The Council will need to review likely collection rates for 2021/22 in setting the budget and may have to lower its expected yield from Council Tax thereby creating a further pressure.

The position on sales fees and charges should slowly recover as the lockdown eases. The Council however needs to reflect on the appropriate times to begin charging for services again to ensure the high streets and businesses have an opportunity to recover.

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

- A decision by Government to defer the Local Government funding reforms to 2022/23 at the earliest
- The delay to the delivery of savings proposals in 2020/21
- The loss of fees and charges in 2020/21 and potential ongoing impact
- Additional demand pressures across Social Care particularly Children's as case levels are predicted to rise during 2020 once lockdown ends
- Delays to the Joint Ventures will result in short term reduced financing pressures but also delays in the medium term to income yields
- The need to replenish balances and reserves and bad debt provisions which potentially will take a big hit in 2020/21
- Lower collection rates for Council Tax and NNDR
- New savings opportunities from different ways of working following a review of services during the lockdown period

In setting the 2020/21 budget, the Council recognised the need to increase general balances to mitigate potential future risk. The Council set a target to reach £20m for general balances over the next few years. General Balances currently stand at £12.7m with a further £900k planned to be added in 2020/21 taking the total to £13.6 million. 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 potential 2020/21 overspend.

The Council will only use general balances and earmarked reserves as a last resort to cover an overspend in 2020/21. 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 Position

	Balance as at 31 3 2018	Movement In-Year	Balance as at 31 3 2019	Movement In-Year	Balance as at 31 3 2020
	£000	£000	£000	£000	£000
General Fund Earmarked Reserves	63,069	(2,546)	60,523	(6,355)	54,168
Schools Balances	8,950	(362)	8,587	(5,298)	3,289
Total Earmarked Reserves	**72,018**	**(2,908)**	**69,110**	**(11,653)**	**57,457**

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 the fund in reserves is utilised. Amongst the earmarked reserves are specific ones put aside to manage known major contractual and legal liabilities in the medium term. In 2019/20 the use of reserves increased mainly due to schools' spending pressures during the year and the delivery of planned projects in the Council. 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.

	31/03/2018	31/03/2019	31/03/2020
	£'000s	£'000s	£'000s
Long-term assets	1,326,280	1,287,416	1,375,218
Current assets	260,818	218,779	225,817
Current liabilities	(108,989)	(79,898)	(142,179)
Long-term liabilities	(698,164)	(773,064)	(676,705)
Net Assets	**779,945**	**653,233**	**782,151**
funded by:			
Usable reserves	218,993	219,246	201,450
Unusable reserves	560,952	433,987	580,701
Total Reserves	**779,945**	**653,233**	**782,151**
Borrowing	241,776	211,512	274,164
Debt to Equity Ratio	31.0%	32.4%	35.1%

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 our core priorities as a borough:

Communities

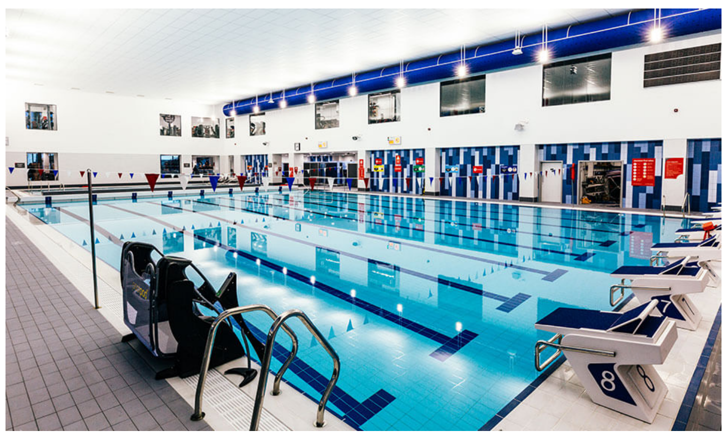
The capital programme is delivering new builds and rebuilds of schools:

- 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 has begun in the creation of a new sports centre in Hornchurch to replace the existing Harrow Lodge site. This follows the creation of the Sapphire Ice and Leisure complex last year as well as substantial refurbishment of the Council's Central Park Leisure Centre. The new centre in Hornchurch will boast 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.

Havering once again marked its support by celebrating national armed forces day. Among those who marched were current serving troops, veterans and cadets as well as the service families.

The Havering Show saw record numbers with around 55,000 people attending over the bank holiday weekend in August 2019.

Opportunities

The Council is committed to building more affordable homes and increasing social housing in the borough. £150m has been set aside as part of the Council's regeneration plans. 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: Along with the Council's joint venture partners First Base and Savills, 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 as part of the Local London partnership has secured £800k through the London Authority Strategic Investment Pot, to be used to improve digital connectivity in the Rainham area. The new fibre connection will provide world class infrastructure and stimulate additional investment by the private sector.

Businesses and organisations in Romford Town centre have voted in favour of taking more control over their future by setting up a business improvement district (BID). The BID will generate additional income of £3m from local businesses to be spent in the area.

The completion of the Crossrail project and the opening of the new Elizabeth line will provide high-speed access to central London from three of the Borough's railway stations. This complements the strategy to provide more affordable homes and jobs in the borough.

Revenue Outturn

The final net revised budget of £161.105m shown below includes levies, contingency and unringfenced grants. The service budget element of this was £131.566m. The final outturn for service directorates and oneSource was £135.086m, resulting in an overspend of £3.520m (2.68%). There are however corporate underspends of £0.610m to reduce the overspend to £2.910m. This remaining overspend has been negated by underspends in the Section 151 directorate and treasury management leaving a balanced position.

The current pandemic has fundamentally affected all aspects of Council business. The Government has announced a series of support packages that are designed to enable councils to both deliver key frontline services and provide additional physical and financial support to the community. The Council has provided grants to help support businesses during the pandemic. The additional costs in March from the pandemic have been met by Government grant and therefore do not cause a variance to the outturn position shown below. The Council however did lose income as a direct result of Covid-19 in March causing a variance in the outturn.

The £2.91m overspend within services is analysed in the table below.

Directorate	Revised Budget	Final Outturn	Final Outturn Variance	
	£m	£m	£m	%
Public Health	0.014	0.011	(0.003)	(19.99)
Children's Services	42.386	43.657	1.271	3.00
Adult Services	60.668	61.133	0.465	0.77
Neighbourhoods	10.378	13.486	3.108	29.95
Housing	4.146	3.957	(0.189)	(4.56)
Regeneration Programme Delivery	1.683	1.654	(0.029)	(1.75)
oneSource Non-Shared	(0.218)	(1.201)	(0.983)	450.25
Chief Operating Officer	9.394	9.378	(0.016)	(0.17)
SLT	0.614	0.526	(0.088)	(14.31)
oneSource shared	2.500	2.485	(0.015)	(0.61)
Net Service Total	**131.566**	**135.086**	**3.520**	**2.68**
Corporate Budget	28.539	27.929	(0.610)	(2.14)
Contingency	1.000	1.000	0.000	0.00
Net Controllable Budget	**161.105**	**164.015**	**2.910**	**1.81**

This table has rounding differences

Neighbourhoods

The **Neighbourhoods** portfolio outturn position is an overspend of £3.108m. The main reasons for this variance relates to overspends in environment due to the recalculation of bad debt provisions and reduced parking income

Service	Forecast Variance P11 £m	BAU Movement £m	Covid-19 Loss of Income £m	Outturn Position £m
Environment	2.522	0.256	0.255	3.033
Registration	(0.098)	0.220	0.015	0.137
Planning	0.219	(0.090)	0	0.129
Business Support	(0.188)	(0.003)	0	(0.191)
Neighbourhoods	**2.454**	**0.384**	**0.270**	**3.108**

Parking: Although Monday to Saturday Pay and Display income increased, a shortfall occurred overall due to Sunday charging and parks charging not being enforced. The reduction in traffic in March, both pre and post lockdown, has meant a further loss of income from enforcement. The Council has also offered free parking in its car parks and on street pay and display bays since March and resident and business permits are currently not being sold. It is difficult to project how much income will be lost in 2020/21 as this will depend on the speed and nature of the recovery and associated policy decisions.

Housing Services (General Fund)

The outturn position was an underspend of £189,000. Demand remained stable in 2019/20 with good homelessness prevention outcomes resulting in less temporary accommodation being used. This coincided with reductions in the Private Sector Landlord (PSL) stock, as landlords requested their properties back. The Flexible Homelessness Support Grant has given councils the freedom to provide extra support to the full range of homelessness services.

Housing Services (Housing Revenue Account)

The outturn on the HRA was a balanced position at outturn following a transfer of £4.925m to reserves. This underspend was the result of staff costs being capitalised and salary savings from unfilled posts, following a restructure. There was additional income from community hall hire and the Telecare Service and underspends on the responsive repairs contract. This was offset, by an increase in the hostels void loss, following the closure of Queen Street hostel.

Adult Social Care (ASC)

Havering has the largest population of residents aged over 65 in London. This contributes towards social care pressures. The Adult Social Care (ASC) directorate outturn position for 2019/20 was an overspend of £0.465m. Although the outturn position is an overspend of £0.465m, there is an underlying pressure of approximately £3.599m and one-off reserves of £3.135m were used to achieve the outturn position. These reserves will not be available in 2020/21, however significant growth for the directorate was agreed by Cabinet in February to stabilise the ASC position:

The pressure for 2019/20, which contributed to the outturn, has arisen from:

- £1.6m underlying pressure from 2018/19 which was funded by one-off funding last year;

- An increase in demand (primarily nursing home care) last year which is now being projecting as full year costs in this financial year;
- Increase in complexity of cases and an increase in one-to-one support cases which are high cost;
- High cost transition of special education needs and disabilities (SEND) cases from Children's Services;
- Increases for Residential/Nursing, Learning Disabilities and Homecare rates which amounted to £1.7m, which were paid to stabilise the market to ensure sufficiency of capacity, particularly considering the impact of the National Living Wage and inflationary pressures rises. These uplifts were in excess of the £1m funded corporately, leaving circa £0.700m additional pressure in 2019/20.
- An income target of £300,000 was agreed for Adult Social Care from April 2019 but was not achievable as income charges for almost all ASC services are prescribed through Care Act 2014 regulations.

The Council continued to provide care packages and safe accommodation for residents leaving hospital care during the Covid-19 pandemic. The Council has worked with the voluntary sector to provide support to care and residential homes. This includes the provision of emergency supplies including personal protective equipment (PPE) and food.

Support and advice to residents and the wider community has been provided through on-line means such as the Council's Facebook pages.

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.

Children's Services

The outturn position for the Children's Directorate is an overspend of £1.271m. This variance is primarily related to unachieved MTFS savings due to significant delays with progressing changes to the Children's Centre programme and changes at the My Place Centre, which had been scheduled to deliver a combination of £0.570m in savings and additional income during 2019/20.

The additional variance in outturn expenditure in 2019/20 is largely due to a continuation in placement demand for children with complex needs (including remands to custody) and young people who have lost their housing tenancies and require supported placements. There are currently six very complex cases of young people requiring placements at high costs. Work to recover income from housing benefit continues, despite uncontrollable challenges with partner organisations.

Regeneration Programme Delivery

The regeneration programmes have been delivered broadly within budget.

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.

The investment in the Capital Programme in 2019/20 has delivered the following major outcomes:

- £14.9m on Improving the Roads across the Authority
- £18.4m on the Schools Expansion Programme providing Additional School Places
- £4.1m on further improvements to schools
- £13.3m on the new Hornchurch Leisure Centre
- £2.5m on Improving the Councils IT infrastructure
- £1.3m on Assisting the Elderly and Infirm to remain in their homes
- £0.9m Improving the Quality of our Parks and Green Spaces
- £16.2m on Major Regeneration Projects across the Borough
- £14.6m on Improving the Authorities Housing Stock
- £47.2m on the innovative 12 Estates Housing Project

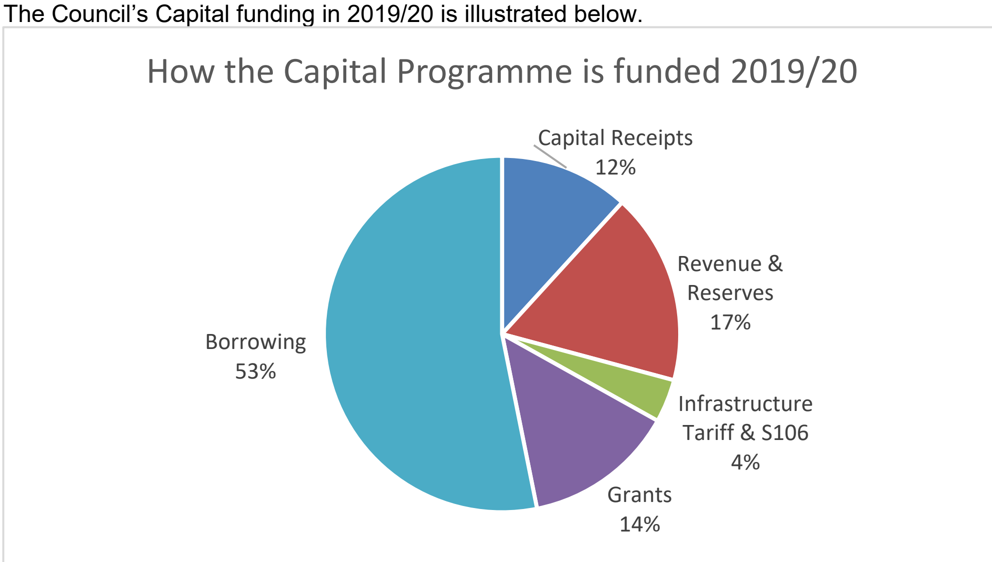
Actual capital spend at the end of the financial year 2019/20 was £154.793m financed from a variety of sources as set out below.

		Financing				
Services	**2019/20 Capital Expenditure £m**	**Capital Receipts £m**	**Revenue and reserves £m**	**Infrastructure Tariff and S106 £m**	**Grants £m**	**Borrowing £m**
Adults Services	1.466	0.003	0.000	0.000	1.463	0.000
OneSource	24.671	0.858	0.911	5.585	14.573	2.744
Neighbourhoods	17.850	1.616	0.445	0.444	2.671	12.674
Regeneration Programme	32.953	0.135	0.155	0.023	1.691	30.949
Customer & Communications Service	13.506	0.133	0.000	0.011	0.000	13.362
Housing Services	61.831	14.898	24.332	0.000	0.053	22.548
Children's Service	2.516	0.590	1.093	0.000	0.833	0.000
Grand Total	**154.793**	**18.233**	**26.936**	**6.063**	**21.284**	**82.277**

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 2019/20 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 £1,175m and is set out in the table below:

Summary of Capital Programme	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Adults Services	4.463	0.000	0.000	0.000	0.000	**4.463**
Asset Management	45.502	0.824	0.000	0.000	0.000	**46.326**
Bereavement Services	6.417	0.000	0.000	0.000	0.000	**6.417**
Children Services	3.615	0.000	0.000	0.000	0.000	**3.615**
Customer & Communications	14.956	3.916	0.985	0.500	0.000	**20.357**
Environment	15.134	2.000	2.000	0.000	0.000	**19.134**
ICT Services	4.020	1.120	1.080	2.200	0.000	**8.420**
Regeneration	24.872	7.188	5.323	0.000	0.000	**37.383**
Sub Total	**118.979**	**15.048**	**9.388**	**2.700**	**0.000**	**146.115**
Regeneration Programme	223.468	98.212	57.303	65.979	19.360	**464.321**
Total GF Capital Programme	**342.447**	**113.260**	**66.691**	**68.679**	**19.360**	**610.436**
HRA	97.224	113.596	116.223	119.581	118.734	**565.358**
Total Capital Programme	**439.671**	**226.856**	**182.914**	**188.260**	**138.094**	**1,175.794**

Historically, the Council managed the cash flow of its capital expenditure programme 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

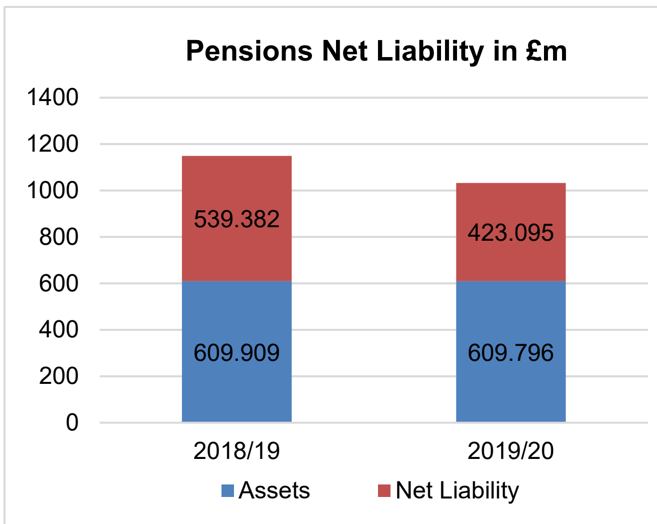
The Council held approximately £185m in cash and investments on average during the course of the financial year. This represents the value of the Council's revenue reserves, net current assets, unapplied grants and unapplied capital reserves. Other than reserves, this is money that is committed and is being held pending such expenditure. Given the Council's gross expenditure is approximately £568.3m (was 625m), this represents around four 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 2020 amounted to £183m (£202m at 31 March 2019). The average yield from the Authority's cash investments for 2019/20 was 1.07% (0.92 % for 2018/19). This reflects the conservative nature of the Authority's investment strategy and historically low interest rates. The impact of Brexit 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 £1.175billion 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 dwindle 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 £423.1m as at 31st March 2020 compared with £539.4m as at 31st March 2019. 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 remained almost unchanged in 2019/20, from £609.91m to £609.8m due to subdued market conditions in 2019/20, while the liability reduced from £1,149.3m to £1,032.9m due to a higher net discount rate. 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 March 31st 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

Jane West

Chief Operating (Section 151) Officer

London Borough of Havering

Date: 6 July 2020

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 158 to 161 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 Operating (Section 151) Officer's Responsibilities

The Chief Operating (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 Operating (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 Operating (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 2020 and its income and expenditure for the year ended 31 March 2020.

Jane West
Chief Operating (Section 151) Officer
06 July 2020

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

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Group Movement in Reserves Statement 2019/20

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	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 2018	**11,766**	**72,018**	**4,612**	**55,973**	**30,663**	**43,961**	**218,993**	**560,952**	**(599)**	**779,346**
Movement in reserves during 2018/19										
(Deficit)/surplus on provision of services	(72,949)		24,559				(48,390)		(377)	(48,767)
Other comprehensive expenditure and income								(78,322)		(78,322)
Total comprehensive expenditure and income	**(72,949)**	**0**	**24,559**	**0**	**0**	**0**	**(48,390)**	**(78,322)**	**(377)**	**(127,089)**
Adjustments between accounting basis and funding basis under regulations	72,007		(25,709)	(1,092)	252	3,185	48,643	(48,643)		0
Net (decrease)/increase before transfers to earmarked reserves	**(942)**	**0**	**(1,150)**	**(1,092)**	**252**	**3,185**	**253**	**(126,965)**	**(377)**	**(127,089)**
Transfers to/(from) Earmarked Reserves	1,463	(2,908)	1,445				**0**	**0**		0
Decrease/increase in Year	**521**	**(2,908)**	**295**	**(1,092)**	**252**	**3,185**	**253**	**(126,965)**	**(377)**	**(127,089)**
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
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
(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**

Authority Movement in Reserves Statement 2019/20

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 2018	**11,766**	**72,018**	**4,612**	**55,973**	**30,663**	**43,961**	**218,993**	**560,952**	**779,945**
Movement in reserves during 2018/19									
Deficit/surplus on provision of services	(72,949)		24,559				(48,390)		(48,390)
Other comprehensive expenditure and income							0	(78,322)	(78,322)
Total comprehensive expenditure and income	**(72,949)**	**0**	**24,559**	**0**	**0**	**0**	**(48,390)**	**(78,322)**	**(126,712)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	72,007		(25,709)	(1,092)	252	3,185	48,643	(48,643)	0
Net decrease/increase before transfers to earmarked reserves	**(942)**	**0**	**(1,150)**	**(1,092)**	**252**	**3,185**	253	**(126,965)**	**(126,712)**
Transfers to/from Earmarked Reserves (Note 10)	1,463	(2,908)	1,445				0		0
Decrease/increase in Year	**521**	**(2,908)**	**295**	**(1,092)**	**252**	**3,185**	**253**	**(126,965)**	**(126,712)**
Balance at 31 March 2019	**12,287**	**69,110**	**4,907**	**54,881**	**30,915**	**47,146**	**219,246**	**433,987**	**653,233**
Movement in reserves during 2019/20									
(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**

Group Comprehensive Income and Expenditure Statement 2019/20

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 2018 – 31 March 2019				1 April 2019 – 31 March 2020		
£000	£000	£000		£000	£000	£000
Gross Expenditure	Gross Income	Net		Gross Expenditure	Gross Income	Net
* Restated	* Restated	* Restated	**Gross expenditure, gross income and net expenditure of continuing operations**			
32,545	(3,323)	29,222	Corporate Budgets	35,930	(4,166)	31,764
45,176	(28,061)	17,115	Neighbourhoods	43,629	(26,801)	16,828
45,810	(67,040)	(21,230)	Housing	42,609	(65,153)	(22,544)
3,439	(1,102)	2,337	Regeneration Programme Delivery	4,021	(2,540)	1,481
76,672	(18,352)	58,320	Adult Services	81,451	(19,197)	62,254
202,943	(141,770)	61,173	Children's Services	212,404	(147,390)	65,014
10,776	(10,937)	(161)	Public Health	10,257	(10,654)	(397)
99,342	(90,444)	8,898	oneSource Non-Shared	82,095	(74,444)	7,651
20,524	(3,389)	17,135	oneSource Shared	24,012	(4,012)	20,000
537,227	**(364,418)**	**172,809**	**Cost of services**	**536,408**	**(354,357)**	**182,051**
		68,817	Other operating expenditure			12,703
		8,378	Financing and investment income and expenditure			12,348
		(201,237)	Taxation and non-specific grant income			(216,116)
		48,767	**(Surplus)/Deficit on provision of services**			**(9,014)**
		23,484	(Surplus)/Deficit on revaluation of property, plant and equipment assets			8,555
		54,838	Actuarial losses/(gains) on pension assets / liabilities			(127,831)
		78,322	**Other comprehensive income and expenditure**			**(119,276)**
		127,089	**Total comprehensive income and expenditure**			**(128,290)**

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

Authority Comprehensive Income and Expenditure Statement 2019/20

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 2018 – 31 March 2019					1 April 2019 – 31 March 2020		
£000 Gross Expenditure	£000 Gross Income	£000 Net		Notes	£000 Gross Expenditure	£000 Gross Income	£000 Net
* Restated	* Restated	* Restated	**Gross expenditure, gross income and net expenditure of continuing operations**				
32,545	(3,323)	29,222	Corporate Budgets		35,930	(4,166)	31,764
44,799	(27,191)	17,608	Neighbourhoods		43,629	(26,801)	16,828
45,810	(67,040)	(21,230)	Housing		42,609	(65,153)	(22,544)
3,439	(1,102)	2,337	Regeneration Programme Delivery		3,565	(1,510)	2,055
76,672	(18,352)	58,320	Adult Services		81,451	(19,197)	62,254
202,943	(141,770)	61,173	Children's Services		212,404	(147,390)	65,014
10,776	(10,937)	(161)	Public Health		10,257	(10,654)	(397)
99,342	(90,444)	8,898	oneSource Non-Shared		82,095	(74,444)	7,651
20,524	(3,389)	17,135	oneSource Shared		24,012	(4,012)	20,000
536,850	**(363,548)**	**173,302**	**Cost of services**		**535,952**	**(353,327)**	**182,625**
		68,817	Other operating expenditure	11			12,688
		7,508	Financing and investment income and expenditure	12			11,159
		(201,237)	Taxation and non-specific grant income	13			(216,116)
		48,390	**(Surplus)/Deficit on provision of services**				**(9,644)**
		23,484	(Surplus)/Deficit on revaluation of property, plant and equipment assets	25a			8,555
		54,838	Actuarial losses/(gains) on pension assets / liabilities	25e			(127,831)
		78,322	**Other comprehensive income and expenditure**				**(119,276)**
		126,712	**Total comprehensive income and expenditure**				**(128,920)**

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

Balance Sheet as at 31 March 2020

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 2019 Group £000		Notes	31 March 2020 Authority £000	31 March 2019 Group £000
1,165,631	1,165,652	**Property, plant and equipment**	14	1,245,262	1,256,770
133	133	**Heritage assets**	15	132	132
50,990	76,352	**Investment property**	16b	67,242	109,907
1,568	1,568	**Intangible assets**	17	1,085	1,085
38,000	38,000	**Long term investments**	18	13,000	13,000
12,024	3,289	**Long term investments in subsidiaries and joint ventures**	16d	21,992	178
19,070	2,428	**Long term debtors**	19	26,505	232
1,287,416	**1,287,422**	**Long-term assets**		**1,375,218**	**1,381,304**
134,099	134,099	**Short-term investments**	18	142,800	142,800
385	385	**Inventories**		389	389
55,805	55,477	**Short-term debtors**	19	55,878	53,579
26,664	26,930	**Cash and cash equivalents**	20	26,750	27,860
1,826	1,826	**Assets held for sale**	21	-	-
218,779	**218,717**	**Current assets**		**225,817**	**224,628**
(928)	(928)	**Short-term borrowing**	18	(38,907)	(38,086)
(78,970)	(80,021)	**Short-term creditors**	22	(103,272)	(110,050)
(79,898)	**(80,949)**	**Current liabilities**		**(142,179)**	**(148,136)**
		Long-term creditors			
(9,705)	(9,705)	**Provisions**	23	(9,089)	(9,089)
(210,584)	(210,453)	**Long-term borrowing**	18	(235,234)	(235,780)
(539,382)	(539,382)	**Other long-term liabilities**	42	(423,095)	(423,095)
(13,393)	(13,393)	**Capital grants receipts in advance**	35b	(9,287)	(9,287)
(773,064)	**(772,933)**	**Long-term liabilities**		**(676,705)**	**(677,251)**
653,233	**652,257**	**Net assets**		**782,151**	**780,545**
219,246	218,270	**Usable reserves**	24	201,450	199,844
433,987	433,987	**Unusable reserves**	25	580,701	580,701
653,233	**652,257**	**Total Reserves**		**782,151**	**780,545**

I certify that the statement of accounts gives a true and fair view of the financial position of the authority at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Authorised for Issue
Jane West

Jane West

Chief Operating (Section 151) Officer
London Borough of Havering
Date: 06 July 2020

Cash Flow Statement as at 31 March 2020

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.

2018/19 Authority £000	2018/19 Group £000		Note	2019/20 Authority £000	2019/20 Group £000
(48,390)	(48,767)	Net surplus on the provision of services		9,644	9,014
104,132	107,365	Adjust net surplus or deficit on the provision of services for non-cash movements	26	62,264	77,306
(40,025)	(40,025)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(44,360)	(44,360)
15,717	**18,573**	**Net cash flows from Operating Activities**		**27,548**	**41,960**
(12,208)	(19,663)	Investing activities	27	(90,090)	(103,658)
(30,265)	(30,265)	Financing activities	28	62,628	62,628
(26,756)	**(31,355)**	**Net increase /(decrease) in cash and cash equivalents**		**86**	**930**
53,420	58,285	Cash and cash equivalents at the beginning of the reporting period	20	26,664	26,930
		Adjustment to cash balance from group consolidation			
26,664	**26,930**	**Cash and cash equivalents at the end of the reporting period**	**20**	**26,750**	**27,860**

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 2019/20 financial year and its position at the year end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by 31 May 2020 (delayed until 31 August 2020 due to Covid-19), 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 2019/20*, 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 2019/20 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 of 4.5% 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. 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

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

xxvi Fair Value Measurement

The 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 accounting standards changes have been identified:

(a) Clarification to IAS28 Investments in Associates and Joint Ventures

This clarifies that the net investment in joint ventures is to be accounted under IAS28 as well as any loans to the joint venture under IFRS9.

(b) Amendments to IFRS 16 – Leases

The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. CIPFA/LASAAC have deferred implementation of IFRS16 for local government for a further year to 1 April 2021, so the changes will be implemented for the 2021/22 accounts.

(c) IAS 19 Pension Fund

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. This will have no impact on the Authority as it already complies.

(d) Other accounting standards for awareness::

The annual improvements to IFRS Standards 2015-2017 cycle updates standards is not expected to materially changes the way the Council accounts for business combinations under IFRS3, income tax under IAS12 or borrowing costs under IAS23. CIPFA/LASAAC guidance will be issued to outline relevance for local authorities.

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.	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 buildings would increase by £2.147m for every year that useful lives had to be reduced.
	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 £1,245m may be subject to fluctuations.	If the asset valuation of all property plant and equipment were to fall by 1% a reduction in value of £12.45m 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 determining the fair value of the authority's assets and liabilities is disclosed in notes 14 and 16 below.	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
Provisions	The Authority has made a provision of £2.9m 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 £0.29m 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 £89.9m. However, the assumptions interact in complex ways. During 2019/20, the Authority's actuary advised that changes in actuarial assumptions gave rise to a gain of £143.9m (compared to a loss of £59.4m in 2018/19) to the Consolidated Income and Expenditure Statement.
Arrears	At 31 March 2020, the Authority had a gross debtor's balance of £87.2m. A review of significant balances suggested that an impairment of doubtful debts of 36% (£31.3m) 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 £7.8m to be set aside as an allowance.
NNDR Appeals	At 31 March 2020, the Authority made a provision for £6.1m 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 £1.5m.

4. Material Items of Income and Expense

A net revaluation gain of £9.7m has been credited to the Consolidated Income and Expenditure Account (CI&ES) in 2019/20. 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 2018/19 was £6.3m. Further information is provided at note 39.

A net disposals gain of £6.2m has been debited to the CI&ES in 2019/20. This is a result of gains from the sale of GF and HRA assets. This is compared to corresponding loss of £54.0m in 2018/19 which was as a result of schools transferring to Academies.

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 increased its investment in Mercury Land Holdings by £3.571m to a total of £12.3m and increased its loans by £8.4m to £26.6m.

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.

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 2020 balance sheet has been identified. However the effect of the COVID19 virus has had a major impact on the day to day running of the Council. Debt collection rates are likely to be reduced, but at the date of the balance sheet signing, it is still too early to see what long-term impact there will be on the Council. Officers have been liaising with its external valuers to ascertain how COVID19 has affected valuations, however by the time these draft accounts were published there is no evidence available to suggest that the valuations need to be reduced.

Since the 31st March 2020 Council Tax collection rates are around 1.1% lower at May 2020 end than expected. Collectable NNDR is reduced by additional statutory reliefs provided however this shortfall is offset by additional s31 grant receivable from the MHCLG. Any shortfalls will be fed into the monitoring of the medium term financial strategy and the drawing up of the 2021/22 budget to ensure the Council remains financially stable.

7. Expenditure and Funding Analysis 2019/20

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 2018 - 31st March 2019					1st April 2019 - 31st March 2020			
Net Expenditure Chargeable to the General Fund and HRA Balances £000	**Adjustments between Funding and Accounting Bases £000**	**Other Adjustments £000**	**Net Expenditure in the CI&ES £000**	**Service**	**Net Expenditure Chargeable to the General Fund and HRA Balances £000**	**Adjustments between Funding and Accounting Bases £000**	**Other Adjustments £000**	**Net Expenditure in the CI&ES £000**
35,315	45,741	(51,834)	**29,222**	Corporate Budgets	47,636	(34,773)	18,901	**31,764**
13,955	8,692	(5,040)	**17,607**	Neighbourhoods	13,486	8,248	(4,906)	**16,828**
3,948	(25,710)	533	**(21,229)**	Housing	(968)	(19,718)	(1,858)	**(22,544)**
1,230	909	198	**2,337**	Regeneration	1,654	56	345	**2,055**
60,194	880	(2,754)	**58,320**	Adult Services	61,133	698	423	**62,254**
44,461	19,796	(3,084)	**61,173**	Children's Service	39,482	25,135	396	**65,013**
(1)	43	(203)	**(161)**	Public Health	11	42	(450)	**(397)**
(1,199)	(2,270)	12,367	**8,898**	oneSource Non-Shared	(1,201)	1,824	7,028	**7,651**
2,932	1,087	13,116	**17,135**	oneSource Shared	2,485	1,093	16,422	**20,000**
160,835	**49,168**	**(36,701)**	**173,302**	**Net Cost of Services**	**163,718**	**(17,395)**	**36,301**	**182,624**
(161,652)	(2,869)	39,609	(124,912)	Other Income and Expenditure	(169,043)	1,424	(24,649)	(192,268)
(817)	**46,299**	***2,908**	**48,390**	**(Surplus) or Deficit**	**(5,325)**	**(15,971)**	**11,652**	**(9,644)**
16,378				Opening General Fund and HRA Balance	**17,196**			
817				Less/Plus Surplus or Deficit on General Fund and HRA Balance in Year**	5,325			
17,195				**Closing General Fund and HRA Balance at 31 March 2020**	**22,521**			

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 2019/20

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)**

Adjustments between Funding and Accounting Basis 2018/19
(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	42,373	4,274	(906)	45,741
Neighbourhoods	6,973	1,694	23	8,690
Housing	(26,417)	715	(6)	(25,708)
Regeneration Programme Delivery	848	54	7	909
Adult Services	233	640	7	880
Children's Services	13,815	6,095	(114)	19,796
Public Health	0	43	0	43
oneSource Non-Shared	(2,914)	632	12	(2,270)
oneSource Shared	0	1,101	(14)	1,087
Net Cost of Services	**34,911**	**15,248**	**(991)**	**49,168**
Other income and expenditure from the Expenditure and Funding Analysis	(2,951)	38	44	(2,869)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**31,960**	**15,286**	**(947)**	**46,299**

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:

2018/19 £000	Income from Services	2019/20 £000
3,323	Corporate Budgets	4,166
27,191	Neighbourhoods	26,801
67,040	Housing	65,153
1,102	Regeneration Programme Delivery	1,510
18,352	Adult Services	19,197
141,770	Children’s Services	147,390
10,937	Public Health	10,654
90,444	oneSource Non -Shared	74,444
3,389	oneSource Shared	4,012
363,548	**Total income analysed on a segmental basis Net Cost of Services**	**353,327**

8. Expenditure and Income Analysed by Nature

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

2018/19 £000	Expenditure/Income	2019/20 £000
	Expenditure	
197,695	Employee benefits expenses	199,861
314,031	Other services expenses	325,068
25,359	Depreciation, amortisation, impairment	11,340
20,027	Interest payments	20,745
16,609	Precepts and levies	17,773
1,126	Payments to Housing Capital Receipts Pool	1,106
51,082	(Gain)/Loss on the disposal of assets	(6,191)
625,929	**Total expenditure**	**569,702**
	Income	
(122,540)	Fees, charges and other service income	(121,564)
(9,485)	Interest and investment income	(5,226)
(164,080)	Income from council tax, non-domestic rates,	(163,915)
(281,434)	Government grants and contributions	(288,641)
(577,539)	**Total income**	**(579,346)**
48,390	**Surplus or Deficit on the Provision of Services**	**(9,644)**

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.

2019/20	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£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)**

Comparative figures for 2018/19 are as follows:	Usable Reserves					
2018/19	**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)	(14,571)	(715)				15,286
Financial instruments (transferred to the Financial Instruments Adjustments Account)	152					(152)
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)	(44)					44
Holiday pay (transferred to the Accumulated Absences Reserve)	120	7				(127)
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	(65,509)	(13,177)			(17,580)	96,266
Total Adjustments to Revenue Resources	**(79,852)**	**(13,885)**	**0**	**0**	**(17,580)**	**111,317**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,069	17,748	(20,817)			0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(236)	236			0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,126)		1,126			0
Posting of HRA resources from revenue to the Major Repairs Reserve		9,235		(9,235)		0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,875					(1,875)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,126	12,886				(15,012)
Total Adjustments between Revenue and Capital Resources	**5,944**	**39,633**	**(19,455)**	**(9,235)**	**0**	**(16,887)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure			20,547			(20,547)
Use of the Major Repairs Reserve to finance capital expenditure				8,983		(8,983)
Application of capital grants to finance capital expenditure	1,901				14,395	(16,296)
Cash payments in relation to deferred capital receipts		(39)				39
Total Adjustments to Capital Resources	**1,901**	**(39)**	**20,547**	**8,983**	**14,395**	**(45,787)**
Total Adjustments	**(72,007)**	**25,709**	**1,092**	**(252)**	**(3,185)**	**48,643**

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 2019/20.

	Balance as at 31 3 2018	Transfers from/to Revenue	Transfers between reserves	Balance as at 31 3 2019	Transfers from/to Revenue	Transfers between reserves	Balance as at 31 3 2020
	£000	£000	£000	£000	£000	£000	£000
General Fund Earmarked Reserves							
Corporate Transformation reserve	**4,431**	(4,173)	6,406	**6,664**	(4,548)	0	**2,116**
Business Risk reserve	**26,853**	1,192	(11,123)	**16,922**	(6,148)	0	**10,774**
Business Rates reserve	0	2,463	1,537	**4,000**	283	0	**4,283**
Regeneration	0	0	1,500	**1,500**	(914)	0	**586**
ICT Refresh	0	0	1,000	**1,000**	0	0	**1,000**
oneSource reserve	**634**	234	0	**868**	(413)	0	**455**
Insurance reserve	**6,389**	800	0	**7,189**	220	0	**7,409**
Reserves for future capital schemes	**11,628**	(722)	0	**10,906**	(3,602)	0	**7,304**
Legal reserve	**222**	(44)	0	**178**	0	0	**178**
Crematorium and Cemetery reserves	**726**	135	0	**861**	(34)	(49)	**778**
Social Care reserve	**22**	0	0	**22**	63	0	**85**
Troubled Families reserve	**1,175**	(467)	13	**721**	(196)	0	**525**
Public Health reserve	**1,178**	37	0	**1,215**	270	0	**1,485**
Whole life costing Transport Fleet reserve	**562**	(47)	0	**515**	0	0	**515**
Emergency assistance scheme	**741**	(50)	0	**691**	1,401	0	**2,092**
SLM Funding 2017/18-2022/23	**1,898**	(618)	0	**1,280**	106	0	**1,386**
Other reserves	**3,065**	(762)	667	**2,970**	7,207	0	**10,177**
HRA Major works	**3,545**	(524)	0	**3,021**	0	0	**3,021**
Total General Fund Earmarked Reserves	**63,069**	**(2,546)**	**0**	**60,523**	**(6,305)**	**(49)**	**54,169**
Schools Balances							
General Balances	**2,380**	(821)	0	**1,559**	(452)	0	**1,107**
Schools Balances	**4,004**	559	0	**4,563**	(1,346)	0	**3,217**
Centrally held schools balances (Note 34)	**2,565**	(100)	0	**2,465**	(3,500)	0	**(1,035)**
Total Schools Balances	**8,949**	**(362)**	**0**	**8,587**	**(5,298)**	**0**	**3,289**
Total Earmarked Reserves	**72,018**	**(2,908)**	**0**	**69,110**	**(11,603)**	**(49)**	**57,458**

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.

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 current Troubled Families programme until 2020.

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. They are 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 2019/20 are shown at Note 34.

11. Other Operating Expenditure

2018/19 £000		2019/20 £000
16,609	Levies	17,773
1,126	Payments to the Government Housing Capital Receipts Pool	1,106
51,082	(Gain) / Loss on the disposal of non-current assets	(6,191)
68,817	**Total**	**12,688**

12. Financing And Investment Income And Expenditure

2018/19 £000		2019/20 £000
7,802	Interest payable and similar charges	7,790
12,224	Pensions net interest on the net defined benefit liability	12,955
(3,184)	Interest receivable and similar income	(3,873)
(3,034)	Income and expenditure in relation to investment properties (note 16)	(4,360)
(6,300)	Changes in the fair value of investment properties	(1,353)
7,508	**Total**	**11,159**

13.Taxation And Non-Specific Grant Income

2018/19 £000		2019/20 £000
(119,750)	Council tax income	(124,429)
(44,329)	National non-domestic rates income	(39,486)
(17,675)	Non ring-fenced government grants	(21,477)
(19,483)	Capital grants and contributions	(30,724)
(201,237)	**Total**	**(216,116)**

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**

14. Property, Plant and Equipment

Movements in Balances 2018/19

	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 2018	**569,103**	**543,528**	**17,346**	**170,976**	**4,142**	**742**	**5,335**	**1,311,172**
Additions	18,608	5,371	2,454	6,650	77	-	23,034	**56,194**
Revaluation increases/(decreases) to :								
Revaluation Reserve	(25,919)	(9,729)	-	-	318	121	-	**(35,209)**
Revaluation gains to the CI&ES	4,913	(6,915)	-	-	2	(248)	-	**(2,248)**
Derecognition - Disposals	(10,879)	(61,739)	(3,919)	-	-	-		**(76,537)**
Derecognition - other	-	2,951	-	-	-	-		**2,951**
Reclassifications & Transfers	(760)	(432)	-	-	70	-	1,122	**0**
At 31 March 2019	**555,066**	**473,035**	**15,881**	**177,626**	**4,609**	**615**	**29,491**	**1,256,323**
Accumulated Depreciation and Impairment								
At 31 March 2018	**0**	**1,748**	**9,816**	**74,798**	**482**	**54**	**0**	**86,898**
Depreciation Charge	8,577	6,467	2,004	6,358	85	15	**-**	**23,506**
Depreciation written out upon Revaluation:	-							
Revaluation Reserve	(6,565)	(5,228)	-		-	(67)	**-**	**(11,860)**
CI &ES	(2,025)	(1,265)	-		-	-	**-**	**(3,290)**
De-recognition - disposals	-	(642)	(3,919)		-	-	**-**	**(4,561)**
Reclassifications	13	43	-		(57)	-	**-**	**(1)**
At 31 March 2019	**0**	**1,123**	**7,901**	**81,156**	**510**	**2**	**0**	**90,692**
Net book value at 31 March 2019	**555,066**	**471,912**	**7,980**	**96,470**	**4,099**	**613**	**29,491**	**1,165,631**
Net book value at 31 March 2018	**569,103**	**541,780**	**7,530**	**96,178**	**3,660**	**688**	**5,335**	**1,224,274**

Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in 2020/21.

31 March 2019 £000		31 March 2020 £000
	Fund	
14,505	Arts, culture, sport and leisure	5,668
3,223	Roads, footways and bridges	12,000
15,803	Education capital schemes	26,118
10,201	Town centre and environmental Improvements	39,559
4,081	Office accommodation, equipment, ICT and vehicles	3,836
2,893	Other smaller General Fund schemes	2,650
50,706	**Total General Fund commitments**	**89,831**
40,313	Housing Revenue Account	76,363
91,019	**Total commitments**	**166,194**

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 2020.

	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	-	-	10,402	109,690	5,117	-	61,968	**187,177**
Valued at fair value as at:								
31 March 2020	564,782	461,047	-	-	-	774	-	**1,026,603**
31 March 2019		10,690	-	-	-	-	-	**10,690**
31 March 2018	-	9,906	-	-	-	-	-	**9,906**
31 March 2017	-	3,212	-	-	-	-	-	**3,212**
31 March 2016	-	7,674	-	-		-	-	**7,674**
Total cost or valuation	**564,782**	**492,529**	**10,402**	**109,690**	**5,117**	**774**	**61,968**	**1,245,262**

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 2016	**80**	**25**	**104**
Depreciation	0	(1)	(1)
Revaluation	0	0	0
31 March 2017	**80**	**24**	**103**
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**

16. Investment Properties

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.

2018/19 £000		**2019/20 £000**
3,321	Rental income from investment property	4,677
(288)	Direct operating expenses arising from investment property	(317)
3,034	**Net gain**	**4,360**

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.

2018/19 £000		**2019/20 £000**
44,680	**Opening Balance**	**50,990**
6,300	Revaluation gains from fair value adjustment	1,353
10	Additions	14,899
0	Assets reclassified	0
0	Disposal of investment properties	0
50,990	**Balance at the end of the year**	**67,242**

The valuation of the Authority's investment property portfolio in 2019/20 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 £42.373m 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 50% stake hold property under development. At 31 March 2020, the Council share of the developments under construction were: Bridge Close (£5.25m), Rainham & Beam Park (£1.2m) and Havering & Wates (12 Estates) (£5.1m). 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 2020 and 2019 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 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**

2019 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 2019 £000
Office units	0	4,254	0	4,254
Commercial units	0	46,736	0	46,736
Total	**0**	**50,990**	**0**	**50,990**

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

2018/19 £000	Investments in subsidiary companies and Joint Ventures:	2019/20 £000
8,735	Opening Balance	12,024
3,289	Additions	9,968
12,024	Closing Balance	21,992

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

Joint Ventures

The following were 50% joint ventures of the Council:

Name	Corporation of incorporation	Class of shares	Holding	Principal activity
Bridge Close	England	Ordinary	50%	Development of the building project
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 carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £483m charged to revenue in 2019/20 was charged to Central Support Services and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

2018/19 £000	Intangible fixed assets software and system development	2019/20 £000
2,989	Gross carrying amounts	2,989
(916)	Less accumulated amortisation	(1,421)
2,073	**Net carrying amount at start of year**	**1,568**
0	Additions – purchases	0
0	Disposals	0
(505)	Less amortisation for the period	(483)
1,568	**Net carrying amount at end of year**	**1,085**
	Comprising:	
2,989	Gross carrying amounts	2,989
(1,421)	Less accumulated amortisation	(1,904)

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
- overdraft with NatWest bank
- 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; 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 2019		Financial Liabilities	31 March 2020	
Long-Term £000	**Short-Term £000**		**Long-Term £000**	**Short-Term £000**
		Loans at amortised cost:		
		PWLB		
203,234		- Principal borrowed	228,234	
	413	- Accrued interest		425
		Market Loan		
7,000		- Principal borrowed	7,000	
	92	- Accrued interest		93
		Other Loans		
350	352	- Principal borrowed		38,366
	71	- Accrued interest		23
210,584	**928**	**Total borrowing ***	**235,234**	**38,907**
		Liabilities at amortised cost:		
		Trade payables		
0	41,806	- Trade Creditors	0	58,356
0	**41,806**	**Included in creditors**	0	**58,356**
210,584	**42,734**	**Total financial liabilities**	**235,234**	**97,263**

* The total short-term borrowing includes £0.519m (2018/19: £0.505m) representing accrued interest on long-term borrowing (PWLB £425k & LOBO £93k)

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

31 March 2019		Financial Assets	31 March 2020	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
35,000	133,100	- Principal at amortised cost	10,000	142,800
	707	- Accrued interest		789
3,000	1,000	- Other Principal at amortised cost	3,000	
	117	- Accrued interest		113
38,000	**134,924**	**Total Investments ***	**13,000**	**143,702**
		Loans and receivables:		
	12,156	- Cash (including bank accounts)		10,895
	14,490	- Cash equivalents at amortised cost		15,850
	18	- Accrued interest		5
0	**26,664**	**Total cash and cash equivalents**	**0**	**26,750**
		Loans and receivables		
19,070	36,321	- Trade receivables	26,505	39,426
19,070	**36,321**	**Included in debtors**	**26,505**	**39,426**
57,070	**197,909**	**Total financial assets**	**39,505**	**209,878**

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

31 March 2019		Fixed Assets	31 March 2020	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
35,000	133,100	- Principal at amortised cost	10,000	142,800
	707	- Accrued interest		789
3,000	1,000	- Other Principal at amortised cost	3,000	
	117	- Accrued interest		113
38,000	**134,924**	**Total investments**	**13,000**	**143,702**
		Loans and receivables:		
	12,422	- Cash (including bank accounts)		12,005
	14,490	- Cash equivalents at amortised cost		15,850
	18	- Accrued interest		5
0	**26,930**	**Total cash and cash equivalents**	**0**	**27,860**
		Loans and receivables		
2,428	34,904	- Trade receivables	232	37,127
2,428	**34,904**	**Included in debtors**	**232**	**37,127**
40,428	**196,758**	**Total financial assets**	**13,232**	**208,689**

(c) Financial Instruments - Gains and Losses

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

	Financial Liabilities		Financial Assets		2019/20 Total
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	
	£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**		**(5,713)**	**7,242**
Net gain (loss) for the year	**7,790**	**12,955**	**(3,873)**	**(5,713)**	**11,159**

Gains and losses in 2018/19 were as follows:

	Financial Liabilities		Financial Assets		2018/19
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	Total
	£000	£000	£000	£000	£000
Interest expense	7,802				7,802
Interest payable and similar charges	**7,802**	**0**	**0**	**0**	**7,802**
Interest income			(3,184)		(3,184)
Increases in fair value					0
Interest and investment income	**0**	**0**	**(3,184)**	**0**	**(3,184)**
Changes in value of investment properties				(6,300)	(6,300)
Income and expenditure relating to investment properties				(3,034)	(3,034)
Pensions Net Interest		12,224			12,224
Impact in Other Comprehensive Income	**0**	**12,224**	**0**	**(9,334)**	**2,890**
Net gain (loss) for the year	**7,802**	**12,224**	**(3,184)**	**(9,334)**	**7,508**

(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 2020. 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 2020, using the following methods and assumptions:

- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March;
- 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 2019			Fair Value Level	31 March 2020	
Balance Sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		Financial liabilities held at amortised cost:			
203,234	284,389	- Long-term loans from PWLB	2	228,234	348,464
7,000	12,672	- Long-term LOBO loans	2	7,000	15,985
350	350	- Other long-term loans	2		
352	352	- Other Short-term loans	2	38,366	42,306
576	576	- Accrued interest		541	541
211,512	**298,339**	**Total**		**274,141**	**407,296**
41,806	41,806	Liabilities for which fair value is not disclosed		58,356	58,356
253,318	**340,145**	**Total Financial Liabilities**		**332,497**	**465,652**

31 March 2019 Balance Sheet £000	31 March 2019 Fair Value £000		Fair Value Level	31 March 2020 Balance Sheet £000	31 March 2020 Fair Value £000
		Recorded on balance sheet as:			
41,806	41,806	- Short-term creditors		58,356	58,356
928	928	- Short-term borrowing		38,907	42,848
210,584	297,824	- Long-term borrowing		235,234	364,450
253,318	**340,558**	**Total Financial Liabilities**		**332,497**	**465,654**

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 2019 Balance Sheet £000	31 March 2019 Fair Value £000		Fair Value Level	31 March 2020 Balance Sheet £000	31 March 2020 Fair Value £000
		Financial assets held at amortised cost:			
		Loans & Receivables			
35,000	35,384	- Long-term loans to local authorities	2	10,000	10,205
19,070	18,546	- Long-term other loans	2	26,505	26,087
74,000	74,347	- Short-term loans to local authorities	2	90,000	90,398
59,100	59,212	- Short-term bank deposits	2	52,800	53,089
3,000	3,294	- Unrated Corporate Bonds	2	3,000	3,315
1,000	1,000	- Covered Bond	1		
824	824	- Accrued interest		902	902
		Cash and Cash equivalents			
26,646	26,646	- Cash equivalents at amortised cost	2	26,745	26,745
18	18	- Accrued interest	2	5	5
218,658	**219,271**	**Total**		**209,957**	**210,746**
36,322	36,322	Assets for which fair value is not disclosed *		39,426	39,426
254,980	**255,593**	**Total Financial Assets**		**249,383**	**250,172**
		Recorded on balance sheet as:			
19,070	18,546	- Long-term debtors		26,505	26,087
38,000	38,678	- Long-term investments		13,000	13,520
37,146	37,146	- Short-term debtors		40,328	40,328
134,100	134,559	- Short-term investments		142,800	143,487
26,664	26,664	- Cash and cash equivalents		26,750	26,750
254,980	**255,593**	**Total Financial Assets**		**249,383**	**250,172**

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 (revised in 2017).

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.

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 £71.650m 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 irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31st March 2020 that this was likely to crystallise.

The credit quality of £3.0m of the Authority's investments is enhanced by collateral held in the form of Unrated corporate bonds. The collateral significantly reduces the likelihood of the Authority suffering a credit loss on these investments.

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

31 March 2019		Credit Rating	31 March 2020	
Long-term £000	Short-term £000		Long-term £000	Short-term £000
0	14,490	AAA	0	15,850
0	5,000	AA+	0	0
0	0	AA	0	0
0	4,100	AA-	0	0
0	20,000	A+	0	22,800
0	21,000	A	0	30,000
0	0	A-	0	0
35,000	84,000	Unrated local authorities	10,000	90,000
3,000	0	Unrated Corporate Bonds	3,000	0
38,000	**148,590**	**Total Investments**	**13,000**	**158,650**

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 2019/20 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 2019 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2020 £000
0	Capital	3,369	0	0	0
6,609	Housing	8,866	71	76	5,723
631	Social Services	8,017	10	4	359
5,220	Parking	6,862	80	92	6,294
0	Other local authorities	767	0	0	0
0	Health authorities	1,943	0	0	0
1,485	Other sundry debtors	22,206	9	9	1,907
13,945	**Total**	**52,030**	**27**	**27**	**14,283**

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.

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

31 March 2019 £000	Time to maturity (years)	31 March 2020 £000
350	Not over 1	38,366
0	Over 1 but not over 2	1,110
1,110	Over 2 but not over 5	0
56,540	Over 5 but not over 10	73,065
82,624	Over 10 but not over 20	66,099
30,000	Over 20 but not over 30	30,000
32,960	Over 30 but not over 40	32,960
0	Over 40	25,000
7,000	Uncertain date	7,000
210,584	**Total**	**273,600**

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 maturity date is therefore uncertain.

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. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in other comprehensive income and expenditure.

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

	2019/20 £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 *	(197)
Decrease in fair value of fixed rate borrowing liabilities *	(34,076)

* No impact on comprehensive income and expenditure. The Authority has no investments in call accounts with falling interest rates at 31st March 2020.

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

19. Debtors

Short-Term Debtors

31 March 2019 £000					31 March 2020 £000			
Gross	Impairment Allowance		Net		Gross	Impairment Allowance		Net
				Collection Fund Debtors				
14,426	(7,259)	*	7,167	Council Tax payers	14,662	(7,764)	*	6,898
2,157	(1,408)	*	749	Business Rate payers	1,319	(677)	*	642
				Other Debtors				
7,805	0	*	7,805	Government departments	6,113	0	*	6,113
2,443	0		2,443	Capital	3,369	0		3,369
9,657	(6,609)		3,048	Housing	8,866	(6,723)		2,143
10,062	(7,124)	*	2,938	Housing Benefit	10,415	(7,616)	*	2,799
6,572	(631)		5,941	Social Services	8,017	(359)		7,658
6,799	(5,220)		1,579	Parking Enforcement	6,862	(6,294)		568
1,298	0		1,298	Other local authorities	767	0		767
1,671	0		1,671	Health authorities	1,943	0		1,943
1,417	0		1,417	Mercury Land Holdings	2,683	0		2,683
21,234	(1,485)		19,749	Other sundry debtors	22,202	(1,907)		20,295
85,541	**(29,736)**		**55,805**	**Total Short-Term debtors**	**87,218**	**(31,340)**		**55,878**

* 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 2019 £000	Age of Debtors	31 March 2020 £000
4,344	Less than 1 year	4,088
2,539	Between 1 and 2 years	2,599
2,106	Between 2 and 3 years	1,847
7,594	More than 3 years	7,447
16,583	**Balance at end of the year**	**15,981**

Long-Term Debtors

31 March 2019 £000		31 March 2020 £000
16,642	Mercury Land Holdings	24,108
2,164	Wates JV	2,164
264	Other	233
19,070	**Total Long-Term Debtors**	**26,505**

20. Cash and Cash Equivalents

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

2018/19 £000		2019/20 £000
5,988	Bank current accounts	5,959
14,508	Short-term deposits with banks – call accounts	15,855
6,168	Schools – under the LMS cheque book scheme	4,936
26,664	**Total cash and cash equivalents**	**26,750**

21. Assets Held for Sale

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

2018/19 £000		2019/20 £000
6,906	**Opening Balance**	**1,826**
(2,530)	Revaluation gains from fair value adjustments	0
0	Assets reclassified	0
(2,550)	Disposals	(1,826)
1,826	**Balance at end of the year**	**0**

22. Short-Term Creditors

31 March 2019 £000		31 March 2020 £000
	Collection Fund creditors	
6,469	Council Tax payers *	6,475
4,047	Business Rates payers *	2,608
5,413	Grater London Authority *	3,870
281	Central Government (NNDR)*	3,650
	Other Creditors	
3,109	Central Government *	1,842
4,218	HMRC *	4,567
13,627	Pension Fund *	21,904
2,473	Capital creditors	13,337
33,663	Other sundry creditors	36,349
5,670	Income in advance	8,670
78,970	**Total**	**103,272**

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

23. Provisions

2019/20	Self Insurance £000	Collection Fund £000	Other Provisions £000	Total £000
Balance at 31 March 2019	**2,850**	**6,855**	**0**	**9,705**
Additional provisions made in year	93			**93**
Amounts used in year		(709)		**(709)**
Transfer to revenue				**0**
Balance at 31 March 2020	**2,943**	**6,146**	**0**	**9,089**

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 **£7.86 million** will be settled within the next financial year, but this is a very high-level guesstimate. Only the Authority's share of the appeals is recorded within the note, and this year's share is 48% compared to 64% in 2018/19.

24. Usable Reserves

31 March 2019 £000		31 March 2020 £000
12,287	General Fund balance	12,687
69,110	Earmarked Reserves	57,457
4,907	Housing Revenue Account balance	9,832
47,146	Capital Grants Unapplied	50,523
54,881	Capital Receipts Reserve	49,219
30,915	Major Repairs Reserve	21,732
219,246	**Total usable reserves**	**201,450**

25. Unusable Reserves

31 March 2019 £000		31 March 2020 £000
406,796	Revaluation Reserve	393,756
570,838	Capital Adjustment Account	615,623
(572)	Financial Instruments Adjustment Account	(475)
(539,382)	Pension Reserve	(423,095)
205	Deferred Capital Receipts Reserve	166
(61)	Collection Fund Adjustment Account	(1,485)
(3,837)	Accumulated Absences Account	(3,789)
433,987	**Total unusable reserves**	**580,701**

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 2019 £000		31 March 2020 £000
470,842	**Balance at 1 April**	**406,796**
(23,484)	Net gain/(deficit) on revaluation of fixed assets	(8,555)
(5,851)	Excess of Fair Value Depreciation over Historical costs depreciation	(4,481)
(35,896)	Removal of Revaluation balance upon sale	(4)
1,185	Other Adjustments	0
406,796	**Balance at 31 March**	**393,756**

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 2019/20 or 2018/19. 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.

2018/19 £000		2019/20 £000
563,831	**Balance at 1 April**	**570,838**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(23,506)	Net charges for depreciation of non-current assets	(20,652)
(1,349)	Net charges for impairment of non-current assets	8,443
0	Net charges for de-recognition of non-current assets	0
0	Mitigation of PPP Capitalised	0
(504)	Amortisation of intangible assets	(483)
(74,574)	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	(7,544)
	Adjusting amounts written out of the Revaluation Reserve	
5,851	Excess of Fair Value Depreciation over Historical costs depreciation	4,481
35,893	Removal of Revaluation balance upon sale	4
1,766	Other	0
(56,423)	**Net written out amount of the cost of non-current assets consumed in the year**	**(15,751)**
	Capital financing applied in the year:	
20,547	Use of the Capital Receipts Reserve to finance new capital expenditure	18,231
8,983	Use of the Major Repairs Reserve to finance new capital expenditure	17,997
16,296	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	27,347
1,875	Statutory provision for the repayment of debt	2,194
15,013	Capital expenditure charged against the General Fund and HRA balances	8,940
62,714	**Capital financing applied in year**	**74,709**
(5,584)	**Revenue expenditure funded from capital under statute**	**(15,527)**
6,300	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**1,353**
570,838	**Balance at 31 March**	**615,622**

d) Financial Instruments Adjustment Account

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.

2018/19 £000		2019/20 £000
(727)	**Balance at 1 April**	(572)
155	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	97
(572)	**Balance at 31 March**	**(475)**

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.

2018/19 £000		2019/20 £000
(469,258)	**Balance at 1 April**	**(539,382)**
(54,838)	Actuarial gains or (losses) on pensions assets and liabilities	127,831
(45,217)	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	(45,066)
29,931	Employer's pensions contributions and direct payments to pensioners payable in the year	33,522
(539,382)	**Balance at 31 March**	**(423,095)**

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.

2018/19 £000		2019/20 £000
244	**Balance at 1 April**	**244**
(39)	Transfer to the Capital Receipts Reserve upon receipt of cash	(78)
205	**Balance at 31 March**	**166**

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.

2018/19 £000		2019/20 £000
(17)	**Balance at 1 April**	**(61)**
(44)	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	(1,424)
(61)	**Balance at 31 March**	**(1,485)**

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.

2018/19 £000		2019/20 £000
(3,965)	**Balance at 1 April**	**(3,837)**
3,965	Settlement or cancellation of accrual made at the end of the preceding year	3,837
(3,837)	Amounts accrued at the end of the current year	(3,789)
128	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	48
(3,837)	**Balance at 31 March**	**(3,789)**

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2018/19 Authority £000	2018/19 Group £000		2019/20 Authority £000	2019/20 Group £000
21,166	21,176	Depreciation, impairment and downward revaluation	12,209	12,219
504	504	Amortisation	483	483
727	1,352	Movement in creditors	24,303	30,327
0	0	Movement in long-term creditors	0	0
(7,113)	(7,872)	Movement in debtors	(77)	1,628
(5,685)	(2,180)	Movement in long-term debtors	(7,435)	20
(64)	36	Movement in inventories	(4)	(4)
15,286	15,286	Movement in pension liability	11,544	11,544
4,356	4,356	Decrease in provisions	(616)	(616)
71,623	71,623	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	7,544	7,474
3,332	3,084	Other non-cash items charged to the net surplus or deficit on the provision of services	14,313	14,231
104,132	**107,365**	**Net cash flows from operating activities**	**62,264**	**77,306**

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

2018/19 Authority £000	2018/19 Group £000		2019/20 Authority £000	2019/20 Group £000
(19,483)	(19,483)	Capital grants credited to the Consolidated Income and Expenditure Statement	(30,724)	(30,724)
(20,542)	(20,542)	Proceeds from sale of fixed assets	(13,636)	(13,636)
(40,025)	**(40,025)**	**Adjustment for items included in the net surplus or deficit on the provisions of services that are investing and financing activities**	**(44,360)**	**(44,360)**

27. Cash Flow Statement – Investing Activities

2018/19 Authority £000	2018/19 Group £000		2019/20 Authority £000	2019/20 Group £000
(61,788)	(61,788)	Purchase of property, plant and equipment, investment property and intangible assets	(136,489)	(136,489)
(243,909)	(251,364)	Purchase of short-term and long-term investments	(188,790)	(217,230)
20,542	20,542	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,636	13,636
19,946	19,946	Capital grants received	26,427	41,299
253,001	253,001	Proceeds from short-term and long-term investments	195,126	195,126
0	0	Other receipts from investing activities	0	0
(12,208)	**(19,663)**	**Net cash flows from investing activities**	**(90,090)**	**(103,658)**

28. Cash Flow Statement – Financing Activities

2018/19 Authority £000	2018/19 Group £000		2019/20 Authority £000	2019/20 Group £000
29,253	29,253	Cash receipts of short-term and long-term borrowing	180,623	180,623
(59,518)	(59,518)	Repayments of short-term and long-term borrowing	(117,995)	(117,995)
(30,265)	**(30,265)**	**Net cash flows from financing activities**	**62,628**	**62,628**

29. Trading Operations

2018/19 (Surplus)/ Deficit £000		2019/20 Income £000	2019/20 Expenditure £000	2019/20 (Surplus)/ Deficit £000
	a) Open Air Market			
221	The Authority operates an open air market three days a week	(342)	509	166
	b) Other Trading Accounts			
(1,203)	Highways	(3,365)	2,847	(518)
163	Schools/Welfare Catering	(7,732)	7,533	(198)

Open Air Market -The Market trading results have been in line with 2018/19, continuing to be impacted by the negative market trading position.

Highways – Actual surplus income has reduced by £0.685m in comparison to that of 2018/19. The reduction in surplus was due to a delay in the works programme for 2019/20 with a plan to complete in 2020/21. It is anticipated that the 2020/21 programme will also be impacted by further delays, the COVID19 pandemic and the subsequent withdrawal of Transport for London (TFL) funded schemes. The aspiration for 2021/22 is to return to "business as usual" and regain this surplus.

Schools/Welfare Catering - The Service has a £410k surplus before overheads in 2019/20, once overheads are applied this reduces the surplus to £198k. Recharges reduced significantly between 2018/19 & 2019/20 by £317k which led to a more favourable outcome than in previous years. Income increased by £121k due to an increase in the primary school meal of 5p per meal from September 2019. This financial outturn also includes contract retention costs for £55K for capital investment into school kitchens.

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

2018/19 £000		2019/20 £000
	Funding	
1,527	Section 75 Joint Pooled Budget between London Borough of Havering and North East London Foundation Trust	1,485
100	Recharges (excluded from the Pooled Budget)	88
1,324	Non Pooled Budget codes	1,328
2,951	**Total funding**	**2,901**
2,846	**Final outturn**	**2,977**

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 2019/20 was 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		
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	1,259		
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	172		
CCG contribution to Care Act	656		
LBH Additional Contribution	874		
Net Pooled Revenue	**19,122**	**19,122**	**0**
Total Pooled	**20,935**	**20,438**	**(497)**

Underspend on capital has been carried forward into the following financial year (2020/21).

Comparative figures for 2018/19 are as follows:

Section 75 Joint Pooled Budget between LBH and CCG	Budget 2018/19 £000	Actual 2018/19 £000	BCF Funding Outturn 18-19 £000
LBH Funding - Capital			
Disability Facility Grant Allocation	1,869	1,345	(524)
Net Pooled Capital	**1,869**	**1,345**	**(524)**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**10,396**	**10,396**	**0**
Revenue - CCG/ LBH			
Minimum CCG Contribution - Expenditure	**7,505**	**7,505**	**0**
CCG Minimum contribution representing ex256 monies	4,864	4,864	
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	882	882	
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	175	175	
CCG contribution to Care Act	644	644	
LBH Additional Contribution	940	940	
Net Pooled Revenue	**17,901**	**17,901**	**0**
Total Pooled	**19,770**	**19,246**	**(524)**

31. Members' Allowances

Payments in year were £951,150 including expenses (£929,598 in 2018/19). Additionally, payments to co-opted members totalled £1,585 (£1,468 in 2018/19).

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			2018/19		
Lower Band		Upper Band	Schools	Other	**Total**	Schools	Other	**Total**
£50,000	-	£55,000	21	68	**89**	24	45	**69**
£55,000	-	£60,000	23	37	**60**	16	24	**40**
£60,000	-	£65,000	14	16	**30**	16	18	**34**
£65,000	-	£70,000	14	18	**32**	10	17	**27**
£70,000	-	£75,000	6	16	**22**	9	11	**20**
£75,000	-	£80,000	6	7	**13**	9	7	**16**
£80,000	-	£85,000	7	5	**12**	3	4	**7**
£85,000	-	£90,000	2	2	**4**	2	2	**4**
£90,000	-	£95,000	2	5	**7**	2	3	**5**
£95,000	-	£100,000	3	3	**6**	1	1	**2**
£100,000	-	£105,000	1	2	**3**		3	**3**
£105,000	-	£110,000		3	**3**		1	**1**
£110,000	-	£115,000			**0**		3	**3**
£115,000	-	£120,000		1	**1**			**0**
£120,000	-	£125,000		1	**1**		1	**1**
£125,000	-	£130,000			**0**		1	**1**
£130,000	-	£135,000			**0**			**0**
£135,000	-	£140,000		1	**1**		2	**2**
£140,000	-	£145,000			**0**			**0**
£145,000	-	£150,000		2	**2**			**0**
£150,000+				2	**2**		3	**3**
			99	**189**	**288**	**92**	**146**	**238**

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 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	**222,398**
Chief Operating Officer - Jane West	1	154,956	2,399	**157,355**	0	**157,355**
Director of Neighbourhoods	2	57,490	369	**57,859**	8,968	**66,828**
Director of Children's Services	3	120,376	334	**120,710**	18,779	**139,488**
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	0	**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**	0	**206,591**
Total		**960,649**	**178,025**	**1,138,674**	**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 0.4FTE and has an equivalent full-time annualised salary of £137,976. The other payment of £156,000 was to the Director's employer.

Note 6 In addition to this, 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.

The comparative figures for 2018/19 are as follows:

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2017/18 £	Employer's pension contribution £	Total Remuneration including pension contributions 2017/18 £
Chief Executive – Andrew Blake-Herbert	1	175,277	9,563	**184,840**	38,561	**223,401**
Chief Operating Officer	1	151,984	1,000	**152,984**	-	**152,984**
Previous Director of Neighbourhoods	2	116,195	96,000	**212,195**	25,563	**237,758**
Director of Children's Services		137,863	-	**137,863**	30,675	**168,538**
Director Adult Social Care and Health		139,434	-	**139,434**	30,675	**170,109**
Director of Public Health		111,689	-	**111,689**	16,061	**127,750**
Director of Legal and Governance	3	132,113	-	**132,113**	-	**132,113**
Total		**964,555**	**106,563**	**1,071,118**	**141,535**	**1,212,653**

Note 1 As part of his electoral duties, the Chief Executive received a sum of £9,563 and as part of her electoral duties, the Chief Operating Officer received a sum of £1,000.

Note 2 The previous Director of Neighbourhoods left on 31st January 2019, and their pay includes redundancy payments. The new director commenced post on 1st January 2019.

Note 3 This post is a shared appointment between Havering, Newham and Bexley Council but it was a statutory named officer role for Havering.

33. External Audit Costs

The following fees relating to external audit and inspection were included in the 2019/20 accounts:

2018/19 £000		2019/20 £000
117	Fees payable with regard to external audit services carried out by appointed auditor	146
23	Certification of grant claims (housing benefit subsidy claim, capital pooling receipts and teachers pension)	5
0	Amounts relating to prior year Statement of Accounts 2017/18 scale fee variation and extra fees	57
0	Audit fees refunded by the PSAA (Public Sector Audit Appointments Ltd.)	(14)
140	**Total for year**	**194**

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.

Details of the deployment of DSG receivable 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)**

Comparative figures for 2018/19 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2018/19 before academy recoupment			215,293
Less academy figure recouped for 2018/19			(101,200)
Total DSG after academy recoupment for 2018/19			**114,093**
Plus: brought forward from 2017/18			2,565
Agreed initial budgeted distribution for 2018/19	**30,327**	**86,331**	**116,658**
In year adjustments	0	0	0
Final budgeted distribution for 2018/19	**30,327**	**86,331**	**116,658**
Actual central expenditure	(27,862)		(27,862)
Actual ISB deployed to schools		(86,331)	(86,331)
Carry forward to 2019/20	**2,465**	**0**	**2,465**

35. Grant Income

a) The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

2018/19 £000		2019/20 £000
Credited to Taxation and Non Specific Grant Income		
17,675	Non ring-fenced Grant	21,477
19,483	Capital Grants	30,724
37,158	**Total**	**52,201**
Credited to Services		
54,155	Rent Allowances	44,433
31,791	Rent Rebates	27,912
10,935	Public Health Grant	10,646
114,308	Dedicated Schools Grant	115,545
6,564	Better Care Fund	7,046
4,384	Contributions from Other Local Authorities	5,889
1,029	School Contribution	1,055
1,181	Schools Funding Agency / Education Funding Agency	1,244
5,482	Pupil Premium Grant	5,058
2,880	Universal Free School Meals	2,618
861	Additional Funding For Schools –Primary School Sports Funding	849
931	Unaccompanied Asylum Seeking Children Funding	1,791
1,617	Flexible Homelessness Grant	1,515
0	Social Care Innovation Programme	1,069
0	Teachers Pension Grant	1,663
0	Teachers Pay Grant	854
0	Children Social Care Innovation Grant	607
7,717	Other	8,521
243,835	**Total**	**238,315**

Current Liabilities

b) Capital Grants – receipts in advance:

2018/19 £000		2019/20 £000
12,527	Brought forward	13,393
2,767	Amounts received in year	1,957
(1,901)	Amounts applied to meet new capital investment	(6,063)
13,393	**Carried forward**	**9,287**

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 2019/20 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	17,049	-	(937)	(934)
Veolia ES Cleanaway Havering Riverside Trust	Cllr R Benham	8	-	(5)	-
Havering Arts Council	Cllr J Chapman Cllr J Frost Cllr L Hawthorn Cllr T Lawal Cllr T Ryan	1	-	-	-
Romford Town Management Partnership	Cllr J Chapman Cllr D White	1,232	-	(28)	-
Havering Theatre Trust Ltd.	Cllr P Crowder Cllr G Ford Cllr P McGeary	313	-	(40)	(6)
BETRA Tenant Management Organisation (appointed by Council)	Cllr P McGeary	243	-	-	-
Learning Federation; Broadford and Mead Schools; Harold Hill - Chair of Finance	Cllr P McGeary	4,114	-	-	-
London Riverside (BID) Limited	Cllr D White	558	-	(25)	-
Havering Association for People with Disabilities Representative	Cllr N Dodin Cllr Christine Smith	99	-	-	-
Tapestry	Cllr L Hawthorn Cllr Christine Smith	567	-	(1)	-
Citizens Advice Bureau - Havering Board Member	Cllr Christine Smith	199	-	(19)	-
Havering Volunteer Centre	Cllr L Van den Hende	99	-	(13)	(1)
Local Government Association	Cllr D White Cllr M White	108	-	-	-
BT: Public Affairs & Partnership Director	Cllr M White	126	-	-	-

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	144	-	-	-

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.

The oneSource net controllable expenditure for 2019/20 is disclosed below indicating the share falling to each of the authorities. The LBH share is charged against the Consolidated Income and Expenditure Statement.

2018/19 £000	oneSource	2019/20 £000
	Net Expenditure	
6,555	Exchequer and Transactional Services	6,550
9,844	Finance	10,638
1,621	Business Services	973
2,225	Legal and Governance	2,847
8,934	ICT	8,791
2,345	Asset Management	2,119
2,687	Strategic and Operational HR	3,043
34,211	**Total Net Expenditure**	**34,961**
	Cost Sharing:	
15,740	London Borough of Newham	16,557
15,633	London Borough of Havering	15,852
2,838	London Borough of Bexley	2,552

As at 31 March 2020, the Authority was owed £1.019m by the London Borough of Newham and £0.329m was owed to the London Borough of Bexley.

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 (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 2019 - March 2020
Director of Asset Management	London Borough of Havering	April 2019 - March 2020
Director of Exchequer and Transactional	London Borough of Havering	April 2019 - March 2020
Director of Legal and Governance	London Borough of Newham	April 2019 - March 2020
Director of Human Resources	London Borough of Havering	April 2019 - March 2020
Director of Finance	London Borough of Newham - Agency	April 2019 - March 2020
Director of ICT	London Borough of Newham	April 2019 - March 2020

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 2020, 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 2020, the share of the profit and loss account is a £241k loss, however £233k of this is interest payable to the Council. A 50% of the assets and liabilities of the joint venture is shown within the group accounts, this is predominantly a £5.25m property development in progress. The Council's the balance sheet includes the Council's loan to the LLP, £3.15m as at 31st March 2020 and £2.165m of share capital.

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 influences the joint venture through its 50% share in the LLP. For the financial year ended 31st March 2020, the Council's share of the profit and loss account was a £6k loss. The balance sheet includes the Council's loan to the LLP, £4.873m as at 31st March 2020.

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. As at 31st March 2020, the joint venture was still being established. The Council's £1.2m 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:

2018/19 £000	Capital Expenditure	2019/20 £000
56,195	Property, Plant and Equipment	106,062
9	Investment fixed assets	14,899
0	Intangible Assets	0
5,584	Revenue expenditure funded from capital under statute	15,526
3,289	Long Term Investments	9,968
6,511	Long Term Loans	8,338
71,588	**Total capital expenditure**	**154,793**
	Less financed from	
(20,547)	Capital receipts	(18,231)
(8,983)	Major repairs	(17,997)
(15,013)	Revenue funds	(8,940)
(16,297)	Grants and contributions	(27,347)
10,748	**Increase in need to borrow**	**82,278**
(1,875)	Minimum Revenue Provision	(2,194)
8,873	**Change in Capital Financing Requirement**	**80,084**

The following statement shows the make-up of the Authority's Capital Financing Requirement under the Prudential Code:

31 March 2019 £000	Capital Financing Requirement	31 March 2020 £000
1,218,580	Tangible fixed assets	1,312,636
12,024	Capital Investments - Equity	21,992
18,854	Capital Investments - Loans	27,092
1,568	Intangible assets	1,085
(406,796)	Revaluation Reserve	(393,756)
(570,839)	Capital Adjustment Account	(615,622)
(48)	Repayments of Loans not used to repay debt due to timing	0
273,343	**Net Requirement**	**353,427**

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:

2018/19 £000		2019/20 £000
129	Children's and Education Services	217
25	Highways, Roads and Transport Services	0
154	**Minimum Lease Payments**	**217**

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

31 March 2019 £000		31 March 2020 £000
129	Not later than one year	186
178	Later than one year and not later than five years	307
0	Later than five years	7
307	**Minimum Lease Payments**	**500**

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 2019 £000		31 March 2020 £000
99	Not later than one year	82
82	Later than one year and not later than five years	0
181	**Minimum Lease Payments**	**82**

The minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £82,000 (£0.181m in 2018/19). In most cases these rents are charged to Central Support Service and subsequently released to the appropriate service.

39. Revaluation Gains and Impairment Losses

During 2019/20, the Authority has recognised a net revaluation gain of £9.7m 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	(7,949)	2,916
Other land and buildings	(5,070)	1,674
Community Assets	0	0
Surplus Assets	(35)	21
Total Property Plant and Equipment	**(13,054)**	**4,611**
Investment Properties	(8,952)	7,599
Assets Held for Sale	0	0
Total (gain) or loss to the CI&ES	**(22,006)**	**12,210**

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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	7	13	16	12	23	25	198,014	160,219
£20,001 - £40,000	1	1	2	5	3	6	65,401	179,496
£40,001 - £60,000	1	0	3	0	4	0	187,898	0
£60,001 - £80,000	1	0	2	0	3	0	214,607	0
£80,001 - £100,000	1	0	0	2	1	2	91,383	185,833
£100,001 - £150,000	0	0	2	0	2	0	208,276	0
>£150,000	0	0	0	0	0	0	0	0
Total	**11**	**14**	**25**	**19**	**36**	**33**	**965,579**	**525,548**

Note: The Authority terminated the contracts of a number of employees in 2019/20, incurring costs of £525,548 (£965,579 in 2018/19). The majority of the redundancies are as a result of the Havering transformation programme. The note includes redundancy as well as the strain cost to the pension fund.

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 2019/20 the Authority paid £6.98m (£5.51m 2018/19) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 20.76% (16.48% in 2018/19) This is the average contribution rate for the year as the rate increased from 16.48% to 23.68% on 1st September 2019. 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 2019/20 the Authority paid £44,640 (£40,765 in 2018/19) to NHS Pensions in respect of public health pension contributions. This represented 16.88% of pensionable pay (14.38% in 2018/19). There were £3,570 of contributions remaining payable at the end of the period.

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.

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:

2018/19 £000		2019/20 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service Cost Comprising:	
31,877	Current service cost	32,026
3,213	Past service costs	85
(2,098)	Gain from settlements	0
	Financing and Investment Income and Expenditure	
12,225	Net interest expense	12,955
45,217	**Total post-employment benefits charged to the surplus or deficit on the provision of services**	**45,066**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
(4,488)	Return on plan assets (excluding the amount included in the net interest expense)	16,032
59,376	Actuarial gains and losses arising on changes in financial assumptions	(83,933)
(50)	Other	(59,930)
54,838	**Total post-employment Benefits charges to the Comprehensive Income and Expenditure Statement**	**(127,831)**
	Movements in Reserves Statement	
(45,217)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(45,066)
	Actual amount charged against the General Fund Balance for pensions in the year:	
29,931	Employers' contributions payable to scheme	33,522
(15,286)	**Net movement in Pensions Reserve**	**(11,544)**

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:

2018/19 £000		2019/20 £000
	Local Government Pension Scheme	
(1,149,291)	Present value of the defined benefit obligation	(1,032,891)
609,909	Fair value of plan assets	609,796
(539,382)	**Net liability arising from defined benefit obligation**	**(423,095)**

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

2018/19 £000		2019/20 £000
	Local Government Pension Scheme	
590,958	Opening fair value of scheme assets	609,909
15,334	Interest income	14,683
	Re-measurement gain (loss):	
4,488	The return on plan assets, excluding the amount included in the net interest expense	(16,032)
29,931	Contributions from employer	33,522
5,472	Contributions from employees into the scheme	5,804
(33,809)	Benefits paid	(38,090)
(2,465)	Other – effect of settlements	0
609,909	**Closing fair values of scheme assets**	**609,796**

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

2018/19 £000		2019/20 £000
	Funded liabilities: Local Government Pension Scheme	
1,060,216	Opening balance at 1 April	1,149,291
31,877	Current service cost	32,026
27,559	Interest cost	27,638
5,472	Contributions from scheme participants	5,804
	Re-measurement (gains) and losses:	
59,376	Actuarial (gains)/ losses arising from changes in financial assumptions	(83,933)
(50)	Other	(59,930)
3,213	Past service cost (Including curtailments)	85
(33,809)	Benefits paid	(38,090)
(4,563)	Liabilities extinguished on settlements	0
1,149,291	**Closing balance at 31 March**	**1,032,891**

Local Government Pension Scheme assets comprised:

2018/19					2019/20			
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				
64,544		**64,544**	11.00	Corporate bonds (investment grade)	48,725		**48,725**	8.00
11,805		**11,805**	2.00	UK Government	16,180		**16,180**	3.00
27,474		**27,474**	4.00	Other	31,382		**31,382**	5.00
				Real Estate				
37,302		**37,302**	6.00	UK Property	32,509		**32,509**	5.00
				Investment Funds and Unit Trusts				
450,732		**450,732**	74.00	Equities	244,587		**244,587**	40.00
			-	Bonds	11,775		**11,775**	2.00
			-	Infrastructure	30,330		**30,330**	5.00
			-	Other	175,139		**175,139**	29.00
				Derivatives				
		0	-	Foreign Exchange	(83)		**(83)**	0
				Cash and Cash Equivalents				
18,052		**18,052**	3.00	All	19,252		**19,252**	3.00
609,909		**609,909**	**100.00**	**Totals**	**609,796.00**		**609,796**	**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 2019.

2018/19 £000		2019/20 £000
	Local Government Pension Scheme	
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.0 years	Men	21.6 years
24.2 years	Women	23.7 years
	Longevity at 65 for future pensioners:	
23.9 years	Men	22.4 years
26.3 years	Women	25.2 years
3.50%	Rate of inflation (CPI)	1.90%
2.80%	Rate of increase in salaries	2.60%
2.50%	Rate of increase in pensions	1.90%
2.40%	Rate for discounting scheme liabilities	2.30%

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 2020	Approximate % increase to Employer Liability	Approximate Monetary amount £000
0.5% decrease in Real Discount Rate	9%	89,886
0.5% Increase in the Salary Increase	1%	7,419
0.5% Increase in the Pension	8%	81,810

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 £25.132m expected contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 18 years as 31st March 2020 (16.2 years 31 March 2019).

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 2020 is £718,318 with estimated scheme liabilities at the same date of £450,758. 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.

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 £
Balance 31 March 2019	6,500	144,579
Receipts	(38)	(854)
Payments	38	854
Balance at 31 March 2020	**6,500**	**144,579**

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 2019/20

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.

2018/19 £000		Notes	2019/20 £000
	Income		
(47,107)	Dwelling rents		(45,359)
(432)	Non-dwelling rents		(401)
(6,491)	Charges for services and facilities		(7,829)
(1,723)	Contributions towards expenditure		(1,209)
(55,753)	**Total Income**		**(54,798)**
	Expenditure		
6,962	Repairs and maintenance		6,608
21,491	Supervision and management		20,616
405	Rents, rates, taxes and other charges		1,295
1,088	Increased provision for bad/doubtful debts		426
2,296	Depreciation and Impairment of tangible fixed assets	4	1,538
	Debt management		
32,242	**Total Expenditure**		**30,483**
(23,511)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(24,315)**
250	HRA Services' share of Corporate and Democratic Core		333
(23,261)	**Net Expenditure of HRA Services**		**(23,982)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(6,593)	Net gain on disposal of HRA assets		(5,537)
5,854	Interest payable and similar charges		5,854
(559)	Interest and investment income		(522)
(24,559)	**Deficit/(Surplus) for the year on HRA Services**		**(24,187)**

Movement on the Housing Revenue Account Balance during 2019/20

2018/19 £000		2019/20 £000
(4,612)	**Housing Revenue Account balance brought forward**	**(4,907)**
(24,559)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(24,187)
25,709	Adjustments between accounting basis and funding basis under regulations	18,872
(3,462)	**HRA balance before transfer to earmarked reserves**	**(10,222)**
(1,445)	Transfers to earmarked reserves	390
(4,907)	**Housing Revenue Account balance carried forward**	**(9,832)**

Note to the Statement of Movement on the Housing Revenue Account Balance 2019/20

2018/19 £'000		2019/20 £000
Items included in the HRA Income and Expenditure but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
(715)	Pensions costs (transferred from the Pensions Reserve)	590
7	Holiday pay (transferred to the Accumulated Absences Reserve)	(21)
(13,176)	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	(7,200)
(13,884)	**Total Adjustments to Revenue Resources**	**(6,631)**
Adjustments between Revenue and Capital Resources		
17,748	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	10,548
(237)	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(157)
9,235	Posting of HRA resources from revenue to the Major Repairs Reserve	8,815
12,886	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	6,335
(39)	Deferred Capital Receipt	(38)
39,593	Total Adjustments between Revenue and Capital Resources	**25,503**
25,709	**Adjustments between accounting basis and funding basis under regulations**	**18,872**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

2018/19 Number		2019/20 Number
	Flats	
2,741	1 bedroom	2,703
2,201	2 bedrooms	2,214
397	3 bedrooms	478
17	4 & 5 bedrooms	27
	Houses	
328	1 bedroom	295
1,112	2 bedrooms	1,049
2,319	3 bedrooms	2,219
152	4 & 5 bedrooms	143
9,267	**Total Number of Dwellings**	**9,128**

b) Balance Sheet Value of HRA Tangible Fixed Assets

2018/19 £000		2019/20 £000
	Operational	
555,066	Dwellings	564,782
20,131	Other land and buildings	17,885
-	Vehicles, plant and equipment	-
1,433	Infrastructure	1,200
14,619	Assets Under Construction	34,858
591,249		618,725
	Non-operational	
-	Investment properties	-
-	Held for sale	-
-		-
591,249	**Total Tangible Fixed Assets**	**618,725**

c) Valuation of Council Dwellings at Year End

2018/19 £m		2019/20 £m
2,220	Vacant possession value	2,259
1,665	Excess of vacant possession value over Balance Sheet value	1,694

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

2018/19 £'000		2019/20 £'000
30,662	**Balance brought forward at start of year**	**30,914**
9,235	Total depreciation from Capital Adjustment Account	8,815
(8,983)	less MRR used to fund Capital Expenditure on HRA Dwellings	(17,997)
30,914	**Balance carried forward at end of year**	**21,732**

3. a) Total Capital Expenditure and Funding

2018/19 £'000		2019/20 £'000
	Capital expenditure on HRA property and other assets:	
31,513	Dwellings	31,037
-	Other land buildings	-
	Assets Under Construction	27,643
2,164	Investments	3,150
33,677	**Total expenditure**	**61,830**
	Financed from:	
8,983	Major Repairs Reserve	17,997
(2,632)	Grants and contributions	52
12,886	Revenue contributions	6,335
14,440	Capital receipts	14,898
-	Borrowing	22,548
33,677	**Total funding**	**61,830**

b) HRA Capital Receipts

2018/19 £'000		2019/20 £'000
11,604	Right to Buy sales	9,776
5,908	Other property sales	1,461
17,512	Total cash receipts	11,237
(1,126)	Transferred for Pooling	(1,106)
16,386	**Total income**	**10,131**

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

2018/19 £'000		2019/20 £'000
8,577	Dwellings	8,290
356	Other buildings	291
63	Equipment	-
239	Infrastructure	233
9,235	**Total HRA depreciation**	**8,814**
(6,939)	Revaluation credit/debit	(7,276)
2,296	**Total HRA depreciation and Revaluation charge**	**1,538**

5. Rent Income, Arrears and Bad Debts

2018/19 £'000	Rent	2019/20 £'000
103.21	Average weekly rent (including service charges unpooled)	105.14

31 March 2019 £000	Arears and Bad Debts	31 March 2020 £000
3,488	Rent arrears at 31 March	3,528
(3,329)	Bad debts provision at 31 March	(3,236)
159	**Total**	**292**

Collection Fund Account

Collection Fund 2019/20

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 2019/20

2018/19 Business Rates £000	2018/19 Council Tax £000		2019/20 Business Rates £000	2019/20 Council Tax £000
		Income		
	(146,436)	Income from Council Tax		(154,454)
(81,648)		Income from Business Rates	(79,334)	
(1,576)		Transitional relief	(456)	
(2,167)		Income collectable from Business Rate Supplement	(2,105)	
		Previous Year Deficit recognised in the CI&ES		
(637)		London Borough of Havering	(585)	
(833)		Central Government	0	
(654)		Greater London Authority	(178)	
(87,515)	**(146,436)**	**Total Income**	**(82,658)**	**(154,454)**
		Expenditure		
		Previous Year Surplus recognised in the CI&ES		
	181	London Borough of Havering		458
	38	Central Government	248	
		Greater London Authority		99
		Precepts		
51,623	119,125	London Borough of Havering	38,075	124,813
-	-	Central Government	19,831	
29,038	25,700	Greater London Authority	21,417	28,409
		Charges to Collection Fund		
177	383	Write-offs	1,325	996
307	465	Increase/(decrease) in bad debt provision	(789)	702
3,733		Increase in provision for appeals	2,091	
272		Cost of collection	272	
		Business Rate supplement		
2,161		Payment to Greater London Authority	2,099	
6		Cost of Collection	6	
87,317	**145,892**	**Total Expenditure**	**84,575**	**155,477**
(198)	(544)	Movement in fund balance	1,917	1,023
1,209	(479)	Net deficit/(surplus) at start of year	1,011	(1,023)
1,011	**(1,023)**	**Net deficit/(surplus) carried forward notes 3a & 3b**	**2,928**	**0**

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 2019/20 at **£1,728.66** 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	3
A	2,192
B	5,578
C	19,935
D	31,279
E	16,826
F	8,623
G	4,765
H	602
Allowance for losses in collection 1.30%	(1,167)
Tax Base	**88,636**

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 £203.4m at 31 March 2020 (£204.0m at 31 March 2019) multiplied by uniform rates for large and small businesses. In 2019/20 the rate was 50.40p for large businesses (49.3p in 2018/19) and 49.10p for small businesses (48.0p in 2018/19). 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

2018/19 £000		2019/20 £000
97,801	Gross NNDR due in year	97,246
(16,153)	Less: allowances and other adjustments	(17,912)
81,648	**Net NNDR Yield**	**79,334**

2b) Income collectable from Business Rate Supplement

2018/19 £000		2019/20 £000
2,443	Gross Supplement due in year	2,348
(276)	Less: allowances and other adjustments	(243)
2,167	**Net Business Rate Surplus Yield**	**2,105**

From 2018/19 Havering has joined the London Business Rates Pool over seen by the GLA.

3. Collection Fund Surplus / Deficit

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 the following financial year.

3a) Council Tax

2018/19 £000		2019/20 £000
(837)	London Borough of Havering	0
(186)	Greater London Authority	0
(1,023)	**(Surplus) / Deficit**	**0**

3b) Business Rates

2018/19 £000		2019/20 £000
902	London Borough of Havering	1,485
(219)	Central Government	637
328	Greater London Authority	806
1,011	**Deficit**	**2,928**

Pension Fund Account

Pension Fund

Pension Fund Account for the year ended 31 March 2020

2018/19 £000		Notes	2019/20 £000
	Dealings with members, employers and others directly involved in the fund		
43,725	Contributions receivables	7	45,812
1,633	Transfers in from other pension funds	8	5,951
45,358			51,763
(37,834)	Benefits	9	(38,769)
(3,295)	Payments to and on account of leavers	10	(3,272)
(41,129)			(42,041)
4,229	Net additions (withdrawals) from dealings with members		9,722
(5,523)	Management expenses	11	(3,975)
(1,294)	**Net additions/(withdrawals) including fund management expenses**		**5,747**
	Returns on investments		
10,835	Investment income	12	10,077
(4)	Taxes on Income	13	(1)
16,746	Profit and losses on disposal of investments and changes in the market value of investments	14a	(20,518)
27,577	**Net returns on investments**		**(10,442)**
26,283	Net increase (decrease) in the net assets available for benefits during the year		**(4,695)**
707,108	Opening net assets of the Fund at start of year		733,391
733,391	**Closing net assets of the Fund at end of year**		**728,696**

Net Asset Statement for the year ended 31 March 2020

£000			£000
150	Long Term Investments	14	150
719,286	Investment Assets	14	707,782
-	Investment Liabilities	14	(2,174)
719,436	**Total net investments**		**705,758**
14,334	Current Assets	21	23,552
(379)	Current Liabilities	22	(614)
733,391	**Net assets of the Fund available to fund benefits at end of the reporting period**		**728,696**

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 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 Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2019/20 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.

During 2019/20 five new employers joined the Fund, two transferred out (Havering Sixth Form College and Havering College of Further and Higher Education) and there was one cessation.

There are 51 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-19		31-Mar-20
49	**Number of employers with active members**	**51**
	Number of employees in scheme	
4,686	London Borough of Havering	4,769
1,961	Scheduled bodies	1,650
70	Admitted bodies	73
6,717	**Total**	**6,492**
	Number of pensioners and dependants	
5,931	London Borough of Havering	5,950
522	Scheduled bodies	346
20	Admitted bodies	114
6,473	**Total**	**6,410**
	Deferred pensioners	
5,315	London Borough of Havering	5,274
1,183	Scheduled bodies	807
46	Admitted bodies	93
6,544	**Total**	**6,174**
19,734	**Total number of members in pension scheme**	**19,076**

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 2020. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 17.5% to 38.2% 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.

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 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is 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 2019/20 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 "(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. No such accounting standards have been identified for 2019/20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take 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 accounts have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies

Fund Account – revenue recognition

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

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

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. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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 staff costs associated with governance and oversight 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.

Investment Management Expenses

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

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

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been 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.

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 party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, 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 value of promised retirement benefits by way of a note to the Net Assets 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. 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).

(n) 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.

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

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.

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability
This 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 10% 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 8%	105 6 112

Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) was amended to reflect the adjustment for the McCloud case - which concerns the transitional protections given to the scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pension reform. Tapered protections were provided for those 3-4 years younger. On the 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

COVID-19
On 11 March 2020 the World Health Organisation (WHO) declared a Covid-19 pandemic. This caused a world-wide public health emergency and significantly impacted global markets which has contributed to both a volatile and a severe decline in those sectors that have been impacted.

Due to the timings of the valuation data released by some investment managers there will be some valuations included in the accounts which are based as at 31 December 2019 and consequently will not fully reflect the subsequent events mentioned above. Global markets fell to their lowest point close to the finnacial year end and have subsequently recovered most of their earlier losses. As the full impact is not yet apparent, for the purposes of these financial statements the Covid-19 impact is considered a non-adjusting event.

7. Contributions Receivable

By category

2018/19 £000		2019/20 £000	
	Employees' contributions		
	Normal:		
5,482	London Borough of Havering	5,819	
1,641	Scheduled Bodies	1,462	
83	Admitted Bodies	74	
	Additional contributions:		
13	London Borough of Havering	7	
7,219	**Total Employees' Contribution**	**7,362**	
	Employers' contributions		
	Normal:		
12,930	London Borough of Havering	13,808	
6,494	Scheduled bodies	5,853	
346	Admitted bodies	311	
	Deficit funding:		
16,220	London Borough of Havering	18,449	*
	Augmentation		
324	London Borough of Havering	4	
192	Scheduled bodies	25	
36,506	**Total Employers' Contributions**	**38,450**	
43,725	**Total Contributions Receivable**	**45,812**	

*The 2019/20 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £5.799m voluntary planned contributions.

By authority

2018/19 £000		2019/20 £000
34,969	London Borough of Havering	38,087
8,327	Scheduled bodies	7,340
429	Admitted Bodies	385
43,725	**Total Contributions Receivable**	**45,812**

8. Transfers in from Other Pension Funds

2018/19 £000		2019/20 £000
1,633	**Individual transfers**	5,951
1,633	**Transfers In from Other Pension Funds**	**5,951**

9. Benefits Payable

By category

2018/19 £000		2019/20 £000
	Pensions	
29,702	London Borough of Havering	30,137
1,222	Scheduled Bodies	1,399
648	Admitted Bodies	851
31,572	**Pension Total**	**32,387**
	Commutation and Lump Sum Retirements	
4,823	London Borough of Havering	4,431
501	Scheduled Bodies	402
250	Admitted Bodies	179
5,574	**Commutation and Lump Sum Retirements Total**	**5,012**
	Lump Sum Death Benefits	
477	London Borough of Havering	1,305
165	Scheduled Bodies	65
46	Admitted Bodies	-
688	**Lump Sum Death Benefits Total**	**1,370**
37,834	**Total Benefits Payable**	**38,769**

By authority

2018/19 £000		2019/20 £000
35,002	Havering	35,873
1,888	Scheduled bodies	1,866
944	Admitted Bodies	1,030
37,834	**Total Benefits Payable**	**38,769**

10. Payments To and On Account of Leavers

2018/19 £000		2019/20 £000
120	Refunds to members leaving service	110
3,175	Individual transfers	3,162
3,295	**Payments to and on Account of Leavers**	**3,272**

At the year end there are potential liabilities of a further £0.190m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11. Management Expenses

2018/19 £000		2019/20 £000
801	Administrative Costs	315
4,303	Investment Management Expenses	3,192
399	Oversight and Governance Costs	452
16	Oversight and Governance Costs - External Audit costs	14
4	Local Pension Board	2
5,523	**Management Expenses**	**3,975**

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 £0.108m (2018/19 £0.076m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.023m in respect of transaction costs (2018/19 £0.358m).

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

2018/19 £000		2019/20 £000
3,895	Management Fees	3,125
27	Performance measurement fees	17
23	Custody fees	27
358	Transaction costs	23
4,303	**Investment Management Expenses**	**3,192**

12. Investment Income

2018/19 £000		2019/20 £000
4,841	Pooled Investments - unit trusts and other managed funds	8,204
3,514	*Income from Bonds	2,561
1,960	Pooled Property Investments	1,871
289	Income form Derivatives (Foreign Exchange Gains/(losses))	(2,658)
149	Interest on Cash Deposits	202
82	Other Income	(103)
10,835	**Investment Income**	**10,077**

* Income includes Index linked Interest of £0.103m (2018/19 £0.126m).

13. Taxes on Income

2018/19 £000		2019/20 £000
(4)	Withholding Tax	(1)
(4)	**Taxes on Income**	**(1)**

14. Analysis of Investments

2018/19 £000		2019/20 £000
	Investment Assets	
150	**Long Term Investments**	150
150		**150**
	Bonds - Fixed Interest Securities	
13,901	UK Public Sector quoted	1,574
76,084	UK Corporate quoted	47,632
89,985		**49,206**
	Bond - Index-Linked Securities	
30,150	UK Public Sector quoted	36,730
2,936	UK Corporate quoted	3,302
33,086		**40,033**
	Equities	
96	UK Quoted	-
96		**-**
	Derivative Contracts	
-	Forward Currency Contracts	1,445
0		**1,445**
	Pooled Investment	
493,040	UK Unit trusts - Quoted	475,846
36,097	Overseas Other unit trusts - Unquoted	63,619
42,109	UK Pooled property investments -Unquoted	41,174
13,046	Overseas Pooled Property investments - Unquoted	28,956
584,292		**609,595**
10,505	Cash deposits Managers	6,778
1,318	Investment income due	725
4	Outstanding Dividend and Recoverable Withholding Tax	-
11,827		**7,503**
719,436	**Total Investment Assets**	**707,932**
	Investment Liabilities	
	Derivative Contracts	
-	Forward Currency Contracts	(2,173)
-	Income receivable	(1)
-	**Total Investment Liabilities**	**(2,174)**
719,436	**Total Net Investments**	**705,757.56**

14a. Reconciliation of movements in investments and derivatives

	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	-	- 107.00	11.00	-	-
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	-	-	- 3	- 3,724	6,778
	718,114	**311,087**	**(299,925)**	**(20,518)**	**(3,724)**	**705,034**
Other Investment Balances	1,322	-	-	-	- 598	724
	719,436	**311,087**	**(299,925)**	**(20,518)**	**(4,322)**	**705,758**

	Market Value at 31 March 2018	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 2019
	£000	£000	£000	£000	£000	£000
Equities	-	84	-	(10)	22	96
Fixed Interest Securities	84,128	25,991	(21,565)	1,431	-	89,985
Index-linked Securities	35,123	8,412	(12,290)	1,841	-	33,086
Pooled Investment Vehicles	565,563	79,680	(74,278)	13,499	(22)	584,442
Derivatives – forward currency contracts	18	86,021	(86,021)	(18)	-	-
Cash Deposits (fund managers)	3,215	-	-	3	7,287	10,505
	688,047	**200,188**	**(194,154)**	**16,746**	**7,287**	**718,114**
Other Investment Balances	1,248	-	-	-	74	1,322
	689,295	**200,188**	**(194,154)**	**16,746**	**7,361**	**719,436**

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 £0.023m (2018/19 £0.358m). 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 2020 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2019		Manager	Mandate	Value 31 March 2020	
£000	%			£000	%
Investments managed by London CIV asset Pool:					
150	0.02	London CIV	Equities Unquoted	150	0.02
94,692	13.16	Ruffer	Pooled Absolute Return Fund	97,738	13.85
138,095	19.20	Baillie Gifford	Pooled Global Alpha Growth Fund	136,341	19.32
87,740	12.20	Baillie Gifford	Pooled Diversified Growth Fund	80,000	11.34
320,677	**44.58**			**314,229**	**44.52**
PLUS Life Fund Investments aligned with London CIV asset pool:					
132,172	18.37	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	123,850	17.55
452,849	**62.95**	**London CIV Total**		**438,079**	**62.07**
Investments managed outside of the London CIV asset Pool:					
135,062	18.77	*Royal London Index Linked Bonds Fund	Investment Grade Bonds	70,577	10.00
-	-	*Royal London Corp' Bond Fund	Investment Grade Bonds	53,611	7.60
43,541	6.05	UBS Property	Pooled Property	41,067	5.82
34,450	4.79	GMO Global Real Return (UCITS) Fund	Pooled Multi Asset	5,038	0.71
13,422	1.87	CBRE	Global Pooled Property	28,956	4.10
7,791	1.08	Stafford Capital	Overseas Pooled Infrastructure	17,447	2.47
29,241	4.06	JP Morgan	Overseas Pooled Infrastructure	26,964	3.82
3,072	0.43	Churchill	Overseas Pooled Private Debt	14,026	1.99
-	-	Permira	Overseas/UK Pooled Private Debt	5,605	0.79
-	-	Russell Investments	Currency Management	(728)	(0.10)
8	-	Other	Other	5,116	0.72
266,587	**37.05**			**267,679**	**37.93**
719,436	**100.00**	**Total Fund**		**705,758**	**100.00**

* Royal London mandate split into two mandates during 2019/20

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

Market Value 31-Mar-19	% of total fund	Security	Market Value 31-Mar-20	% of total fund
£000			£000	
138,095	19.20	London CIV Global Alpha Fund	136,341	18.70
94,692	13.16	London CIV Ruffer Absolute Return Fund	97,738	13.41
87,740	12.20	London CIV Diversified Growth Fund	80,000	10.97
54,689	7.60	LGIM All World Equity Index	51,296	7.04
52,717	7.33	LGIM FTSE RAFI AW 3000 Index	44,638	6.12
42,109	5.85	UBS Property	41,067	5.65

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 2020, the value of quoted equities on loan was nil (£97.6m 31 March 2019) 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 2020 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
Gross open forward currency contracts at 31 March 2020					-	-
Up to One month	**GBP**	9,977	**EUR**	10,444	-	(467)
	GBP	12,590	**USD**	13,314	-	(724)
	GBP	2,375	**AUD**	2,256	119	-
	USD	511	**GBP**	479	32	-
	EUR	23	**GBP**	23	-	-
Up to Two months	**GBP**	8,984	**EUR**	9,455	-	(471)
	GBP	13,975	**USD**	14,486	-	(511)
	GBP	2,190	**AUD**	2,120	70	-
	USD	5	**GBP**	5	-	-
Up to Three months	**GBP**	10,328	**EUR**	9,924	404	-
	GBP	14,411	**USD**	13,651	760	-
	GBP	2,251	**AUD**	2,191	60	-
	USD	12	**GBP**	12	-	-
	EUR	125	**GBP**	125	-	-
Open currency contracts at 31 March 2020					**1,445**	**(2,173)**
Net forward currency contracts						**(728)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2019					-	-
Net forward currency contracts					**0**	**0**

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, with the overall objective of maximising the use of market based information where applicable. There has been no change in the valuation techniques used during the year.

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 investments	Level 1	Published bid market price ruling on the final day of the accounting period	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	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	The valuation function is performed by the JP Morgan Investment Inc (the Advisor). 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.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.
Overseas Pooled instruments Private Debt Funds (Churchill)	Level 3	Valuations undertaken quarterly. To determine the value the manager uses models that consider credit risk, liquidity, market spreads and other applicable factors.	Unobservable inputs include market yield discount rates and credit performance rates	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 Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Estimates and assumptions continually evaluated	Use of critical accounting estimates and changes in assumptions may have significant 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 investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property funds	4.00	70,130	72,935	67,325
Pooled Unit Trusts	14.40	63,619	72,780	54,457

16a. Fair Value Hierarchy

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. Comprise 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 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 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	566,530	150	133,749	700,429
Loans and receivables	31,055	-	-	31,055
Total Financial Assets	**597,585**	**150**	**133,749**	**731,484**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(2,788)	-	-	(2,788)
Total Financial Liabilities	**(2,788)**	**-**	**-**	**(2,788)**
Net Financial Assets	**594,797**	**150**	**133,749**	**728,696**

16a. Fair Value Hierarchy continued

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	616,207	36,247	55,155	707,609
Loans and receivables	26,161	-	-	26,161
Total Financial Assets	**642,368**	**36,247**	**55,155**	**733,770**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(379)	-	-	(379)
Total Financial Liabilities	**(379)**	-	-	**(379)**
Net Financial Assets	**641,989**	**36,247**	**55,155**	**733,391**

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 2019	Transfer out of Level 3	Transfer Into Level 3	Purchases	Sales	Unrealised gains / losses	Realised gains / losses	Market Value 31 March 2020
	£000	£0.000	£000	£000	£000	£000	£000	£000
Property Funds	55,155	-	-	13,139	-	1,836	-	70,130
Infrastructure	-	-	33,082	9,434	(1,290)	12,979	(10,216)	43,989
Private Debt	-	-	3,015	13,171	(284)	3,728	-	19,630
Total	**55,155**	**-**	**36,097**	**35,744**	**(1,574)**	**18,543**	**(10,216)**	**133,749**

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 2 to Level 3 December 2019 and March 2020 due to change in investment strategy - disinvestment from Level 2 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 October and December 2019 due to 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 2019				31 March 2020		
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	-	-
96	-	-	Equities	-	-	-
89,985	-	-	Bonds -Fixed Interest Securities	49,206	-	-
33,086	-	-	Bonds - Index linked securities	40,033	-	-
-	-	-	Derivative contracts	1,445	-	-
529,137	-	-	Pooled investment Vehicles	539,465	-	-
55,155	-	-	Property	70,130	-	-
-	10,505	-	Cash		6,778	-
-	1,322	-	Other Investment Balances		725	-
-	14,334	-	Debtors		23,552	-
707,609	**26,161**	**-**	**Financial Assets Total**	**700,429**	**31,055**	**-**
			Financial Liabilities			
-	-	-	Other Investment Balances	(1)	-	-
			Derivative contracts	(2,173)	-	-
-	-	(379)	Creditors			(614)
-	**-**	**(379)**	**Financial Liabilities Total**	**(2,174)**	**-**	**(614)**
707,609	**26,161**	**(379)**	**Grand total**	**698,255**	**31,055**	**(614)**
733,391				**728,696**		

(b) Net Gains and Losses on Financial Instruments

2018/19 £000		**2019/20 £000**
	Financial assets	
16,746	Fair value through profit and loss	(20,518)
16,746	**Total**	**(20,518)**

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

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administering authority to ensure it is within limits specified in the 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 2019/20 reporting period:

If the market price of the Fund's investments, as set out in the Investment Strategy statement, had increased/decreased in line with the below, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is also shown below):

Asset Type	Value as at 31 March 2020 £000	Potential market movements %	Value on Increase £000	Value on Decrease £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**

Asset Type	Value as at 31 March 2019 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Equities	96	10.10	106	86
Total Bonds	123,070	8.90	134,023	112,067
Global Pooled inc.UK	529,287	6.10	561,574	497,001
Property	55,155	3.40	57,030	53,280
Cash	10,505	0.50	10,558	10,453
Total	**718,114**		**763,291**	**672,887**

Interest Rate Risk

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

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.

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

Assets exposed to interest rate risk	Value as at 31 March 2020 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £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**	**1,519**	**153,467**	**150,429**

Assets exposed to interest rate risk	Value as at 31 March 2019 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	123,071	1,231	124,301	121,839
Cash and Cash Equivalents	10,505	105	10,610	10,400
Cash Balances	13,698	137	13,836	13,562
Total Change in Asset Value	**147,274**	**1,473**	**148,747**	**145,801**

This 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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

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

Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with PIRC it has been determined that a likely volatility associated with foreign exchange rate movements is 7.4% over a rolling 36 month period.

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

A 7.4% 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	Value 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 pay benefits	**91,806**	**6,794**	**98,600**	**85,012**

Assets exposed to currency risk	Value as at 31 March 2019	Potential Market movement	Value on increase	Value on Decrease
	£000	8.90%	£000	£000
Overseas Pooled	49,143	4,374	53,517	44,769
Overseas Cash	770	69	839	701
Total change in assets available to pay benefits	**49,913**	**4,442**	**54,355**	**45,471**

(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.

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 Pension 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 2020 was £23.056m (31 March 2019 £13.696m).The Pension 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 2020 the value of liquid assets was £595m, which represented 82% of the total Fund (31 March 2019 £642m, which represented 88% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority 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 2019/20

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 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. 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 disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in 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, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of benefits on this basis, the actuary has updated the actuarial assumption(set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31-Mar-19	Year Ended	31-Mar-20
£m		£m
1,344	Present Value of Promised Retirement Benefits	1,195
733	Fair Value of Scheme assets (bid Value)	729
611	**Net Liability**	**466**

Note the above figures 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.

The promised retirement benefits at 31 March 2020 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 satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. It is estimated that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £102m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £34m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended (% p.a)	31-Mar-20	31-Mar-19
	% p.a.	% p.a.
Pension Increase Rate	1.9	2.5
Salary Increase Rate	2.6	2.8
Discount Rate	2.3	2.4

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners	22.4 years	25.2 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%	105
0.5% p.a. increase in the Salary Increase Rate	1%	6
0.5% p.a. decrease in the Real Discount Rate	9%	112

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 2020 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

2018/19 £000		2019/20 £000
	Debtors:	
372	Contributions due from employers	265
100	Contributions due from employees	68
211	Pension Fund Bank Account Balances	1,307
26	Sundry Debtors	3
13,625	Cash deposit with LB Havering	21,909
14,334	**Current Assets**	**23,552**

22. Current Liabilities

2018/19 £000		2019/20 £000
	Creditors:	
(120)	Benefits Payable	(314)
(122)	Sundry Creditors	(140)
(137)	Holding Accounts	(160)
(379)		**(614)**

23. Additional Voluntary Contributions

Market Value 2018/19 £000	AVC Provider	Market Value 2019/20 £000
788	Prudential	753
134	Standard Life	108

Some employees made additional voluntary contributions (AVC's) of £33,022 (2018/19 £35,004) 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 2019/20 were £30,622 (2018/19 £32,604) to the Prudential and £2,400 (2018/19 £2,400) to Standard Life.

24. Agency Services

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

2018/19 £000		2019/20 £000
1,380	Payments on behalf of Havering Council	1,360

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 and consequently there is a strong relationship between the Authority and the Fund. In 2019/20, £0.230m was paid to the Authority for the cost of administrating the Fund (2018/19 £0.710m).

The Authority is also the largest employer in the Fund and in 2019/20 contributed £32.257m (18/19 £29.150m) 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 2020 cash holdings totalled £23.056m (2018/19 £13.696m), earning interest over the year of £0.202m (2018/19 £0.148m).

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

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 costa 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 2020 were £49.94m. (31 March 2019 were £91.35m). 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. As mentioned in Note 10 there are potential liabilities of £0.190m 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.

Two 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.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.52m.

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.

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.

Fixed 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.

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) - 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.

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).

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, goods and services and depreciation.

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.

Movements in Reserves Statement This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services.

Supported Borrowing Borrowing supported by central government grant towards the financing costs, mainly through Revenue Support Grant.

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Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 02 2021

Subject Heading:	AGS 2019/20 Significant Issues Update
SLT Lead:	Jane West Chief Operating Officer
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Audit Committee of progress against the significant governance issues as reported in the 2019/20 Annual Governance Statement
Financial summary:	N/A

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report advises the Committee on the progress against significant governance issues as reported in the 2019/20 Annual Governance Statement (AGS).

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

1.1 Regulation 6(1b) of the Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS). The purpose of the AGS is to communicate to stakeholders the standards of corporate governance the organisation demonstrates and identify any significant issues that have arisen in year, and what is planned to address these issues.

1.2 The Council has an officer Governance and Assurance Board which meets at least quarterly and is made up of the following standing members:

- Chief Operating Officer (S151 and Chair)
- Head of Assurance, oneSource
- Monitoring Officer (Deputy Director of Legal & Governance oneSource)
- Director of Finance (oneSource)
- Head of Finance (Strategic)
- Head of Procurement (oneSource)
- Head of the Programme Office
- Assistant Director Transformation
- Technical Services Director
- Head of the Joint Commissioning Unit
- Director of Human Resources / Organisational Development (oneSource)

1.3 This group oversees the process to produce the AGS annually and as a standing meeting item monitors and updates the action plan to address significant governance issues raised. The group maintains a record of new issues raised during the year and a detailed action plan to capture outcomes and achievements. Actions are allocated to responsible officers for progression between meetings.

2. 2019/20 AGS – action taken in relation to significant governance issues

2.1 The 2019/20 AGS was reported to the July 2020 Audit Committee.

2.2 The significant issues raised in the 2019/20 Annual Governance Statement are set out in detail in Appendix A and progress against each of these is reported there. For Members' ease of reference the five areas identified are:

- **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 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. This has brought an unprecedented challenge to local government generally and requires a reconsideration of the MTFS that was agreed and the corporate approach to recovery.

- **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.

- **EU Exit:** Preparations and Impact.

- **COVID-19:** Impact and recovery.

- **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.

Appendices: Provide supporting detail for Members' information

Appendix A: Governance and Assurance Board AGS 2019/20 Significant Issues Action Plan updated January 2021.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. The risks of our arrangements not complying with best practice may lead to the Council not being viewed as open and transparent by stakeholders.

Legal implications and risks:

The Council is responsible for ensuring that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk (Regulation 3 of the Accounts and Audit Regulations 2015).

The Council must carry out an annual review of the effectiveness of its system of internal control which must be considered by the relevant committee. In the light of that review, the Council must produce an annual governance statement which must be approved by the relevant committee in advance of the Authority approving the statement of accounts (Regulations 6 (1), (2) and (4) of the Accounts and Audit Regulations 2015.

There are no apparent risks in noting the content of this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider in the Council's governance arrangements and any changes to the Code of Governance or other related policies and procedures are assessed in order to ensure the impact is appropriately identified. The Governance Group is attended by someone with equalities expertise.

BACKGROUND PAPERS

Annual Governance Statement 2019/20

CIPFA/Solace –'Delivering Good Governance in Local Government' framework 2016.

<table>
<tr><td colspan="2">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.</td></tr>
<tr><td>Action Already Taken</td><td>Planned Actions for 2020/21 and Progress</td></tr>
<tr><td>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 2019/20 and will continue into 2020/21. Go live with the Fusion system was delayed by a short while because of COVID issues but went live in September 2020.</td><td>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 will be presented to cabinet in February.</td></tr>
<tr><td>Lead Officer</td><td>Target Date for Completion</td></tr>
<tr><td>Jane West, Chief Operating Officer</td><td>March 2021</td></tr>
</table>

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.

Action Already Taken	Planned Actions for 2020/21 and Progress
• 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.	• Governance and decision making as a rolling programme of work in the Audit Plan. • New personnel are equipped with the correct knowledge and understanding by: - On boarding in Fusion is under development. This will direct people to key policies and procedures, mandatory e-learning and the induction checklist. **Work in progress.**
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2021

3. EU Exit; Preparations and Impact	
Action Already Taken	**Planned Actions for 2020/21 and Progress**
• 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)	As above plus: • 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.
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2021

4. COVID-19: Impact and recovery	
Action Already Taken	**Planned Actions for 2020/21 and Progress**
• Carried out Exercise Contagion, to test and exercise the Multi-agency Pandemic Plan, produced a Post Exercise Report and updated the Pandemic Plan with the lessons learned. • Implemented the Havering Multi-agency Pandemic Plan • Managed the response in accordance with the Major Emergency Plan and Strategic Coordination Group direction. • 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 • 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.	• Facilitating recovery and the return to the new normality through a Council and Service Recovery Plans • 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 support Care Home and Home Care Resilience.
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2021

5. 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.	
Action Already Taken	**Planned Actions for 2020/21 and Progress**
• 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.	• 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	**Target Date for Completion**
Ian Gibbs, Head of IT Governance and Security	March 2021

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Agenda Item 10

Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 02 2021

Subject Heading:	Corporate Risk Register
SLT Lead:	Jane West Chief Operating Officer
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Audit Committee of the strategic level risks identified and captured in the Corporate Risk Register.
Financial summary:	There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides the Audit Committee with an update on the Strategic Risks the organisation currently faces and the mitigating actions put in place at a corporate level to manage these.

RECOMMENDATIONS

1. To note the contents of the report and the risk register.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Risk Management Update

1.1 A summary of the Corporate Risk Register was presented to the Audit Committee in July 2020. Risk Management updates have been regularly presented to Audit Committee during 2020/21, summarising the work that has been ongoing to identify, document and manage the risks to the Council. During this time the Governance and Assurance Board (GAB), chaired by the Chief Operating Officer, have been reviewing and updating the Corporate Risk Register.

1.2 Appendix 1 presents a summary of the current Corporate Risk Register. This includes current scoring of the risks based on assessment by the risk owner (using the risk matrix from the Council's Risk Management Strategy and Toolkit - summary provided as an additional worksheet in Appendix 1).

1.3 Work is underway, led by the Internal Audit & Risk Team to further embed the risk management strategy at a Directorate level, including risk workshops and further training where required. This phase of work will ensure Directorate level risks are aligned to the strategic risks to ensure mitigating actions are managed consistently

Appendices: Provide supporting detail for Members' information

Appendix 1: Corporate Risk Register Updated Jan 2021

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. There are financial implications where risks are not managed in an efficient and effective manner.

Legal implications and risks:

There are no apparent risks in noting the content of this Report. Failure to effectively manage corporate risks are likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider within the Council's objectives and therefore requirements are embedded within governance framework. Failure to manage risk in this area would have implications.

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.

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Corporate Risk Register Q4 2020/21

Corporate Risk ID	Status	Risk Title	Risk Description & Impact Summary	Current Risk Score (last reviewed Jan 2021) Impact	Probability	Rating	Mitigation Summary (full details in Directorate Risk Registers)
1	Open	**Major system failure, supplier failure or natural disaster**	The Current COVID Crisis is being managed by the mobilisation of the Councils Flu-Pandemic and associated plans. The Capacity of Havering to deal with another Major Emergency/natural disaster whilst dealing with the current Pandemic would be tested and limited dependant on the nature of the new /additional emergency. The Global nature of COVID disrupts the usual supply chain, and additionally the following commodities are delayed and difficult to obtain: Food, Medicines (see CR2&9), Personalised Care.	3	2	6	The Risk remains a low Amber, two key factors that could impact on this are issues with the Cremators and smart-working. Based on the Bronze mitigations, these are shown as contained. If another phase of Covid-19 is seen,then this may increase the level. If another significant emergency event was to ocuur, this would need immediate reviewing. Changes in other risks: Food/ Medicines (see CR4&12), Personalised Care (CR2) will effect the overall rating of this one. Any failure in, smart-working capacity CR3 & other key systems CR8 will impact on this one and would require immediate review.
2	Open	**COViD-19 Recovery Plan**	**1. Ability to adequately plan** a robust and timely exit plan without complete and accurate information, sufficient resources (whilst resources are deployed to dealing with current and active risks) and full knowledge of the overall impact of the pandemic. **2. Risk to staff, business and public if services are re-opened too soon** • Insufficiently planned reopening of services may lead to resident dissatisfaction and reputational damage. • Risk of returning to business as usual, not capturing the benefits of the new learning and revised expectations that have emerged through the pandemic • Failure to build on the successes from the period of the emergency in terms of smart working and culture change • Failure of alternative service delivery (ASD) models e.g. JV, MLH, SLM • Service delivery through key partners does not recover to contracted standards **4. Unknown impact from Havering Business and Residents resilience and their ability to be part of the wider recovery strategy** • Havering doesn't build on the relationships it has established during the crisis with its voluntary and community sector or fails to build in the supportive governance needed to grow the relationship further **5. Future phases of COVID-19 arrive** **6. Impact of Covid on individuals and the community** eg mental health, long Covid, loneliness, children's physical and mental health and community cohesion **7. Council services need to be re-shaped to respond to Covid** eg new services introduced - Testing, Tracing, Vaccinations	4	4	16	- Gold/Silver/ Bronze Teams are still operating to manage the pandemic. - Recovery Bronze Group in place to manage the risks and issues emerging from the pandemic in the short, medium and long term - Recovery Bronze continues to operate even though the end of the pandemic is still some way away - Areas covered by Recovery Bronze are very wide eg social, economic, adults, children, physicl and mental health, busines recovery, preparing for potential other public health issues that may arise in the future eg flu pandemics, new infections, increasing bacterial resistance to antibiotics - Smart Working programme - People Strategy development - Support to local businesses through business grants
3	Open	**ICT**	Inability to keep up with pace of change. Specific risks include: • Payment Card Industry Data Security Standard (PCI-DSS) - We are not compliant with the standard. • IT Security - This is an on-going risk from attackers and spammers • CRM - resources and support issues • Infrastructure Network age (over 10 years old) - failure of critical systems	4	2	8	. IT equipment deployed to staff and smart working+ is being developed . (Included within the Havering Recovery Plan). . RAP access issued to staff who do not have own equipment. . Config of Domain Name Servers (DNS) . Internet line increased to 2GB . Clear guidance produced by ICT Security Manager around how to use the technologies and GDPR considerations . Access to technologies restricted and granted via request to ICT, approved by line manager . Educating staff . Continued comms to users around known attacks. ICT Security Manager continuing discussions with counterparts across the sector. ICT to keep security patches up to date. Will need to accept the risk. . Ensure full testing and corroboration of uploaded databases with ongoing sample checking. Training and monitoring of staff / call handlers. Follow up on and remedy of any discrepancies. PCI-DSS non compliance: - We are in the process of reviewing card payments and the implementation of the new CivicaPay system - We have engaged consultants to review our process and controls Systems, controls, alerts, monitoring process and response implemented to manage the risk around cyber security Project to upgrade CRM started Programme to refresh the network started (business case in place)

	4	Open	**Financial Resilience**	The Council is unable to deliver a balanced budget from: • Increased COVID Costs in-house, e.g, ASC, PPE • Loss of agreed MTFS :planned Income • Non-achievement of planned MTFS savings • Increased financial support for Businesses, Voluntary Sector • Inability to forecast due to uncertainty over future funding model • Inability to furlong staff not able to be redeployed • Not-receiving full re-imbursement from the Government • Increased bad debt provision • Use of Reserves	4	3	12	The risk is constantly monitored. Cabinet are regularly briefed on the financial impacts as part of the corporate monitoring process. Previous prudent decisions over several years has put the Council in a good place to demonstrate financial resilience and recover from the current crisis. The main drivers that will determine the financial recovery are: 1. Income collection levels over the next few months. 2. Further Government support 3. Refocusing the savings amd efficiency process with the recovery planning 4 Close scrutiny and controls on expenditure
	5	Open	**Potential harm to people we owe a duty of care**	• Social care fails in its duty of care, particularly to the vulnerable in society, as a result of the pressures of COVID-19 (e.g. reduced staffing, increased hospital discharges, meeting requirements of NHS Shield etc) • Safeguarding issues occur due to multiple issues with DOLS, BIA and easement of care act • Staff COViD 19 - Testing • The risk is that adult social care and council fails in its duty of care, particularly to the vulnerable in society, and a service user is harmed or dies as a result of those failures. This includes illegal deprivation of liberty of users of services, where the appropriate Deprivation of Liberty Safeguard is not in place. Potential harm to children we owe a duty of care. • The risk is that Childrens Social Care fails in its duty of care to children and a child is harmed or dies as a result of those failures	4	2	8	ASC - Care Act Easements not required. JCU in regular daily contact with all providers, regarding issues, and including reminder of safeguarding responsibilities. ASC staff undertaking reviews by phone, and continue to undertake emergency visits as required. Noted that CQC has developed an emergency inspection framework which will remain in place during crisis. CSC - near BAU service as no legislative easements available. Staff using telephone and Skype when engaging in contact and only conducting visits in emergencies. Additional support package agreed for Foster Carers through crisis period. EDT's operating as normal Staff testing now available regardless of whether symptomatic or not. Frontline staff vaccination started in December 2020 and the definition of 'social care worker' expanded in mid January 2021 Vaccination of vulnerable people started mid-December 2020, with all adults and clinically extremely vulnerable over 18 due to be vaccination (first dose) by mid February 2021
	6	Open	**Council fails to adapt to changing context**	The Council fails: 1. to respond to the immediate pandemic context requirements 2. to adapt its service delivery to the COVID needs 3. to support its business and voluntary sector in a timely fashion (See CR10) 4. to plan for the recovery phase, and either does this too soon or too late and not adequately (see CR12)	4	2	8	Currently there is nothing significant to change this from Amber to Red or Green. However the longer lockdown continues, and the increased consequence of the recession, coupled with a potential second phase, this may increase this risk. The Council has responded well to the Crisis, however we are still in phase one, the financial cost of this and recovery will be challenging as time moves on and needs closely monitoring.
	7	Open	**Collapse of the local social care provider market**	Instability of the social care market due to problems with financial sustainability, workforce capacity and recruitment means that the Council are unable to commission care and support services for vulnerable residents. There is a risk that the Council does not meet statutory obligations to those we owe a duty of care	4	3	12	One off payments to provider markets agreed - £500k in April and a further £500k in May. Infection Control Fund monies passported to providers through out the year. Further funding agreed by Government in Dec 20 / Jan 21 which is to be paid to providers to support implementing visitor testing and increase staffing capacity Council purchasing some £1.8m PPE to support available to providers (who will pay for it), and council has secured sufficient emergency supply from London Resilience Forum. CE, DPH and DASS developed care home/provider resilience plan in May 2020. Staff vaccinations across the sector began mid December 2020, with all social care workers to be vaccinated by mid February 2021 (first dose) Work has started to 'myth bust' with workforce - breaking down resistance to taking the vaccine, particularly amongst BAME provider staff. Vaccination Bronze established under the Health & Social Care Bronze
	8	Open	**Non-compliance with Health and Safety regulations**	• Lack of sufficient supply of various PPE • Non-compliance with social distancing rules • Council properties are not safe for residents and the Council houses people in unsafe residences.	4	3	12	Over the past sevaral months PPE has been supplied to those areas within the Council that were identified as requiring PPE. An established supply chain and ordering system is in place to meet current demand and bulk orders have been delivered to many service areas. Risk assessments are in place for Council offices and steps have been taken to ensure they are Covid Safe e.g. socially distanced desks, increased cleaning regimes, face coverings for staff that must work in the offices etc. Staff must also have an up to date Individual Risk Assessment in place.
	9	Open	**Breakdown of relationships with residents**	There is a risk that a breakdown in the Council relationship with residents could lead to a lack of trust and engagement, poor communication, non delivery of objectives; and, failure to meet expectations. Risk that a loss of trust occurs if complaints and Member's Enquiries handled poorly or in an untimely manner.	4	2	8	The Community Cohesion and Engagment Forum meet on a quarterly basis. Objectives of key community projects are developed with full community involvement. Expectations are managed through a honest constructive dialogue. The council's social media channels reach more than 100,000 residents every month. Officers monitor social media for sentiment and address as a customer service private messages seeking support or raising a call for service. Programmes such as local area coordination and community hubs are designed specifically to build stronger relationships with residents. Council-run campaigns - run either solely and directly or in partnership (such as the #BeNiceToYourNoggin campaign) raise awareness about community issues and communicates what the Council is doing to support residents. The Council will ensure regular engagement, consultation and increased participation in the planning of services and provision of insight into residents' lived experience.

10	Open	**Breakdown of relationships with local business community**	Economic downturn negatively impacting local businesses. Risk of a breakdown in the Council relationship with local business could lead to a lack of trust and engagement.	4	2	8	The pandemic has brought a unique opportunity to forge meaningful relationship with many individual businesses with which we would not ordinarily have had contact. This has been through the 8,500 support calls that have been serviced over the past 10 months. It has also allowed schemes of assistance to be genuinely codesigned through one to one contact and through regular video conferences. We would intend to leverage this strengthened relationship as we emerge from the pandemic. It must also be recognised that there is a group of business which will be disappointed that support funds were not extended to them or that fund were paid at insufficient pace. For the most part there is strong recognition of the positive leadership role that the Council has played.
11	Open	**Significant Governance Failure**	The necessary response to the COVID crisis, may require a different governance process, to allow critical decisions to be done at pace and an increased risk of non-compliance, confusion and weak audit trail– until it beds in.	3	3	9	• Revised governance in place through virtual Council and Committee meetings, Scrutiny meetings and Executive meetings with the Theme Board meeting twice a week - All decisions being published for full transparency • Internal Audit regime was revised to reflect the new circumstances of working virtually • Whistleblowing procedures improved • Governance and Assurance Board has continued to operate
12	Open	**Failure to deliver strategic corporate priorities**	Council priorities are not met or significantly delayed due to COVID19 impacts	4	4	16	Whilst there is signifcant activites planned to reduce this broad risk, as we are still in a lockdown situation with no end date, the Bronze Group activites cannot address key areas: Member satisfaction, full recovery status, this risk should remain a red status, until the postion and impact and probability can be better judged, i.e keep at 16 and revisit as things become more certain.
13	Open	**Workforce**	There is a risk that the current workstream demands across the Council result in pressure being placed on resources, this in turn could lead to the Council struggling to meet changes in demand for services. There could be a loss of experienced staff due to sickness and self isolation periods, with a subsequent impact on service delivery	4	3	12	• Adjust and adapt to change. • Weekly/daily messages to staff via various forms (mailshots and email) • Revised Policies and protocols in place, with regular updates to reflect latest position. • Good supply chain via oneSource procurement (SPU) for PPE and anticeptic wipes etc. • Regular reviews of staff capacity and contingency plans. • PPE equipment in place • Services, line managers to monitor workload, hours worked and impact on wellbeing . Promote staff wellbeing support , regular contact e.g. 121's and team meetings. • Managers guides plus time management slide deck issued • Havering Recovery Plan • IT equipment deployed to staff and smart working+ is being developed . (Included within the Havering Recovery Plan). • Provision of face coverings when required to work in a council building. Maintain social distancing. Staff rotas/'bubbles' in place. • Workforce SOP in place (to manage positive case). Staff wellbeing, inclusion and engagement surveys, with supporting action plans. EAP - counselling, bereavement support. Front line staff enouraged to have twice-weekly LFTs. Roll-out of vaccination programme. Mental Health First Aiders in place. Individual Risk Assessments.
14	Open	**Regeneration**	Shaping future of Borough - and impact of economic downturn. Review appetite for office space vs residential and ensuring regen plans reflect this. Do we have the balance right? Quality of housing in Borough - ensuring it is fit for the future; consideration of work from home culture capacity.	4	3	12	Increased monitoring of economic conditions. Even greater focus on scheme viablity at a project level. Ensure adequacy of scheme contingency allowances. Possible need to adjust the tenure mix. Review of affordable housing products to maximise external grant/income opportinities. Adjust delivery programmes, where appropriate, to respond to the market cycle.
15	Open	**EU Exit**	The UK has left the EU and the Transition Period is over but some low level risks remain in relation to future changes to UK legislation, security of data and availability of supplies and workforce.	2	2	4	The EU Exit Group continues to meet to monitor and manage potential impacts such as data management and changes in UK legislation that impact the Council. The group is also monitoring for any impact on supplies and workforce.

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Havering LONDON BOROUGH

AUDIT COMMITTEE
24 02 2021

Subject Heading:	Draft Internal Audit Plan 2021/22 Consultation
SLT Lead:	Jane West Chief Operating Officer
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of the proposed audit plan for 2021/22
Financial summary:	There are no financial implications arising from approving the audit plan/strategy. It is expected that the costs of implementing both will be contained within the oneSource revenue budget for internal audit.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Public Sector Internal Audit Standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. The report sets out the approach to producing the draft Internal Audit plan and invites comment from Members.

RECOMMENDATIONS

1. To comment on the draft 2021/22 Internal Audit Plan.

2. To raise any issues of concern and ask specific questions of officers, where required.

REPORT DETAIL

1. Introduction

1.1 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.

1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a straightforward 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, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

1.3 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.

1.4 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.

2. Internal Audit Plan

2.1 To develop the 2021/22 audit plan and to ensure that this reflects the Council's strategic risks, officers within the Assurance Service have been involved in discussions with the Section 151 Officer, Directors and senior management to review risks in their areas.

2.2 The draft plan has been developed using a thematic approach, in line with the Corporate Plan. While a number of key risk areas and audits have already been identified, there is an allocation under each theme to carry out risk identification and service mapping. It is proposed that the 2021/22 plan is flexible to allow for changes in the risk and operational environment in which the Council operates. This is considered particularly important given the effect of the COVID-19 pandemic on the Council during 2020/21 and the ongoing impact this may have on the risks the Council faces.

2.3 Attached as Appendix 1 is the draft Internal Audit Plan 2021/22. The Plan is exclusive of Counter Fraud investigations but there is a provision for Internal Audit staff to support Counter Fraud work on system related work.

Appendix 1 Draft Internal Audit Plan 2021/22 for LB Havering

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising from approving the plan. The financial implications arising from implementation of the plan are predominantly staffing costs and associated resources. It is expected that costs will be contained within the oneSource shared budget for internal audit and any variance will be reported and addressed through budget monitoring processes.

By maintaining an adequate audit service to serve the Council, 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.

Legal implications and risks:

There are no apparent risks in noting the content of the report. Failure to effectively manage risks is likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from 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.

Appendix 1 - Draft Internal Audit Plan 2021/22

Audit Area	Proposed Scope/Audit Work	Proposed Timing	Estimated Budget (Days)
Core Assurances & Cross Cutting			
Governance			
General Governance Work	To include co-ordination of Annual Governance Statement and production of Audit Committee / SLT reports.	Ongoing	60
Assurance Work			
General Assurance Work	Advice and Consultancy, Audit Plan Management, Follow up of recommendations and Counter Fraud Support.	Ongoing	80
Grant reviews	To include ongoing Troubled Families review and any other grants arising during the year that require audit review / sign off. Also consideration required for COVID specific grants.	As need arises	
Compliance Work			
Key financial audits	Ongoing compliance work for key financial areas as a rolling programme of work.	Q1-3	30
Risk			
Risk & Assurance Mapping	Identifying ongoing or planned work across services that provide additional assurances.	Ongoing	160
Joint Counter-Fraud Work	Increased Internal Audit and Counter-Fraud collaboration.	Ongoing	
Contingency allowance and provision for assurance work on emerging risk		As need arises	
Opportunities			
Cross Cutting (Children's & Adults): Post Implementation Review of Liquid Logic	To identify possible compliance issues and realisation of benefits of new system. Review of success and efficiency of workflows within system.	Q1	60
Shared Service: Procurement	To review processes following on from limited assurance report issued in 19/20.	Q3	
Shared Service: Contract Management	Review of contract management and monitoring arrangements based on a risk based sample selection.	TBC	
Place			
Neighbourhoods: Parking	Cash management and reconciliation of income.	Q2	50
Neighbourhoods: Highways Services	Review of service risks and controls.	Q3	
Neighbourhoods: Planning	Review of service risks and controls.	Q4	

Appendix 1 - Draft Internal Audit Plan 2021/22

Communities			
Children's: SEND	Review of high risk areas within SEND. To include SEND Transport and consideration of EHCP process.	Q2/3	220
Children's: Youth Justice Service	To consider processes in preparation for first annual self-assessment and anticipated youth justice inspection.	Q2	
Children's: School audit programme	Rolling triennial programme of maintained schools audits and bought-in Health Checks.	Ongoing	
Adults: Safeguarding Adults	To assist in preparation for peer review.	TBC	
Adults: Direct Payments	To ensure that recommendations implemented as a result of 19/20 audit have mitigated the risks and the controls are effective.	Q1	
Adults: Continuing Health Care	To consider VfM and review processes since this is an area of increasing cost pressures.	Q2	
Housing: Compliance work	Focus on data management and recording, reliance on performance data and decision making as a result. Scope to be reviewed and agreed.	Q1/2	
Housing: Service Changes	Compliance with legislation for service charges to tenants and leaseholders.	Q3	
Housing: Property buy-back	HRA and regeneration property buy back – to ensure this is carried out correctly.	Q4	
Connections			
Shared Service: ICT	ICT work to be scoped following ongoing security risk assessments.	Ongoing	40
	Total Audit Plan (Days)	700	

Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 02 2021

Subject Heading:	Internal Audit & Counter Fraud progress report
SLT Lead:	Jane West Chief Operating Officer
Report Author and contact details:	Jeremy Welburn Head of Assurance Tel: 01708 432610 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work during quarter three of 2020/21.
Financial summary:	There are no financial implications arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report advises the Committee on the work undertaken by the Assurance Service (internal audit and counter fraud) during the period from 1st October to 31st December 2020. This report is presented in three sections:

Section 1: Introduction, Issues and Assurance opinion

Section 2: Executive Summary – A summary of the key messages

Section 3: Appendices: Provide supporting detail for Member's information

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

1.1.1 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.

1.1.2 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.

1.1.3 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.

1.1.4 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.

1.1.5 Due to the COVID emergency response, the priorities and risk profile of the Council changed during the first half of 2020/21. Internal Audit adapted their work to provide assurance on the emergency response projects to provide assurance on the rapidly changing environment the Council has been operating in since March.

1.1.6 This report brings together all aspects of internal audit and counter fraud work undertaken during the period from 1st October to 31st December 2020, in support of the Audit Committee's role.

1.1.7 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide specific detail of outputs for the Committee's information.

Section 2. Executive Summary of work undertaken during quarter three of 2020/21

2.1 Internal Audit

2.1.1 There have been three final reports issued during this period, two of which were schools; both given a substantial assurance. The remaining report was given limited assurance and a summary is provided in Appendix E. Appendix D shows the current position of the 2020/21 audit plan.

2.1.2 There were two high risk recommendations raised in these reports; detail of these is provided in Appendices B and E.

2.2 Pro-Active and Counter Fraud

2.2.1 Of the three referrals brought forward from the previous report, one has been passed to the service to act on and two are currently under disciplinary investigation.

2.2.2 During the 1st October and 31st December seven referrals were received. One case has resulted in a disciplinary investigation being undertaken and six referrals are currently being investigated.

Section 3. Appendices: Provide supporting detail for Member's information

Appendix A: Detail of Internal Audit work to date

Appendix B: Status of High Risk Recommendations
Appendix C: Detail of Counter Fraud work
Appendix D: Current status of 2020/21 audit plan
Appendix E: Summary of Limited Assurance Reports

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

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:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from 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.

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Appendix A – Progress Report - Internal Audit Work

1. Audit Progress

1.1 The Annual Audit Plan was approved by the Audit Committee in July 2020. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2020/21, with time allocated under each theme to carry out risk identification and process mapping, where required. Members are reminded that the 2020/21 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan are made to allow for changes in the risk and operational environment in which the Council operates. Where changes are made they are outlined in Appendix D.

1.2 Due to the COVID 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. Our response to COVID-19 was reflected in the plan presented to Audit Committee in July with tasks added to the plan as projects were initiated across the council.

1.3 School closures meant that all school audits were postponed until later in the year, with resources used during quarter two to adapt the programme to ensure we are able to carry out off-site audits if restrictions relating to the pandemic remain in place longer term. A member of the audit team was redeployed temporarily during quarter one and quarter two to assist with the NHS shielding calls project. Work on supporting risk management and adapting the corporate risk register to reflect the pandemic also took priority during this time.

1.5 Current, cumulative progress toward delivery of the 2020/21 audit plan, as at the end of December 2020, is summarised in the table below, with further detail provided in Appendix D. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Plan Status	Number of Audits / Tasks
Final reports issued / Reviews Completed	9
Draft reports issued	4
Underway	7

2. Risk Based Systems and School Audits

2.1 The table below details the results of the work undertaken that resulted in the issue of a report during quarter three.

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
Contract Management - Housing	Limited	2	0	0	2
School Audits					
Harold Court Primary	Substantial	0	2	2	4
La Salette Primary	Substantial	0	1	2	3
Total		**2**	**3**	**4**	**9**

Key to Assurance Levels	
Substantial Assurance	There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Moderate Assurance	Whilst there is basically a sound system of control within the areas reviewed, weaknesses were identified and therefore there is a need to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance / No 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.

2.2 A summary of the limited assurance report for Contract Management – Housing is detailed in Appendix E.

3. Audit Recommendations Update and status of High Risk Recommendations

4.1 Internal Audit follows up all high and medium risk audit recommendations with relevant service 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.

4.2 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. Part 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.

4.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

High	Fundamental control requirement needing implementation as soon as possible.
Medium	Important control that should be implemented.
Advisories	Pertaining to best practice.

4.4 All high risk recommendations due as at the end of December 2020 have been confirmed as implemented. One recommendation has been given an extended deadline for completion due to the need for reports and exception reports under development within the new Fusion financial system. All high risk recommendations due as at the end of December 2020 have been confirmed as implemented. One recommendation has been given an extended deadline for completion due to the need for reports and exception reports under development with the new Fusion financial system. There were two high risk recommendations raised during quarter three of 2020/21. Appendix B provides details of these high risk recommendations.

4.5 All medium risk recommendations that became due before the end of December 2020 have been confirmed as implemented.

Appendix B: Status of High Risk Recommendations

High Risk Recommendations	Status
Payroll	
Exception reports highlighting information that might indicate unusual activity (e.g. high overtime earners / additional payments) should be produced and distributed to support and enable managers to undertaken their duties.	Revised implementation date of March 2021 due to the ongoing development of reports and exception reports in Fusion. (original date September 2020)
Contract Management - Housing	
Immediate discussions with the contractor to check that (for work invoiced to date): • Jobs raised on openhousing were carried out as expected; • That the rates charged on the invoices match the schedule of works in the contract and that these invoices have been paid; • Any additional payments made that appear to be duplicates, errors or, over and above the amounts in the schedule of work should be recouped from the contractor; and • Where supporting information cannot be identified for the jobs without job numbers, the Contractor must be asked to provide the supporting evidence.	Implemented
Invoices received from the contractor should be reconciled to the openhousing system to ensure the requests for payment is valid. The following should be included as part of this process: • verification against the relevant open job orders in openhousing; • amounts charged matched to the schedule of rates in the contract; • that the job has been completed to the expected standard; and • once payment is made, this is recorded and the job is closed on the system.	Implemented

Appendix C

1. Counter Fraud Audit Work – 01/10/2020 to 31/12/2020

1.1 Proactive Counter Fraud Investigations

1.1.1 Proactive work undertaken during 01/10/2020 to 31/12/20 is shown below:

Description	Risks	Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Four requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. Seven requests for advice were received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. One referral was received.	Ongoing
FOI Requests	To undertake all Freedom of Information (FOI) Requests. No requests were received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2020/21 NFI. 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.	Ongoing

1.2 Reactive Investigation Cases

1.2.1 Three referrals were brought forward from the previous period:

- Two referrals are currently under a disciplinary investigation; and
- The findings for one referral have been forwarded to the service to act on.

1.2.2 During 01/10/2020 to 31/12/20 seven referrals were received:

- One case has been investigated and has now been passed over to HR Investigations to undertake a disciplinary investigation; and
- Six referrals are currently being investigated.

1.3 Housing Cases

1.3.1 The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications:

Description	2019/20	2020/21 (to date)
Number of referrals	25	50
Properties recovered	4	2
Notional Saving	£72,000	£36,000
RTB checked	208	141
RTB stopped	1	4
Notional Saving	£108,000	£449,200
Total Notional Saving	**£180,000**	**£485,200**

Appendix D: Current status of 2020/21 Audit Plan

Audit Title	Status as at end Q3	Opinion	Reason for delay (where applicable)
LBH Systems Audits			
Purchase Cards (compliance work)	Completed	Moderate	
Private Sector Leasing Follow Up	Completed	Moderate	
Management of NHS Shield Data (COVID-19 response)	Completed	N/A	
Management of food distribution to vulnerable individuals (COVID-19 response)	Completed	N/A	
Fusion - Oracle upgrade	Completed	N/A	
ICT Inventory (Laptop Security) – Smarter Working Project	Completed	Moderate	
Contract Management - Housing	Completed		
Reablement	Draft Report		
Treasury Management	Draft Report		
Health & Safety	Draft Report		
Housing Compliance – Temporary Accommodation	Underway		
Business Continuity and Emergency Planning	Underway		
Housing Voids	Underway		
Responsive Repairs	Underway		
Payroll (compliance work)	Underway		
Outbreak management plan and infection control	Q4		
Social Care Transitions	Q4		
SEND - transport	Move to 21/22		
Planning	Move to 21/22		
Parking	Move to 21/22		
Procurement	Move to 21/22		
Post implementation review of Liquid Logic	Move to 21/22		
Safeguarding Adults	Move to 21/22		
Direct Payments	Move to 21/22		
Leaving Care	Removed following discussion with Director and assurances on this area provided by external reviews (including ongoing stocktake work, University of Bedfordshire research outcomes and subsequent improvement programme).		
Licensing Schemes	Removed following risk discussion with Director.		

LBH Schools			
Harold Court Primary	Completed	Substantial	
La Salette Primary	Completed	Substantial	
Parklands Junior	Draft Report		
St Marys Catholic Primary	Underway		
Squirrels Heath Juniors	Underway		
Crownfield Juniors	Q4		
Elm Park Primary	Q4		
Rainham Village Primary	Q4		
Squirrels Heath Infants	Q4		
St Edwards CofE Primary	Q4		
St Peters Catholic Primary	Q4		
The Towers Federation (2 schools)	Q4		
Clockhouse Primary	Q4		
Corbets Tey School	Q4		
Ardleigh Green Learning Federation (2 schools)	Move to 21/22	Onsite request	
Crowlands Primary	Move to 21/22	Onsite request	
Crownfield Infants	Move to 21/22	Onsite request	
Health Checks (9)	Q4 – x4 booked in	x5 Health Checks to move to 2021/22	

Appendix E: Summary of Limited Assurance Reports

Housing – Contract Management Summary Report

Scope

Internal Audit were approached by the Housing Service to provide additional assurance on a significant potential overpayment, under a commercial gas services and associated works contract. The payments had been identified by the Housing Compliance Team as possible overpayments resulting from invoices issued by the contractor during the period January to September 2020

The scope of this work included;

- Consideration of the work carried out by the Housing Compliance Team;
- providing verification of their findings on a sample basis to help confirm the potential issues; and
- Identifying subsequent, possible overcharges.

Executive Summary

Limited assurance can be given on the control environment surrounding the management of this commercial contract in the Housing service due to:

- No information on the value of the original contract to determine if contract procedure rules were followed;
- Lack of reconciliation of invoices received to jobs raised, resulting in overpayments to the contractor;
- Lack of checks undertaken for payments made, resulting in a number of duplicate invoices paid; and
- Authorisation for payments made without checks, to ensure charges matched the agreed schedule of rates, or that the work was carried out to a required standard.

The priority focus for this review was to provide additional assurance to the Housing Service on their findings, following checks on the data received from the contractor. Our work, for the sample selected for testing, has been able to confirm that:

- The data does indicate that there were duplicate invoices issued; and
- Further work on this sample confirmed these invoices have been paid and so steps will need to be taken to recoup these overpayments from the contractor.

Further work is expected to be carried out within this area to test control weakness once the immediate issues are resolved.

This audit makes two high risk recommendations. Details of the high risk recommendations are outlined below.

<table>
<tr><th colspan="3">Recommendations</th></tr>
<tr><td>R1</td><td>Immediate discussions with the contractor to check that (for work invoiced to date):
Jobs raised on openhousing were carried out as expected;
That the rates charged on the invoices match the schedule of works in the contract and that these invoices have been paid;
Any additional payments made that appear to be duplicates, errors or, over and above the amounts in the schedule of work should be recouped from the contractor; and
Where supporting information cannot be identified for the jobs without job numbers, the Contractor must be asked to provide the supporting evidence.
Recommendation Owner: Building Services and Compliance Manager
Expected Timescale for Implementation: Complete
Officer’s comments:
Meetings have been held with the contractor Senior Management Team where investigation information was presented. Followed up by numerous skype meetings to discuss data. We have now been able to secure agreement that the full value of £60,771.15 will be credited back to the Council.

A final concluding meeting to be held this week, pending availability of all stakeholders. To ensure strict monitoring and processing rules are followed going forward;
All jobs raised by Call Centre will be checked against service call sheets and certificates and upon receipt of application will be varied and closed before the Invoice is approve from payment;
All invoice from 2020 have been reviewed, with associated applications being checked against service sheets for SOR compliance, i.e. each job was varied to match contract SOR. This exercise is also being done for Aug - Dec 2019 and will be completed by the end of the week. They have already committed to refund £4679.00 and any further credits will be applied to future invoices;
A full account review has been completed for the entire contract duration i.e. 2019 - 2020 and the contractor has agreed to credit the full amount requested of £60771.15. This credit is made up of duplications, errors and incorrect SOR's.
The contractor has been cooperative and provided all evidence requested. This documentation has been checked and verified against discrepancies and is being loaded into Swordfish and Sharepoint for future reference.</td><td>High</td></tr>
</table>

R2	Invoices received from the contractor should be reconciled to the openhousing system to ensure the requests for payment is valid. The following should be included as part of this process: • verification against the relevant open job orders in openhousing; • mounts charged matched to the schedule of rates in the contract; • that the job has been completed to the expected standard; and • Once payment is made, this is recorded and the job is closed on the system. **Recommendation Owner:** Building Services and Compliance Manager **Expected Timescale for Implementation:** Complete **Officer's comments:** • A total of 1100 historic jobs have been downloaded from Open Housing with 800 already closed and the remaining 300 will be completed by the end of the day; • As above, all jobs will be closed prior to payment; • We have set up bi-monthly contract progress meetings with the Contractor QA manager to ensure quality of work, payment amounts correspond to SOR values and audit issues are being addressed; • As above all jobs on Open Housing system is being varied and closed on application receipt and the Gas Manager has committed to doing 20% site visit for auditing purposes per month; and • Shadowing of engineers has also been agreed.	**High**

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Havering
LONDON BOROUGH

Audit committee

	24th February 2021
Subject Heading:	**Treasury Management Strategy Statement 2021/22 and Annual Investment Strategy 2021/22 ("TMSS"), Treasury Indicators and Minimum Revenue Provision (MRP) Policy Statement for 2021/22**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **Chief Financial Officer**
Report Author and contact details:	**Zainab Roberts / Stephen Wild** **Zainab.Roberts@havering.gov.uk** **Stephen.Wild@onesource.co.uk** **01708 434 306 / 0203 373 3881**
Policy context:	**The CIPFA Code of Practice ("CIPFA TM Code") on treasury management 2017 recommends that the TMSS and MRP Policy Statement are reported to a scrutiny committee for effective scrutiny- this role is undertaken by the Audit Committee and this report will be reviewed at its meeting on 24thrd February 2021. It was presented to Cabinet for approval on 17 February 2021 and is to be laid before Full Council on 3rd March 2021 for adoption..**
Financial summary:	**The TMSS forms part of the Authority's overall budget strategy and financial management framework.**
Is this a Key Decision?	**No**

When should this matter be reviewed?	**Biannually**
Reviewing OSC:	**Overview and Scrutiny Committee**

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[]
Connections making Havering	[]

SUMMARY

The TMSS is part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) TM Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The Local Government Act 2003 requires authorities to comply with both codes.

This report fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Government Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators
- A MRP Policy Statement (the means by which capital expenditure which is financed from borrowing is paid for by authority tax payers)

RECOMMENDATIONS

Audit Committee is asked to comment on the document.

REPORT DETAIL

1. Introduction

1.1 The authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments in accordance with the authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.2 CIPFA define treasury management as "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 Whilst any regeneration initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the "regeneration programme".

1.4 The authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - MRP Policy Statement, (how residual capital expenditure is charged to revenue over time).
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

1.5 The above reports are required to be adequately scrutinised before being adopted by the authority. This role is undertaken by the Audit Committee. Ideally the draft TMSS would be presented at this committee prior approval by Cabinet but owing to committee scheduling this was not possible on this occasion and it's a statutory requirement that the TMSS is adopted by the authority in the year preceding the year it refers to.

2. Key Considerations and Sustainability

2.1 TMSS 2021/22

2.1.1 The strategy for 2021/22 covers two main areas:

a) Capital issues

- the capital expenditure plans and the associated prudential indicators set out in **appendix 2**;
- the MRP policy.

b) Treasury management issues

- the current treasury position as shown in **appendix 1**
- treasury indicators which limit the treasury risk and activities of the authority; **appendix 3**
- prospects for interest rates; **appendix 4**
- the borrowing strategy;
- policy on borrowing in advance of need; **appendix 5**
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the policy on use of external service providers.

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA TM Code and MHCLG Investment Guidance.

2.2 Training

2.2.1 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters. The authority addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.
- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

2.3 **Treasury Management Consultants**

2.3.1 The authority uses Link Asset Services (“Link”) as its external treasury management adviser. The authority recognises that responsibility for treasury management decisions remains with itself at all times and ensures that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The authority will ensure that the terms of their appointment and the methods by which their value will be assessed are agreed and subjected to regular review.

3. Service Delivery and Performance Issues

3.1 The authority’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, shown in **appendix 2**, which are designed to assist Members’ overview and confirm capital expenditure plans.

3.2 Borrowing Strategy

3.2.1 Caution will be applied to the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.2.2 The authority has maintained an internal borrowing position (£118m at 31/3/20). This means that the capital borrowing need (the Capital Financing Requirement (CFR)), has not been fully funded with external loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent as investment returns have approached zero while counterparty risk has remained an issue. However as the authority's CFR continues to grow, internal cash balances will become strained resulting in temporary borrowing thereby increasing interest rate and refinancing risk in the debt portfolio. Those risks need to be carefully managed through the judicious introduction of new long term external borrowing into the debt portfolio.

3.2.3 The PWLB consultation concluded their review effective 26th November 2020 the main headlines were:

- PWLB rate lowered 100bps (or one percentage point) for all new Standard Rate and Certainty Rate loans. This takes PWLB borrowing back to a margin of 80bps (0.8%) above the Gilt which was the position pre October 2019 and prior to the PWLB consultation.
- As a condition to access PWLB, authorities were asked to submit a high level description of capital spending for 3 years.
- The S151 officer of the authority to confirm no intention to buy investment assets primarily for yield any time in the next 3 years
- The PWLB will not lend to an authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

It is against this backdrop and the continued uncertainty of economic and interest rate forecasts, that caution will be exercised in managing the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where there is a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short borrowing will be considered.

- Where there is a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and

UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, long term fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

New Borrowing

3.2.4 The authority's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

- Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the authority's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable and protect the budget strategy from volatility in short term interest rates;
- Temporary Borrowing: from the money market or other local authorities;
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources;
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio;
- PWLB: borrowing for periods across all durations where rates offer best value.
- Other borrowing arrangements: such as the use of leasing, specialist 'green' funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.2.5 The authority will continue to borrow in respect of the following:

- Maturing debt;
- Approved (prudential) capital expenditure / capital investment;
- To finance short-term cashflow fluctuations.

3.2.6 The type, period, rate and timing of new borrowing will be determined by the Chief Financial Officer under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above;
- Maturity profile of the debt portfolio;
- The impact on the medium term financial strategy;
- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Treasury Management Limits on borrowing activity

3.2.8. There are three debt related treasury activity limits. The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure;
- Maturity structure of borrowing to manage refinancing risk.

3.2.9. The proposed indicators are set out in **appendix 3**.

Policy on borrowing in advance of need

3.2.10. This is set out in **appendix 5** of this report.

Debt Rescheduling

3.2.11 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

Where short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;
- To fulfil the treasury strategy;
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances

to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.3 **Annual Investment Strategy**

3.3.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team).

3.3.2 The Authority’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice 2017 (“the TM Code”) .
- CIPFA Treasury Management Guidance Notes 2018.

3.3.3 The key intention of the Guidance is to maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield. The authority’s objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity. Within the prudent management of its financial affairs, the authority may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and this authority does not engage in such activity.

3.3.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk, its minimum credit criteria is set out in **Appendix 6**.

3.3.5 The authority will consider placing longer term treasury deals while investment rates are at historically low levels and where attractive interest rates with high quality counterparties become available.

3.3.6 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.3.7 Credit ratings should not be the sole determinant of the quality of an institution, this authority is not bound by the agency with the lowest rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.3.8 Treasury investment instruments identified for use in the financial year are listed in **Appendix 7** under the 'specified' and 'non-specified' investment categories in accordance with the MHCLG Investment Guidance.

3.3.9 The Chief Financial Officer will, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.3.10 All investments will be denominated in sterling.

3.3.11 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up.

3.3.12 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

3.3.13 Whilst the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

3.3.14 This authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

3.4 Loans to Third Parties or Non Treasury investments

3.4.1 The authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England)

Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the authority's internal cash balances as external borrowing is not permitted in such circumstances.

3.4.2 **Pension Fund Cash** - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Authority. These balances are invested in accordance with the Authority's Treasury Management Strategy.

The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.4.3 **Pension Fund Prefunding** – The authority can choose to enter into an agreement to made advance payment to fund the employee pension contribution for up to 3 years. The benefit of this is to take advantage of discount rate provided by the Pension Fund Actuary which will results in cash saving for the authority. The authority has not previously adopted such advance payments.

3.5 Treasury Indicators

3.5.1 The indicators cover 2019/20 -2023/24. The CIPFA Prudential Code and the TM Code requires authorities to set treasury indicators and these are set out in **Appendix 3**. No breaches in the indicators are expected in 2020/21.

3.6 Minimum Revenue Provision (MRP)

3.6.1 The MRP Policy Statement 2021/22 is set out in **Appendix 8** of this report.

3.7 Policy on the use of external service providers

3.7.1 The authority uses Link Asset Services as its external treasury management advisors.

3.7.2 The authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the authority ought to approve a Treasury Management Strategy Statement, the MRP Policy Statement and the Prudential Indicators.

Other options considered:

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance and Property, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at	Debt interest costs will	Higher investment

long-term fixed interest rates	rise; this is unlikely to be offset by higher investment income	balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2021/22, the budget for investment income has been set at £0.5m, based on known maturing investments in 2021/22 and a future lending of 0.15%. However this may need to be revised down during the year depending on the balance between internal and external borrowing with any corresponding offset made to the interest payable budget.

The budget for long term debt interest payable in 2021/22 has been reduced from £14.0m to £12.4m. The budget was increased significantly in 2020/21 in anticipation of borrowing for the capital programme. The COVID pandemic has led to both delays in the programme and the opportunity for new borrowing at lower interest rates. This has allowed for the external borrowing budget for 2021/22 to be reduced.

Of the existing £265m of long term debt, £228m is in relation to the HRA, with a budget for debt interest payable of £6.8m.

The General Fund Budget for debt interest on external debt has been increased from £4.1m to £5.6m to reflect the latest capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Authority must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA when considering its duty under section 3.

The Authority has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report.

Agreed by: Stephen Doye.

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, 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.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks:

The Authority is committed to improving the quality of life and wellbeing for all Havering employee's and residents in respect of socio-economics and health determinants. There are no direct implications to the Authority's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

Appendix 1

Current Portfolio Position and Capital Financing Requirement (CFR)
The overall treasury management portfolio as at 31 March 2020 and the position as at 31st December 2020 for both borrowing and investments.

Table1: Current Portfolio Position

TREASURY PORTFOLIO				
	Actual 31/3/20 £m	**Actual 31/3/20 %**	**Current 31/12/20 £m**	**Current 31/12/20 %**
Treasury Investments				
Banks & Building Societies	52.800	31	20.000	15
Government (including Local Authorities)	100.000	58	90.000	68
Money Market funds	15.850	9	22.500	17
Bonds	3.000	2		
Total Treasury Investments	**171.650**	**100**	**132.500**	**100**
Treasury External Borrowing				
PWLB	228.234	83	258.234	97
LOBO loan from bank	7.000	3	7.000	3
Temporary loan (LA)	38.000	14		
Other loans	0.351		0.451	
Total External Borrowing	**273.585**	**100**	**265.685**	**100**
Net Treasury Investments/(Borrowing)	**(101.935)**		**(133.185)**	

The authority's forward projections for borrowing are summarised below in Table 2. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The expected change in debt will be influenced by changes in the interest rate yield curve.

Table 2: Capital Financing Requirement (CFR) and Borrowing

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	210	235	353	464	670
Expected change in Debt	25	118	111	206	207
Actual gross debt at 31 March	**235**	**353**	**464**	**670**	**877**
The Capital Financing Requirement	**353**	**464**	**670**	**877**	**1031**
Under / (over) borrowing	**118**	**111**	**206**	**207**	**154**

Within the above figures the level of debt relating to regeneration activities is detailed in table 3 below.

Table 3: Regeneration Programme debt

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Actual debt at 31 March £m	56	74	135	206	234
Percentage of total CFR %	16	16	20	23	23

PRUDENTIAL INDICATORS **Appendix 2**

Capital expenditure

This prudential indicator is a summary of the authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2019/20 Actual	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
Non-HRA	**77.807**	**94.386**	**70.563**	**31.235**	**14.770**
HRA	**61.831**	**158.795**	**142.970**	**174.740**	**167.649**
Regeneration Programme *	**15.155**	**19.036**	**137.819**	**153.067**	**82.470**
Total	**154.793**	**272.216**	**351.352**	**359.042**	**264.890**

* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	18.231	27.816	95.080	88.558	47.084
Capital grants	27.347	94.516	22.335	41.581	26.961
Revenue and Reserves	26.937	35.443	18.143	12.533	14.584
Net financing need for the year	**82.278**	**114.441**	**215.795**	**216.370**	**176.261**

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Regeneration Programme £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	15.155	19.036	137.819	153.067	82.470
Other Sources of Financing	0.000	0.250	71.240	78.510	40.000
Net financing need for the year	**15.155**	**18.786**	**66.579**	**74.557**	**42.470**
Percentage of total net financing need %	**18.42**	**16.42**	**30.85**	**34.46**	**24.09**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (OLTL) which relates to PFI schemes and finance leases. The authority currently has no such liabilities within the CFR.

The authority is asked to approve the CFR projections below:

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – non housing	100.366	124.546	155.955	172.415	178.535
CFR – housing	197.217	265.946	379.631	498.675	618.061
CFR – Regeneration Programme	55.844	73.688	135.384	206.691	234.765
Total CFR	**353.427**	**464.180**	**670.971**	**877.782**	**1031.361**
Movement in CFR	**80.084**	**110.753**	**206.791**	**206.811**	**153.579**

Movement in CFR represented by					
Net financing need for the year	82.278	114.441	215.795	216.370	176.261
Less MRP and other financing movements	2.194	3.688	9.004	9.559	22.682
Movement in CFR	**80.084**	**110.753**	**206.791**	**206.811**	**153.579**

A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial/regeneration activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the authority's remaining activity.

Within the range of prudential indicators there are a number of key indicators to ensure that the authority operates its activities within well-defined limits. One of these is that the authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are affordable, prudent and sustainable.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The authority is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	3.20	4.41	5.82	7.34	8.46
HRA	4.45	5.84	8.17	10.53	12.79
Regeneration Programme	1.64	2.19	3.78	6.27	7.35
Total	9.30	12.44	17.78	24.13	28.60

Prior to 2019/20 regeneration programme activities are not shown separately in this table

The estimates of financing costs include current commitments and the proposals in this budget report.

Appendix 3

TREASURY LIMITS

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
Debt	390	535	671	796
Other long term liabilities	10	10	10	10
Regeneration Programme	73	135	206	235
Total	473	680	887	1041

The authorised limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The authority is asked to approve the following authorised limit:

Authorised limit £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
Debt	468	642	805	894
Other long term liabilities	10	10	10	10
Regeneration Programme	88	162	248	258
Total	566	814	1063	1162

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair opportunities to reduce costs/improve performance.

The Code requires that for LOBO loans the maturity date is now deemed to be the next call date.

The indicators are:

Maturity structure of borrowing

These gross limits are set to reduce the authority's exposure of large fixed rate sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	90%
12 months to 2 years	0%	90%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£120m	£120m	£100m

Appendix 4

PROSPECTS FOR INTEREST RATES

The authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives their central view.

APPENDIX: Interest Rate Forecasts 2020 – 2024.

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 9.11.20 (The Capital Economics forecasts were done 11.11.20)
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

The UK Interest rates are forecast to stay low following the Brexit deal agreed on the 31st December 2020 and as a result of the pandemic impact. The Bank of England is likely to stay focused on supporting the economic recovery with interest rates not expected to rise before late 2022. On the other hand, a combination of lower oil prices, temporary tax cuts and weaker demand will keep inflation well below the Bank of England's 2% target. That should help keep base interest rate at 0.1% or below until at least the end of 2021 (the forecast above is from Link, Capital Economics suggest longer). The pandemic will exercise a strain on public finances, with the deficit remaining above pre-COVID levels in the medium term.

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Appendix 5

POLICY ON BORROWING IN ADVANCE OF NEED

The authority must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2020/21, plus the estimates of any additional CFR for the year 2021/22 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the authority can ensure the security of such funds.
In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered;
- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow;
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles;
- Consider the positive and negative impacts of borrowing in advance of need on the authority’s cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 6

The Authority's minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the authority works together with Link Asset Services (the treasury management advisor) to establish an operational lending list using Link's creditworthiness methodology.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the authority's own banker, Should the credit rating fall below A-, for liquidity purposes the authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.
   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.
   The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The authority's credit rating criteria for UK Building Societies in 2021/22 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.

4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

7. **Residential Mortgage Based Schemes** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.

8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

9. **Money Market Funds (MMF):** The authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the authority's investment objectives will be monitored regularly.

Table 1: Approved investment counterparties and limits

Credit rating	**Banks unsecured***	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	n/a	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	n/a	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	n/a	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	n/a	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m per authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds, Residential Mortgage Based Schemes (RMBS)				

* Includes Building Societies

Investment Limits

The authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Appendix 7

Specified and Non Specified Investments

Specified investments:

The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Limits on specified investments are shown in table 1 below.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limits	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	UK Building Societies	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 6, Table 1	£35m	per Appendix 6, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 6, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 6, Table 1
Term Deposits	Local Authorities and other	UK Sovereign Rating	£35m	per Appendix 6, Table 1

	Public Institutions			
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 6, Table 1		per Appendix 6, Table 1
Money Market Fund		AAA [3]	£25m	
Enhanced Cash Funds		AA/Aa[4]	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	
1. £35m Limit per bank / banking group.				
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.				
3. Investments will be made with those MMF's which have a rating of AAA				
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating				

NON SPECIFIED INVESTMENTS

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 6, Table 1	10 yrs.	£120m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£40m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£160m**

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

	Cash Limit £m
Total long-term investments	120
Total Investments without credit ratings or rated below A- (subject to due diligence)	40
Total non-specified investments	**160**

Appendix 8

Minimum Revenue Provision Policy Statement

Where the Authority finances capital expenditure by debt, 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 requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the MHCLG *Guidance on Minimum Revenue Provision* updated in 2018.

The broad aim of the MHCLG 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.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £2.9m on a reducing balance method

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, but under exceptional circumstances MRP the annuity method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The Authority may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

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. The Authority keeps under review all loans to 3rd parties and should there be an expectation that loans will not be repaid in full MRP would be made in this respect.