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AUDIT COMMITTEE
AGENDA

7.00 pm	Thursday 28 October 2021	Council Chamber - Town Hall

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:
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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:-

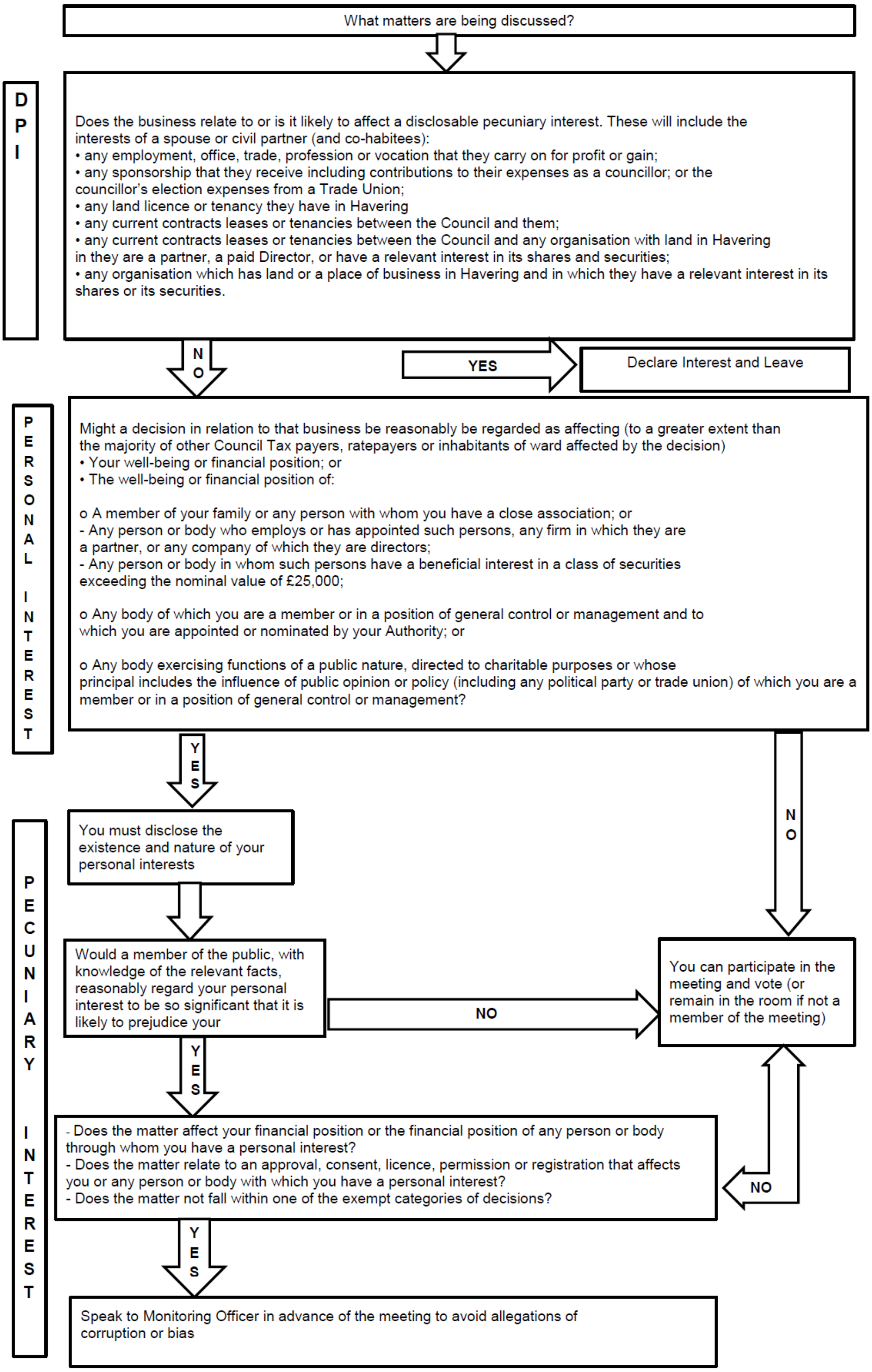
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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



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 MINUTES OF THE MEETING (Pages 1 - 2)

To approve as correct the minutes of the meeting held on 22 July 2021 and authorise the Chairman to sign them.

5 ASSURANCE PROGRESS REPORT (Pages 3 - 36)

Report and appendices attached

6 STATEMENT OF ACCOUNTS 2020/21 (Pages 37 - 242)

Report and appendices attached

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Town Hall, Main Road, Romford
22 July 2021 (7.00 - 7.55 pm)

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 (in the Chair)

Apologies were received for the absence of Councillors Viddy Persaud .

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

73 **MINUTES OF THE MEETING**

The minutes of the previous meeting held on 28th April 2021 were agreed as a correct record and signed by the Chairman.

74 **ASSURANCE PROGRESS REPORT**

The Committee was presented with the assurance progress report during the period from 1st April to 30th June 2021.

Members noted that 3 permanent positions had been filed in the Counter Fraud Service team. Members noted that 9 housing referrals had been made and 1 property had been recovered and the payroll report was being drafted. Members were made aware that fixed term staff would be fully trained and experienced and Havering do not compare their statistics to other London Boroughs.

The Committee **noted** the report.

75 **PROCUREMENT UPDATE**

The Committee was presented with an update on the most recent changes made to procurement.

Members noted that new governance had been initiated following a new gateway review group and new contract procedure rules had been drafted. A new intranet page had also been created to provide staff with guidance on the changes. Members noted the procurement team had reduced its interim staff from 5 members to 1 and the contracts register had been updated and was live. It was explained to the Committee that there was a 'No PO No Pay' policy in place and Members were assured that suppliers were notified of this.

Committee members requested for a further report on the oracle fusion software to be brought back to the Committee and a future meeting.

The Committee **noted** the report.

76 **TREASURY MANAGEMENT ANNUAL REPORT 2020/21**

The Committee was presented with the Annual Treasury Management report for the 2020/21 financial year.

Members noted the investment income exceed the budget by £0.5million and the interest payable outturn was £8.304million compared to the budget of £12.695million. The Committee noted the internal cash figure was wring and should read £188million not £109million and the capital borrowing increase under point 4.2 should be £19million not £28million. It was explained to Members that the HRA and cash reserves were used and that would need to be repaid and the reserves were replenished with long-term borrowing.

The Committee **noted** the report and the performance against the targets for the 2020/21 financial year.

77 **AUDIT COMMITTEE ANNUAL REPORT**

The Committee **noted** and **agreed** the 2020/21 Annual report.

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Chairman

AUDIT COMMITTEE
28 10 2021

Subject Heading:	Assurance Progress Report
SLT Lead:	Jane West, Chief Operating Officer
Report Author and contact details:	Jeremy Welburn, Head of Assurance Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work during quarter two of 2021/22.
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 July to 30th September 2021. This report is presented in five sections:

Section 1: Introduction

Section 2: Executive Summary – A summary of the key messages

Section 3: 2020/21 Significant Governance Issues Update

Section 4: Risk Management Update

Section 5:
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 This report brings together all aspects of internal audit and counter fraud work undertaken during the period from 1st July to 30th September 2021, 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 two of 2021/22

2.1 Internal Audit

2.1.1 There have been 10 audit reviews completed during this period; two of which were schools, both given a reasonable assurance. Of the eight systems reviews completed; two had Limited Assurance, one was given Reasonable Assurance and the remaining five were assurance and consultancy reviews, or grant reviews, where an assurance opinion is not usually provided. Appendix C shows the current position of the 2021/22 audit plan.

2.1.2 There were four high risk recommendations raised in these reports and detail of these, including management responses and deadlines for expected completion is included within the report summaries in section 4 of Appendix A.

2.2 Pro-Active and Counter Fraud

2.2.1 During Lockdown the service was limited to desk based intelligence checks and investigations. Post-lockdown the counter fraud service are following up these desk based intelligence checks and investigations with door step visits and will be undertaking Interviews under Caution where necessary (following all Covid-19 social distancing measures).

2.2.2 Of the five referrals brought forward from the previous report, three have been investigated and sanctions applied where appropriate. The remaining two cases are still under investigation.

2.2.3 During the 1st July to 30th September 2021 five referrals were received; all five were Whistleblowing referrals. One case has been investigated and the findings forwarded to HR for reference and monitoring. Four referrals are currently being investigated.

Section 3. Significant Governance Issues Update

3.1 The Annual Governance Statement for 2020/21 was published on 31st July 2021. There were five Significant Governance Issues identified for ongoing action during 2021/22. These are reviewed at Governance and Assurance Board, chaired by the S151, on a regular basis. The current status and action plan is provided in full in Appendix D.

Section 4. Risk Management Update

4.1 The Corporate Risk Register is regularly reviewed, monitored and updated by the Governance and Assurance Board. The current version of the Corporate Risk Register is provided in Appendix F.

Appendices: Provide supporting detail for Member's information

Appendix A: Detail of Internal Audit work to date
Appendix B: Detail of Counter Fraud work
Appendix C: Current status of 2021/22 audit plan
Appendix D: AGS 2020/21 Significant Governance Issues Update
Appendix E: Risk Management Update
Appendix F: Corporate Risk Register

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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Audit Committee, 28 October 2021

Appendix A: Progress Report - Internal Audit Work

1. Audit Progress

1.1 The Annual Audit Plan was presented to the Audit Committee in February 2021. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2021/22, with time allocated under each theme to carry out risk identification and process mapping, where required. Members are reminded that the 2021/22 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 C

1.2 Current, cumulative progress toward delivery of the 2021/22 audit plan, as at the end of September 2021, is summarised in the table below, with further detail provided in Appendix C. 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	12
Draft reports issued	2
Underway	8

2. Risk Based Systems and School Audits

2.1 The table below details the results of the work undertaken during quarter two.

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
Housing Voids	Limited	3	4	0	7
Reablement Contract Award (report 2)	Limited	1	0	0	1
Reablement Quality Review (report 1)	Reasonable	0	2	1	3
Direct Debits (Phase One)	N/A	N/A	N/A	N/A	N/A
Office Decant Process (Phase One)	N/A	N/A	N/A	N/A	N/A
Project Management Review	N/A	N/A	N/A	N/A	N/A
Supported Families (mid-year review)	N/A	N/A	N/A	N/A	N/A
Mayor's Appeal Charity Fund	N/A	N/A	N/A	N/A	N/A
School Audits					
Squirrels Heath Infants	Reasonable	0	2	5	7
St Edwards Primary	Reasonable	0	1	6	7
Total		**4**	**9**	**12**	**25**

In addition, a total of seven school health checks were completed during July to September 2021.

Summaries of both the Housing Voids and Social Care Contract Award reports are provided in section 4. In addition, a summary of the Direct Debit work has been provided. Whilst this did not result in an assurance opinion being provided as the nature of the work was in an advisory capacity, it was felt that due to the significance of the event reviewed, context around the findings would be useful.

Key to Assurance Levels	
Reasonable Assurance	The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

3. Audit Recommendations Update and status of High Risk Recommendations

3.1 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.

3.2 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.

3.3 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.

3.4 All high risk recommendations due as at the end of September 2021 have been confirmed as implemented. One recommendation has been given an extended deadline for completion as exception reports remain under development within the new Fusion financial system. The table in 3.6 provides details of the open high risk recommendations that were due to be implemented by the end of September 2021, along with a status update. There were four high risk recommendations raised during quarter two of 2021/22. These recommendations have not been included in the table at 3.6 and instead are provided in detail along with the summary report in section 4.

3.5 All medium risk recommendations that became due before the end of September 2021 have been confirmed as implemented.

3.6 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 December 2021 due to the ongoing development of reports and exception reports in Fusion. (original date September 2020)

4. Limited Assurance Report Summaries

4.1 Housing Voids

Executive Summary
Introduction As part of the Internal Audit Plan for 2020/21 agreed by Audit Committee, a review of the Council's Housing Voids process was undertaken. **Scope of Review** The scope of this audit focused on the effectiveness of the financial and operational controls in the following key risk areas: • Vacant properties are processed and confirmed as void properties in a timely manner; • Repairs to void properties are completed and they are available to let within a suitable time period; • The cost of repairs to void properties is reasonable and where relevant, recharged to the relevant person(s); • Checks are undertaken to ensure works invoiced for have been completed; and • Properties are let as soon as practically possible. The Housing Service has been reviewing a number of service areas over the previous 18 months and a review of the voids process is currently ongoing. It is expected that this review will address the findings from this audit and a full follow up of the implementation of the recommendations will be provided to a future meeting of the Audit Committee.
Summary of Findings This audit is intended to assist the Housing Service in the identification and resolution of issues identified. A system of exception reporting is operated whereby only risks that are not being adequately managed or controls that are not being performed effectively are reported on. The overall audit opinion on the system reviewed provides **Limited Assurance** showing that 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. This audit makes **three high** priority and **five medium** priority recommendations that aim to mitigate the risks identified. This review has found that there are inconsistencies throughout the voids process, and the documents retained. The inconsistencies found relate to: • The approach to monitoring the return of keys and application of additional rent charges; • The recording of rechargeable costs when completing the surveyor reports; • Rechargeable costs are being applied to tenants in PSL properties, however not for Council properties; • The application of naming conventions, file locations and level of detail retained on the documentation relating to each void property; and • Key performance targets are also currently not being achieved, which has been attributed to the effects of Covid.

	Expected Outcome	Management Response inc Planned Actions	Timescale
R1	In order to know whether rent charges have been accurately applied there should be a standard approach adopted that is consistent on all communications with tenants. This should include a definitive cut off point from when rent accounts will be extended, and maintaining a record of keys expected to be returned.	To identify all procedures and customer information that have been written with conflicting information and ensure they are updated and reflect the new cut off points. (Completed August 2021) We will train all staff including the new senior officers on the approach and we will monitor the performance accordingly.	October 2021
R2	A date should be agreed to fully adopt the Repairs Policy for Council general needs stock, and processes put in place to be able to accurately monitor the level of tenant recharges.	The policy is live, but we have not currently implemented the recharge approach. We will ensure a robust process is in place of identifying, recording and managing recharges, and ensuring there is a clear auditable information trail to justify and evidence recharges. We will use Open housing functionality for recording and managing recharges. A monetary credit to the service need to be provided in the accounts, irrespective of whether the monies are recovered or appropriate budget allowances made.	June 2022
R3	A standard approach should be put in place for the recording of which costs can be recharged for each void.	As above	October 2021
R4	Swordfish/ Open Housing should be utilised as a document retention system, for all void documents, to enable all information to be stored in one easily accessible location. Communication should be sent to all staff to remind them that Swordfish/ Open Housing is the services document retention system. Training should be provided to ensure staff comply with document retention expectations.	We liaise with Housing IT over naming protocols etc, all void information going forward will be stored on Swordfish and we will try to consolidate historic information onto one central drive. Training on Swordfish Additional training will be provided where necessary. The service will strengthen the monitoring of the existing process with additional staff briefings and training.	October 2021

R5	The void process sheet should be completed to ensure that all required compliance checks are completed and the relevant documentation maintained on file.	Staff will instructed to complete the forms, and as part of the restructure sufficient back office staff will be in the service to provide checks. We will look at possible IT solutions as part of the transformation project.	October 2021
R6	Staff should be provided with equipment to be able to accurately record and reflect the work identified and completed for each void; Accompanying procedures and training should be put in place to ensure staff are aware of their responsibilities with regard to any equipment supplied.	Management accepts that there has been difficulties in obtaining and equipment. In particular with mobile phones and ICT. This will be escalated with the IT service accordingly. The service will work with the ICT constraints to issue all staff with suitable equipment. Suitable training will be provided.	October 2021
R7	A recovery plan, including target dates, should be set for performance to improve to the expected levels following the easing of Covid restrictions.	A voids action plan has been produced where weekly updates are now provided in relation to voids data and performance monitoring.	Implemented

4.2 Reablement - Contract Award

Executive Summary
A contract for the provision of social care was tendered in 2018, with support from the Council's Procurement Team. However, Post award of the contract / prior to the signing of the contract, the number of staff that were originally expected to TUPE transfer significantly reduced, leaving the new provider unable to deliver the level of service set out within the contract. In response, a sub clause was added to the contract (post award), to allow for a ramp up period to run over the first six months of the contract, during which time the provider would deliver a reduced service. It should be noted that the contract was not signed and sealed. The Council's Constitution sets out that any changes to the Council's standard terms and conditions must be approved by the Director of Legal and Governance in advance. No advice or approval was obtained from Legal Services. Whilst a ramp up plan was agreed between Senior Officers from the JCU and the new provider, no changes were made to the monthly contractual payments made to the provider. There is no evidence to support the governance / decisions made in 2019 around this change to the contract awarded. Failure to engage Legal Services and Procurement at this point resulted in a potential breach of the Public Contracts Regulations (Section 72). Ultimately the addition of sub clause B28.3 and the lack of negotiation to pro rata the contract costs may have altered the economic balance of the contract in favour of the new provider. This allowed the provider to deliver a reduced service during the first 6 months of the contract, for the same contract price as it would have received for the full service; and without penalty or having to provide compensation. As a result of the post award amendment, the provider was paid for up to 4800 care service hours that were not delivered (as per the awarded contract). These decisions may have been detrimental to the value for money achieved as full contract payments were made and further emergency care costs in excess of £100,000 were incurred over the ramp up period. As a result of these findings, Limited Assurance can be placed on the procurement process, specifically the governance process and decisions made to amend the contract post award. One high risk recommendation has been raised in this report to seek assurance that Legal Services are consulted and that consequently actions taken in the future are appropriate and consistent with procurement law.

	Expected Outcome	Timescale
R1	Governance procedures should be established within the JCU to ensure that all activity and any contract variations are undertaken with appropriate Legal Service and Procurement Service guidance, to ensure these comply with Council and Legislative regulations.	TBC
	Management Response: It is standard practice within the JCU that legal and procurement colleagues are engaged through established governance routes. For example, legal and procurement colleagues worked with the JCU throughout the tender process preceding this problem arising. The thinking and awareness of how and when legal and procurement should be engaged whenever such governance issues arise will be reinforced and further embedded in JCU practice. In terms of context, this service is essential for the continuous flow of people from hospital. If this flow stops or is interrupted at any point then beds start to block in the hospital. The lack of provision of this service for people means that their condition deteriorates and short and long term social care costs increase. There is an increased risk of interruption to this flow when there is a change to the provider. The situation that arose in 2019 threatened this flow and the remedies were designed to minimise detrimental impact. This does not excuse the fact that there should have been a dialogue with the legal and procurement department to explain the planned approach and to get assurance that we were not opening ourselves up to unnecessary risk, to assure us that remedies were the best possible and that appropriate governance routes were followed. This will be addressed through explicit and consistent messaging within the JCU.	

4.3 Direct Debits

Executive Summary

Scope of Review

The BACS process utilises BACSTEL software, which was recently upgraded. Issues with the upgrade of BACSTEL resulted in the software incorrectly interpreting one of the Council's BACS file data, which resulted in the decimalisation of the direct debit amounts; significantly increasing the amounts subsequently debited from customer accounts.

This briefing note contains a summary of findings to date (August 2021) regarding the incident above. Further work will be undertaken by Internal Audit, specifically regarding the ICT upgrade control processes.

Summary of Findings

The incorrect debit of payments has materialised as a result of two key issues:

- Insufficient testing of the BACSTEL system was undertaken to ensure the upgrade to software was successful; and
- Failure to follow the Council controls in place within the BACS process to identify errors as occurred above.

The ICT upgrade process in this case, did not include post implementation testing that would have identified the decimalisation issue. However, had the Council controls in place to verify the data produced by the BACS systems been complied with, sufficient time was available to prevent the deductions from being made to customer accounts, 10 days later.

The BACS process provides four opportunities for errors in the transmission of the BACS file to be detected. In all four cases this is a manual control, reliant on Council officers checking that the data produced matches the original submission to complete. On this occasion, and based on the stage in the process at which the data was distorted, there were two opportunities for checks to identify the issue. There is a separation of duties inherent within the last two key controls, with one check of data totals (value, number of records) against the original service request being undertaken by the ICT team and then verified by the originator of the request.

Given the dual controls within the process, there is not a requirement to add additional controls as these checks are considered sufficient. Rather, it is the application of these controls that needs to be enhanced – i.e. the responsibility of Officers in these controls should be clearly established. Positive confirmation of verification of the checks should be obtained at these stages, with payment requests only being actioned upon receipt of this.

Team members who are responsible for control checks should be identified and their responsibilities in this role highlighted to ensure that the Council does not suffer further financial and reputational damage.

In terms of further lessons to be learnt from this incident, the Council should consider the culture regarding the roles of Officers within the control process. Whilst the internal audit review undertaken does not seek to apportion blame to individual Officers, it is clear that due care and attention has not been paid at key stages in this process.

It is important that individual Officers recognise the significance of the role they play in the control environment, and the effects of not undertaking their role with diligence and care. It is recommended that the outcomes of this incident and the impact it has had on the wider Council are shared more widely with Officers to reiterate this point.

Appendix B: Fraud Progress Update

1. Counter Fraud Audit Work – 01/07/2021 to 30/09/21

1.1 Proactive Counter Fraud Investigations

1.1.1 Proactive work undertaken during 01/07/2021 to 30/09/21 below:

Description	Risks	Status
Advice to Directorates	General advice and support to Directors, Heads of Service etc. including short ad-hoc investigations, audits and compliance. Six requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. No DPA requests were received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. No referrals were 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 and issue reports to relevant services for review. Matching has now been completed and the results are now available for reviewing. 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 Five referrals were brought forward from the previous period:

- One case has been referred to the Service Director;
- Three cases have been investigated and concluded; and
- The remaining two cases are still under investigation.

1.2.2 During 01/07/2021 to 30/09/21 five referrals were received; for all five, information was provided by Whistle-blowers:

- One case has been investigated; the findings have been forwarded to HR for reference and monitoring; and
- Four 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	2020/21	2021/22 (to date)
Number of referrals	57	26
Properties recovered	2	3
Notional Saving	£36,000	£54,000
RTB checked	178	84
RTB stopped	4	2
Notional Saving	£449,200	£225,600
Total Notional Saving	**£485,200**	**£279,600**

Appendix C: Current status of 2021/22 Audit Plan

Audit Title	Status as at end Q2	Opinion
LBH Systems Audits		
HMO Enforcement	Completed	Reasonable
Supporting Families – Phase one	Completed	N/A
Housing Voids	Completed	Limited
Social Care Contract Award	Completed	Limited
Reablement Quality Review	Completed	Reasonable
Direct Debits (Phase One)	Completed	N/A
Office Decant Process (Phase One)	Completed	N/A
Supported Families (mid-year review)	Completed	N/A
Mayor's Appeal Charity Fund	Completed	N/A
Project Management Review	Completed	N/A
Business Continuity & Emergency Planning	Draft Report	
Payroll (compliance key financial work)*	Draft Report	
Accounts Payable (compliance key financial work)*	Underway	
Social Care Transitions	Underway	
Public Protection – Risk Mapping	Underway	
Environmental Health	Underway	
Post Implementation Review of Liquid Logic	Underway	
Youth Justice Service	Underway	
Procurement	Underway	
Romford Combined Charities	Q3	
SEND - Transport	Q3	
Housing - Property buy-back	Q3	
Housing - Service Charges	Q3	
Housing – Responsive Repairs	Moved to 2022/23 due to procurement of new contractor in progress.	
Safeguarding Adults	Q3/4	
Parking	Q3/4	
Contract Management	Q3/4	
Direct Payments	Q4	
Continuing Healthcare	Q4	
Highways Services	Q4	
Planning	Q4	
Housing – Compliance work	Q4	
Compliance – Key Financial Audits	Ongoing – specific audits within this area are identified above*	
ICT	TBC	
Joint Counter-Fraud work	Ongoing as demand arises	

LBH Schools		
Rainham Village Primary	Completed	Reasonable
The Towers Federation	Completed	Reasonable
Harold Wood Primary	Completed	Reasonable
Crownfield Juniors	Completed	Reasonable
Squirrels Heath Infants	Completed	Reasonable
St Edwards CofE Primary	Completed	Reasonable
Ardleigh Green	Q3	
Crowlands Primary	Q3	
Crownfield Infants	Q3	
Nelmes Primary	Q3	
Brady Primary	Q4	
Branfil Primary	Q4	
Engayne Primary	Q4	
Gidea Park Primary	Q4	
Hylands Primary	Q4	
Parsonage Farm Primary	Q4	
Scotts Primary	Q4	
St Alban's Catholic Primary	Q4	
St Patrick's Catholic Primary	Q4	
St Ursula's Catholic Primary	Q4	
The James Oglethorpe Primary	Q4	
The RJ Mitchell Primary	Q4	
Emerson Park Academy	Underway	
Shaw Academy	Q3	
Health Checks (13)	8 completed	5 underway

Audit Committee, 28 October 2021

Appendix D: AGS 2020/21 Significant Governance Issues Update

1. 2020/21 AGS – action taken in relation to significant governance issues

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)
- Deputy s151 Officer
- Director 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)

2.1 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.

2.2 The 2020/21 AGS was published on 31st July 2021. The Governance and Assurance Board have reviewed each of the significant governance issues since then and an action plan outlining progress is provided below:

Audit Committee, 28 October 2021

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.

Action Already Taken	Planned Actions for 2021/22 and Progress
• Monthly reports provided to the Senior Leadership Team outlining anticipated outturn for the financial year, assisting in the identification of Medium-Term financial pressures and opportunities. • Regular update of the Medium-Term Financial Strategy and overarching financial position provided to Cabinet throughout the year. • Continued delivery of the transformation and modernisation programme with theme board focus on core business and transformation delivery. Transition to Oracle Fusion has been an ongoing project during 2020/21. Go live with the Fusion system was delayed by a short while because of COVID issues but went live in September 2020. • Detailed monitoring of the impact of the COVID19 pandemic on the financial standing of the organisation and the MTFS included as part of the corporate monthly monitoring process, and compliance with the MHCLG reporting requirements on expenditure, loss of income and impact on savings proposals was achieved. • Close monitoring of the revenue and capital plans and scrutiny of the balances and reserves of the council is included in the monitoring reporting, including the potential impact on the collection fund and forecast for year-end position. • Regular reporting to Cabinet and Overview and Scrutiny Board on the COVID19 response and the sustainability of the MTFS has taken place including the position in reserves, taking in to account the impact on the base assumptions.	• Acknowledgement of ongoing issues with embedding Fusion – work will continue developing confidence of service users in deployment of product. The Fusion Improvement Board will monitor the ongoing progress. • Continue to monitor the impact of the Covid-19 pandemic on the financial standing of the organisation and the MTFS which is reviewed as part of the corporate monthly monitoring process. • Continued focus on the delivery of the corporate recovery programme and close monitoring of the revenue and capital plans. • Senior Leadership continue to monitor the MTFS and the recovery plan to ensure the sustainability of the Council's finances.

• Delivery of the corporate recovery programme which contains the main strands of the Council's approach to successful recovery to the new normal. Recovery Officer Group meets to manage and monitor the recovery planning. • A balanced position for the 21/22 budget and a revised MTFS was presented to cabinet in February 2021 and Council in March 2021.	
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2022

2. COVID-19: Impact and recovery	
Action Already Taken	**Planned Actions for 2021/22 and Progress**
• Implemented the Havering Multi-agency Pandemic Plan • Managed the response in accordance with the Major Emergency Plan and Strategic Coordination Group direction commonly referred to as the gold, silver, bronze framework. • Minimised the impact on, and provide support to, the community and businesses • Maintained and restored essential services, working to the Corporate Business Continuity Plan. • Provided information to the community and businesses to aid self-help, working to Central Government guidance • Established an Outbreak Control Service and Covid Marshals to ensure Covid restrictions were widely adhered to across the borough • Distributed grants to businesses on behalf of central government • Provided financial assistance; mainly to families, through the local Havering Helps scheme and central government grant e.g., Winter Pressures grant • Protected the health, safety, and welfare of staff, including reducing risk to staff by maximising working from home. • Relieved suffering and provided humanitarian assistance through a range of initiatives including setting up the COVID line, food, medicine, and PPE distribution and mobilising Voluntary and Community Sector support.	• Facilitating recovery and the return to the new normality through a Council and Service Recovery Plans • Continue to monitor the pandemic, legislation changes and the impacts on the borough through the gold, silver, bronze framework • Overseeing Outbreak Management Plans including monitoring Track and Trace. • To take an evidence-based and proactive approach in identifying any action(s) necessary to highlight or reduce specific risks of the impact of coronavirus faced by any group, community or individual likely to be disproportionately affected. • To continue to support NHS services (e.g. vaccination), Care Homes and Home Care Resilience.
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2022

3. Cyber Security: Chief Information Officer (CIO) has raised concerns about the increased likelihood of Cyber security breaches given the almost exclusive focus of public sector organisations on COVID-19 response.	
Action Already Taken	**Planned Actions for 2021/22 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.
• Test and rehearse our response to cyber security attacks.
• Cyber Security Programme outline presented to SLT
	• 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 and members in the General Data Protection Regulation (GDPR). New course live at end September.
	• Prepare monthly reports for the Senior Leadership Team.
	• Review and update our Disaster Recovery and Business Continuity plan. This forms part of the annual update in February 2022.
	• 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.
	• The Cyber Security Programme will oversee the delivery of several key projects to help strengthen our current cyber security measures. This is split into across the following themes and will be delivered over 12 – 18 months period
	  ○ Designing a secure digital service
	  ○ Delivering a secure digital service
	  ○ Operating and managing a secure digital service

Lead Officer	**Target Date for Completion**
Lauren White: Assistant Director of Oversight and Support	March 2022

4. Joint Venture Governance: Circumstances that have arisen at other councils have highlighted the importance of monitoring the sustainability of significant regeneration programmes.	
Action Already Taken	**Planned Actions for 2021/22 and Progress**
• Joint venture boards are regularly held. • Regeneration group was established to manage and monitor the progress of the joint venture schemes. • Programme dashboards are produced including progress of key deliverables and future milestones, key risks and issues. • Business plans refreshed and reported to cabinet and implications included in MTFS.	• The regeneration schemes and the progress of the joint ventures will be part of the capital programme reporting to theme board. • The pipeline schemes for the JVs and Mercury Land Holdings are reviewed at the officer board. • A review of the financial viability of the joint ventures given the economic challenges following COVID to monitor programme sensitivities.
Lead Officer	**Target Date for Completion**
Jane West, Chief Operating Officer	March 2022

5. Contract Register	
Action Already Taken	**Planned Actions for 2021/22 and Progress**
• The Director of Procurement has initiated a programme of procurement improvement. • We now have a dedicated resource focussing on the Contact Register • We have asked all Directors to provide their contract information • Contract Register update will form Gateway 3 of a new Gateway process • We have developed a Power BI dashboard available to all Directors to enable self-service • All Procurement Managers are asked to work with their counterparts in the services to review and correct the register data • We are reviewing/ renewing the contract standing orders • We are drafting a new procurement intranet site; all guidance and templates are being reviewed /refreshed • All waiver requests (relating to contract extension) are refused if no contract is registered to improve compliance	• Approval for new CPR's • Launch new guidance, documents, and templates • Initiate training, videos, drop-in sessions etc.
Lead Officer	**Target Date for Completion**
Rose Younger: Director of Procurement	March 2022

Appendix E: Risk Management Update

1. Risk Management Update

1.1 Since the Corporate Risk Register was last presented to Audit Committee in February 2021 the Governance and Assurance Board (GAB), chaired by the Chief Operating Officer, have been reviewing and updating the Council's risks.

1.2 As part of this review, new risks have been added and existing risks amended. There has been a shift from the focused, emergency pandemic response that previously dominated the Council's Corporate Risk Register as well as acknowledgement that the ongoing response to, and consequences of the pandemic will form part of our risk exposure for some time.

1.3 A summary of the current Corporate Risk Register is provided as Appendix F in a separate document. 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).

1.4 Work continues 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.

1.5 The next stage of our risk management work is the implementation of JCAD, a bespoke Risk Management system to make the process more efficient and effective; providing links to strategic objectives; easier monitoring and reporting, and demonstration of compliance with good risk management practices. This is expected to be in place by December 2021.

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Corporate Risk Register Q2 2021/22

				Current Risk Score (last reviewed Sept'			
Corporate Risk ID	**Status**	**Risk Title**	**Risk Description & Impact Summary**	**Impact**	**Probability**	**Rating**	**Mitigation Summary (full details in Directorate Risk Registers)**
1	Open	**Major system failure, supplier failure or natural disaster, external infrastructure failure**	Lack of effective business continutiy plans / emergency planning and poor defences in places (e.g. severe weather, flooding, etc). 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. Proper due diligience carried out in advance of contracts being awarded. Consideration o fthe introduction of improved contract management standards so that contract managers understand how to establish financial health. 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**	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 deemed not compliant with the standard. • IT Security - This is an on-going risk from attackers and spammers • CRM - resources and support issues • ICT Data Assets • 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
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	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 ongoing pressures of COVID-19 (e.g. reduced staffing, increased hospital discharges, meeting requirements of NHS Shield etc) • The Covid vaccine will be mandatory for all care home workers in England from 11 November, with the government expecting that up to seven per cent of the workforce, equating to 40,000 staff, could lose their jobs in the UK. This could have a detrimental impact to our wider social services with Havering and our duty of care. The risk is a significant reduction of staff providing care home support. • 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. Staff vaccination being monitored and programmes in place to ensure all staff entering care homes are fully vaccinated from November 2021 Ongoing work with the wider workforce on myth busting concerns and reassurance and support to care home workers who haven't received both vaccines.

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) 5. to identify newly emerging or increasing risks eg from the outcomes of the READI Review • New and ongoing work towards meeting the climate change agenda could have a wider impact of the councils ability to adapt to a changing environment. The risk is new expectations and deadline to meet certain criteria to a more climate change responsible environment.	4	2	8	The Council has responded well to the crisis, however the financial cost of this and recovery will be challenging and needs closely monitoring. The Recovery Bronze Group has a detailed plan in place which is monitored regularly. The Governance and Assurance Board horizon scans for emerging risks from external forces and adds these to the risk register eg Cyber Security is an increasing risk. A response is being drafted to the LGA's READI Review of the Council and will be presented to the Cabinet in November. Actions will take place over the last next two years to address the issues identified. Climate Change Agenda work is taking place with various individual action plans for different aspects of climate change have been shared at Theme Board and further work to continue.
7	Open	**Collapse of the local social care provider market / Major Supplier Failure**	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 Impact of EU Exit on staffing	4	3	12	Regular sessions held with care providers to discuss pressures they are facing. Council maintaining an eighteen month stock of PPE to support providers (who will pay for it) Staff vaccinations being monitored. All staff entering care homes to be fully vaccinated by November 2021 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 Improvement of contract management Proper due diligience carried out in advance of contracts being awarded. Consideration of the introduction of improved contract management standards so that contract managers understand how to establish financial health.
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

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 during the pandemic. 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. There is an opportunity for the Council to proactively work with local businesses to help them to be tender ready.
11	Open	**Significant Governance or Control 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	• Theme Board meeting twice a week to monitor governance closely and all Key and Member 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 are significantly delayed eg due to COVID19 impacts	4	4	16	Covid continues to have an impact on the Council's priorities eg there is still a substantial impact on the Council's financial situation, local residents have been impacted financally and in relation to helath challenges, the local economy has not yet fully recovered etc. All these pressures are limiting progress against many strategic priorities. The Cabinet and Senior Leadership are meeting regularly in order to be able react with agility, realigning priorities to all challenges being faced.
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. Risk of a negative impact on staff wellbeing. The move to virtual and in the future Hybrid working requires a different style of leadership and there is a risk the Council's leaders (officers) do not adapt quickly enough. The legislatory requirement for social care staff who are required to enter care homes to be fully vaccinated against Covid-19 may impact on the supply of staff, as well as the existing workforce.	4	3	12	• Development and implementation of the Council's People Strategy including leadership development and staff wellbeing initiatives. • 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.
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 opportunities. Adjust delivery programmes, where appropriate , to respond to the market
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. - availability of resources affecting regeneration - increase in costs of materials for building and maintenance affecting regeneration and capital projects - staffing especially for the care providers	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.

Impact Identification, Assessment & Definitions

Establishing Context

The starting point for risk management is to ensure that there is a clear understanding and agreement on the objectives for the subject on which the risk assessment is being undertaken (i.e. the organisation and the overarching corporate objectives, a particular service and local objectives, etc.). In this regard, risks are managed across the following levels within the organisation:

Service Level:	the risks arising from service operations.
Programme / Project Level:	the risks from initial business case stage throughout the project lifecycle.
Directorate Level:	the risks which could impact upon the delivery of the annual service plan for a directorate.
Leadership / Strategic Level:	the key risks facing the authority and the achievement of its corporate objectives.

Risk Definition

Once risks have been identified the risk matrix is the main tool for prioritising each risk so we can establish which risks are most significant and therefore are in need of greater attention, effort and resources. It also allows us to compare different types of risk with each other across the council.

Each risk should be analysed for the likelihood it will happen and the impact if it did happen. This assessment should be made after considering controls that are already in place and working effectively – this is referred to the 'current risk'. It is the risk owner's responsibility to ensure the controls they believe are reducing the risk are effective and are working in practice. Controls that are not yet in place should not be considered at this stage, no matter how soon they will be implemented.

The impact should be considered against the relevant objectives - corporate risks should be scored against the organisations objectives; departmental risks scored against departmental objectives; project risks scored against the objectives of the project and so on.

Each identified risk should be plotted onto the risk matrix once the likelihood and impact score has been agreed among the relevant management team.

When considering the likelihood of a risk happening you should select the number from 1 to 5 from the risk matrix that you think it will be over the next 12 months (it can be longer or shorter; some risks in the Strategic Risk Register are better considered over 3 to 5 years, some operational risks will be considered over 3 to 6 months).

This score will require an element of judgement when considering how likely an event is to occur and you should consider the following:

- Has this event happened before in the Council? (How frequently?) Has this event happened elsewhere? (How frequently?)
- How likely is it that one or more of the causes/ triggers of the event will occur?
- Has anything happened recently that makes the event more or less likely to occur?

When you select the impact you should give consideration to the factors outlined in the risk matrix. For example, if the risk you are scoring has a low financial impact but a high impact on our reputation then you would select the most appropriate number between 1 and 4 that relates to the level of reputational impact. Once again, this score will have an element of judgement.

Risk Impact Assessment

Impact	Very Low	Low	Medium	High	Very High
Very High	5	10	15	20	25
High	4	8	12	16	20
Moderate	3	6	9	12	15
Low	2	4	6	8	10
Very Low	1	2	3	4	5
	Likelihood				

Risk Likelihood Key

The following table provides some support in quantifying the risk in terms of likelihood and impact.

Score 1: Very Low 0 - 20% chance of occurrence	Previous experience at this and other similar organisations makes this outcome highly unlikely to occur.
Score 2: Low 20 - 40% chance of occurrence	Previous experience discounts this risk as being unlikely to occur but other organisations have experienced problems.
Score 3: Medium 40 - 60% chance of occurrence	The Council has in the past experienced problems in this area but not in the past three years.
Score 4: High 60 - 80% chance of occurrence	The Council has experienced problems in this area in the last three years.
Score 5: Very High 80%+ chance of occurrence	The Council is currently experiencing problems in this area or expects to within the next 12 months.

Risk Impact Key

Risk Impact	Very Low	Low	Moderate	High	Very High
Financial	Small financial loss, less than £25,000	Financial loss between £25,000 and £100,000	Financial loss between £100,000 and £250,000	Sizeable financial loss between £250,000 and £500,000	Substantial failure in accountability or integrity. Large financial loss over £500,000
Service Impact	Brief disruption of important service area with a small impact on customer service	Moderate disruption to service delivery or alternative delivery models for up to one week	Substantial impact to service delivery or alternative delivery models for up to one month	Sustained loss of service delivery or alternative delivery model beyond one month	Complete breakdown in service delivery or failure of a strategic partnership or significant alternative delivery model
Staff	No impact on staff turnover, limited impact on staff morale	Slight impact to staff morale, limited impact in staff turnover	Damage to staff morale, minor increase in staff turnover	Staff dissatisfaction, increase in staff turnover	Major staff dissatisfaction, short term strike action, staff turnover including key personnel

Reputation	Little or no adverse local public opinion or media attention	Limited and short term adverse local public opinion	Short term adverse publicity with detrimental impact on local public opinion	Adverse local publicity / local public opinion noticeable impact on local public opinion	Intense political and national media scrutiny.
Health and Safety	No health and safety implications	Minor injury, short term, sickness less than three days	Minor injury, short term, sickness more than three days.	Serious injury or extensive minor injury, semi-permanent, sickness more than three days.	Life threatening or multiple serious injuries or prolonged workplace stress
Legal & Statutory Compliance	Scrutiny required by internal committees or internal audit.	Internal Review	Internal review with potential for involvement of external agencies	Scrutiny required by external agencies e.g. Ofsted.	Possible criminal or high profile civil action against council, members or officers
Project Delivery & Deadlines	Negligible delays or impact on the costs or quality of the project	Minor delays, c. 5% impact on cost and marginal change to project specification	Delays, c. 15% impact on cost and notable change to project specification.	Significant delays, increased costs and potential for reduced quality of project deliverable	Project benefits not realised, punitive costs that require financial re-planning and service cuts elsewhere or result in project no longer being sustainable.

Mitgation Plan

Once risks have been identified and scored based on current controls the next step is to decide what action should be taken to manage or treat them. Generally speaking, there are four approaches to treating risk and the Council will refer to these as: Reduce, Accept, Prevent / Contingency or Transfer:

Approach	Reduce	Accept	Prevent / Contingency	Transfer
Description	Controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur	Acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.	Not undertaking the activity that is likely to trigger the risk	Handing the risk on elsewhere, either totally or in part – e.g. through insurance.
Options	Reducing the likelihood of the risk occurring AND / OR Mitigating the impact if the risk does occur	The ability to take effective action against some risks may be limited or the cost of taking action may be disproportionate to the potential benefits gained in which case the risk is accepted on an “informed” basis.	Changing the direction or strategy and revisiting objectives or improving channels of communication Obtaining further information from external sources or acquiring expertise Reducing the scope of the activity or adopting a familiar, proven approach Deciding not to undertake the activity likely to trigger the risk	Financial instruments such as insurance, performance bonds, warranties or guarantee. Renegotiation of contract conditions for the risk to be retained by the other party. Seeking agreement on sharing the risk with the other party. Sub-contracting risk to a consultant or external suppliers. NB. It may not be possible to transfer all aspects of a risk. For example, where there is or reputational damage to

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AUDIT COMMITTEE **28th OCTOBER 2021**

Subject Heading:	Statement of Accounts 2020/21
SLT Lead:	Jane West
Report Author and contact details:	Contact: 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	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Council's audited Statement of Accounts is required to be published after the conclusion of the external audit of accounts. The draft accounts were published on the Council website on 27 July 2021. At present the external audit is continuing and at the time of publication of this report, it is likely the auditor's opinion will be published later this year.

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.

Note the annual audit letter for 2019/20 is included for noting. The contents were discussed by the Committee at the meeting where the accounts were approved.

The Committee is also asked to note that the Council is likely to participate in the PSAA's joint tender process to appoint and auditor from 2023/24 onwards.

RECOMMENDATIONS

The Committee is asked to:

a) Consider the contents of this report and the Statement of Accounts (Appendix A),
b) Note the Annual Audit Letter for 2019/20 (Appendix B).
c) To note the Council will be considering participation in the PSAA's joint tender exercise to appoint the next external auditor from 2023/24 onwards for a period of up to five years (Appendix C).

REPORT DETAIL

1. Statement of Accounts 2020/21

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 in 2021 to delay the statutory publication date until 1st August 2021 and the audit opinion until the 30th September 2021. The audit plan was tabled at the last Committee

The Council published the draft accounts on the website on 27 July 2021. These were approved for issue by the Chief Operating Officer. The Council auditors, Ernst and Young, are currently undertaking their main audit programme. It had been hoped the work would have been completed in time for this Audit Committee but the audit is still ongoing. The final audit opinion will be presented to this committee later in 2021. This will also include a Value for Money opinion.

The final draft Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee. The longer publication and audit timetable has provided scope to present the draft accounts to this meeting of the Audit Committee.

The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as:

• What did the authority's services cost in the year?

• Where did the money come from?

• What were the authority's assets and liabilities at the year-end?

• Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

The Council's 2020/21 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet on 29th June 2021.

The Statement of Accounts is a long, complex document. For 2020/21, there are no significant format or contents changes from the 2019/20 document.

Matters to draw to the attention of this committee are:

1.1 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the 'Code of Practice on Local Authority Accounting' and 'Standard of Professional Practice on Financial Reporting' published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRS).

1.2 The Auditors opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.

1.3 Set out below are the main elements of Statement of Accounts with a brief explanation of the information contained in each element:

1.4 **Comprehensive Income and Expenditure Account** - This summarises the revenue activities of the Council during 2020/21 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.

1.5 The draft accounts show gross revenue service spend in 2020/21 of £539.5 million (£535 m in 2019/20). After taking into account service income of £373m and grant, Council Tax and NNDR income of £231.9m, the surplus on the provision of service was £36.4 million.

1.6 **Other Comprehensive Income and Expenditure** includes technical accounting adjustments including a loss of £119.6 m due to changes in the pension fund actuarial assumptions (this is largely a reversal of the gains in 2019/20 due to changes in the net present value factor). Note that this calculation does not set the pension contribution rates (contribution rates are reviewed as part of the triennial valuation). Increased property values has also generated a book increase in values of £99.6m.

1.7 This leaves an overall total comprehensive income & expenditure gain for the year of £16.3m, but after the accounting adjustment gains are removed in the Movement in Reserves Statement (MiRS), **the General Fund reserve has decreased by £1.8m to £10.936m** and the HRA reserve increased by £7.2m to £17.0m.

1.8 **Earmarked Reserves** - note that £21.1m of earmarked reserves were created during 2020/21 – this is mainly £16.8m of s31 grant placed into the NNDR reserve to fund the Council's share of the 2020/21 collection fund deficit payable in future years and £3m to the Covid reserve. Note that a negative DSG reserve of £2.36m has been created to separate the DSG deficit from Council reserves.

1.9 The Council continues to review its financial stability as part of the increased pressures COVID is putting on Council services. Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes.

1.10 **The Movement in Reserves Statement (MiRS)** combines the total Comprehensive Income and Expenditure for the year along with adjustments between the accounting basis and funding basis to arrive at movements in reserves as they appear on the balance sheet.

1.11 **The Balance Sheet** shows the assets and liabilities of the Council as at 31st March 2021. The value of the assets of the Council must equal the value of its liabilities plus reserves.

1.12 Assets include property, plant and equipment, cash and investments and any debts owing to the Council. Property, plant and equipment have increased to £1.432 billion in value, an increase of £186.9 m due to expenditure on capital schemes (per note 37 of the accounts) and increases in valuations.

1.13 **The net assets of the Council (assets less liabilities) was £798.5 million**, which was an increase from the £782 million at 31st March 2020. The main reason for the increase is the increase in property values though this has been partly offset by the pension deficit increase. The notes to the accounts labelled in the balance sheet provide more detail.

1.14 **The Housing Revenue Account** 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 9,325 dwellings. The HRA balance as at 31st March 2021 is £17.0 million, up £7.2 million due to lower expenditure in the year.

1.15 **The Collection Fund** is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on larger organisations which is payable to the GLA to fund the Crossrail project.

1.16 Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a £3m deficit at 31st March 2021 for Council

Tax which was in line with the January 2021 forecast. The deficit was due to providing for delays in collection of Council Tax due to Covid, however with collection rates forecast to increase, this additional provision can be released back to the collection fund in future years. Due to significant additional reliefs, the net collectable NNDR debt was £24.288m, down from the £79.362m forecast in January 2020. This has caused a deficit in the collection fund of £55m. However additional s31 Government grants have been received which will be used to fund the Council's 30% share (£16.7m) of the deficit in 2021/22. Government legislation also allows for this exceptional deficit to be spread over three years rather than being funded in 2021/22. The s31 grants have been transferred to an earmarked reserve in 2020/21 and will be released to fund the deficit when it is charged to the Council.

1.17 **The Cash Flow Statement** details the overall cash movements (inflows and outflows) over the year.

1.18 **Group Accounts** – the Council has historically published Group Accounts to include Mercury Land Holdings. From 2019/20, the Council has included its 50% share of its property joint ventures; Bridge Close Regeneration LLP, Havering and Wates Regeneration LLP and Rainham & Beam Park LLP Joint Venture. During 2020/21, the Council oversaw the purchase of the remaining 50% share of the Bridge Close project. These joint ventures are still in the early stages of development and once inter-group balances are offset, the difference in the group balance sheet compared to the single entity Council balance sheet is minimal.

1.19 **The Pension Fund** accounts are separate from the rest of the Councils accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2021. The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The Pensions Fund Annual Reports will be considered by the Pensions Committee later in the year.

1.20 The market value of the assets of the pension fund at the end of the year was £874.2 million, an increase from £728.9m at the start of the year, this was mainly due to increases in investment values. The results of the triennial revaluation completed during 2019 estimated a funding deficit of £320 million (an increase from £284m in 2016) and a funding level of 70% (up from 67% in 2016). The next triennial valuation will be in 2022.

1.21 **Inspection of the Accounts by the public** - As part of the six week process for the inspection of the Council's Accounts, the public was able to ask questions on the Accounts and request information. Local electors also have the right to raise objections to the Statement of Accounts with the external auditors. The inspection period commenced at the start of August.

1.22 **2019/20 Audit recommendations** - The 2019/20 Accounts were signed off by the auditors on 28 May 2021.

2. Accounting Policies

The Audit Committee meeting of 28th January 2020 noted the accounting policies to be applied to the financial year 2020/21, and these are reflected in the draft Statement of Accounts. The implementation of IFRS16 to bring leased assets onto the balance sheet has been deferred until 2022/23.

3. EY 2019/20 Report

The annual audit letter from EY for 2019/20 is being tabled at this Committee for noting. It covers the issues discussed at the Committee earlier in 2021 that approved the Statement of Accounts for 2019/20. This report is being tabled for completeness and to show the 2019/20 audit has ended. The report is included as appendix B to this report.

4. Retender of External Audit Contracts

The current external audit contract, procured through Public Sector Audit Appointments Limited (PSAA), is coming to an end and the Council will need to decide on a new route to procurement shortly.

The Council has received a letter from the Local Government Association in relation to this matter. The full correspondence is attached as Appendix C to this report. The LGA's letter says:- 'The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix. Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.'

The final decision whether to use the PSAA is one for Full Council. The s151 Officer is minded to recommend that the Council continues to contract its external audit via PSAA, for the reasons set out in the LGA's letter, but seeks the views of Audit Committee on this matter prior to the decision at Council early in the new year. The PSAA have set a deadline of 11 March 2022 for councils to decide whether or not to opt in to their procurement.

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 (Amendment) Regulations 2022/263 amended the timetable for Local Authority accounts.

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

Human Resources implications and risks:

There are no direct Human Resources implications in this report.

Equalities implications and risks:

There are no direct equalities implications in this report.

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Statement of Accounts 2020/21

CONTENTS

Dear residents,

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

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

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

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

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

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

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

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

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

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

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

Andrew Blake-Herbert,

Chief Executive, London Borough of Havering

2020/21: An Overview

Introduction

Jane West,
Chief Operating Officer,
London Borough of
Havering

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

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

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

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

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

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

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

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

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

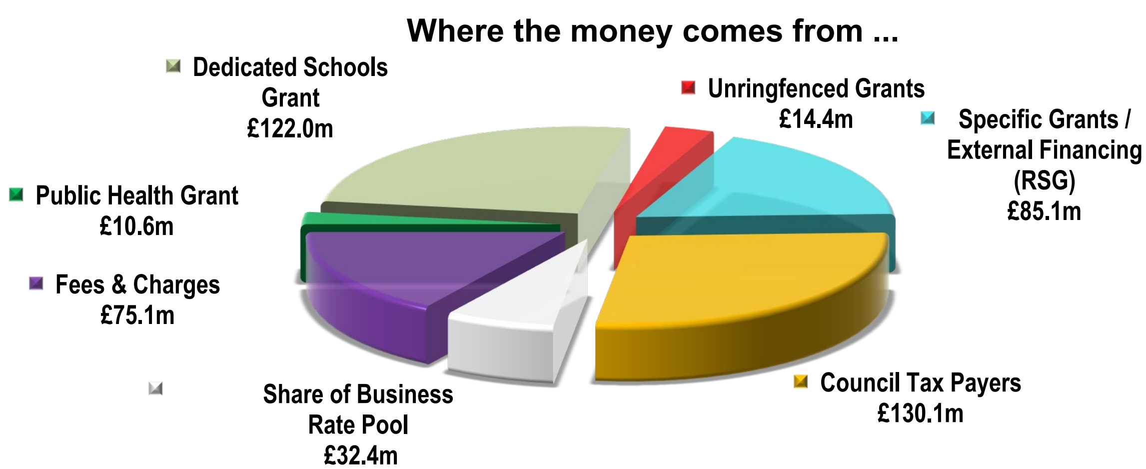
Most services restarted over the summer of 2020 but reduced capacity due to social distancing rules dampened demand while costs have increased due to the need for PPE and physical adjustments to protect staff and residents.

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

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

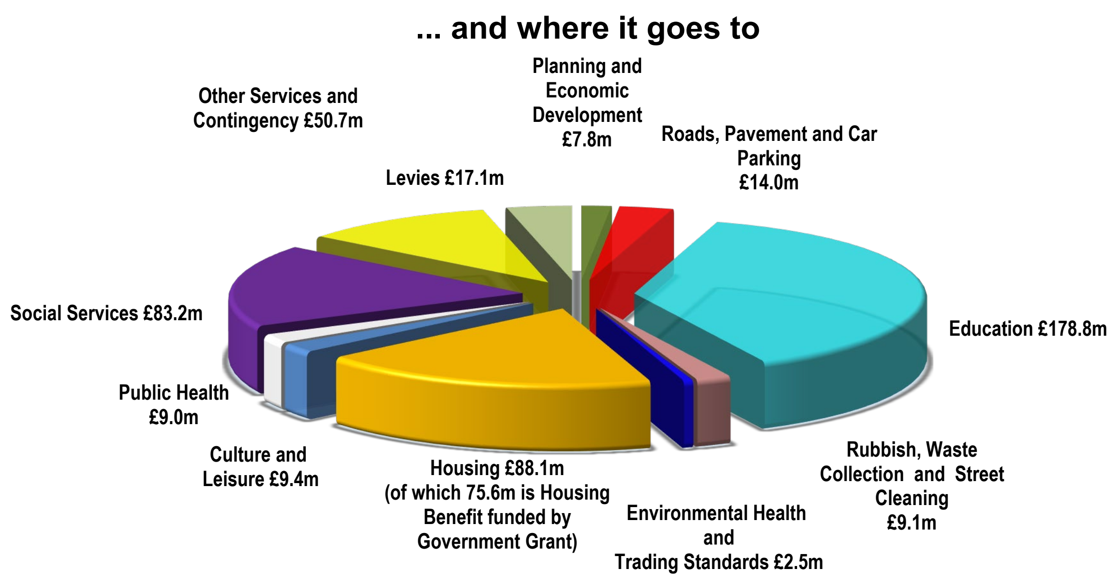
In summary, the Council faced huge expenditure pressures and loss of income as a direct result of the pandemic. The Council will continue to face financial pressures over the medium term to support the community through future waves of the pandemic.

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



Cash In and Cash Out

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



Pooling of Business Rates

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

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

Medium Term Financial Strategy 2020-24

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

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

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

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

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

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

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

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

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

- Demographic Pressures

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

- Inflation

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

- Government funding

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

- The continued impact of the COVID pandemic

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

- The revenue cost of the capital programme

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

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

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

Earmarked Reserves Position

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

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

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

Havering's Balance Sheet

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

	31/03/2019	31/03/2020	31/03/2021
	£'000s	£'000s	£'000s
Long-term assets	1,287,416	1,375,218	1,565,506
Current assets	218,779	225,817	185,583
Current liabilities	(79,898)	(142,179)	(123,570)
Long-term liabilities	(773,064)	(676,705)	(828,984)
Net Assets	**653,233**	**782,151**	**798,535**
funded by:			
Usable reserves	219,246	201,450	208,998
Unusable reserves	433,987	580,701	589,537
Total Reserves	**653,233**	**782,151**	**798,535**
Borrowing	211,512	274,164	276,366
Debt to Equity Ratio	32.4%	35.1%	34.6%

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

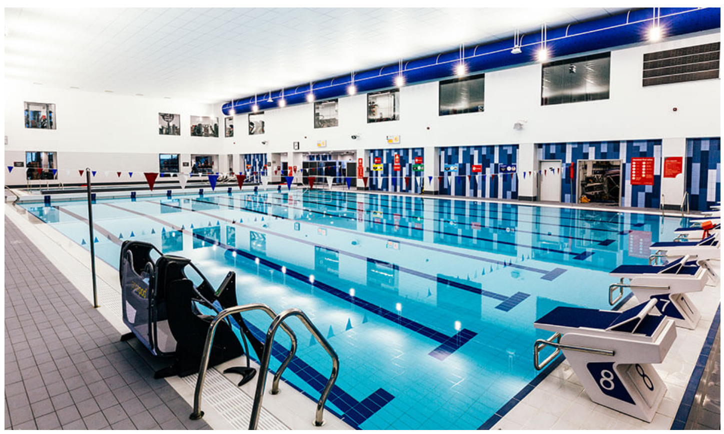
Communities

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

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

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

Places



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

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

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

Opportunities

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

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

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

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

Connections

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

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

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

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

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

Revenue Outturn

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

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

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

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

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

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

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

Neighbourhoods

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

Additional COVID expenditure:

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

Reduced Income:

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

Housing Services (General Fund)

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

Adult Social Care (ASC)

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

Additional COVID expenditure

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

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

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

Public Health

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

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

The following table shows the outturn position for this fund

Contain Outbreak Management Fund

	Budgeted Amount	Outturn 2020/21	Carry Forward
Income			
Total Grant	-7,289,175	-4,258,267	-3,030,908
	-7,289,175	-4,258,267	-3,030,908
Expenditure			
Phase 1	2,855,000	1,357,774	1,497,226

Phase 2	535,000	778,952	-243,952
Phase 3	3,119,079	2,121,542	997,537
Lateral Flow Testing Contingency	1,000,000	0	1,000,000
To be allocated	-219,904	0	-219,904
	7,289,175	4,258,267	3,030,908

Children's Services

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

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

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

Chief Operating Officer

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

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

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

One Source

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

Capital Outturn

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

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

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

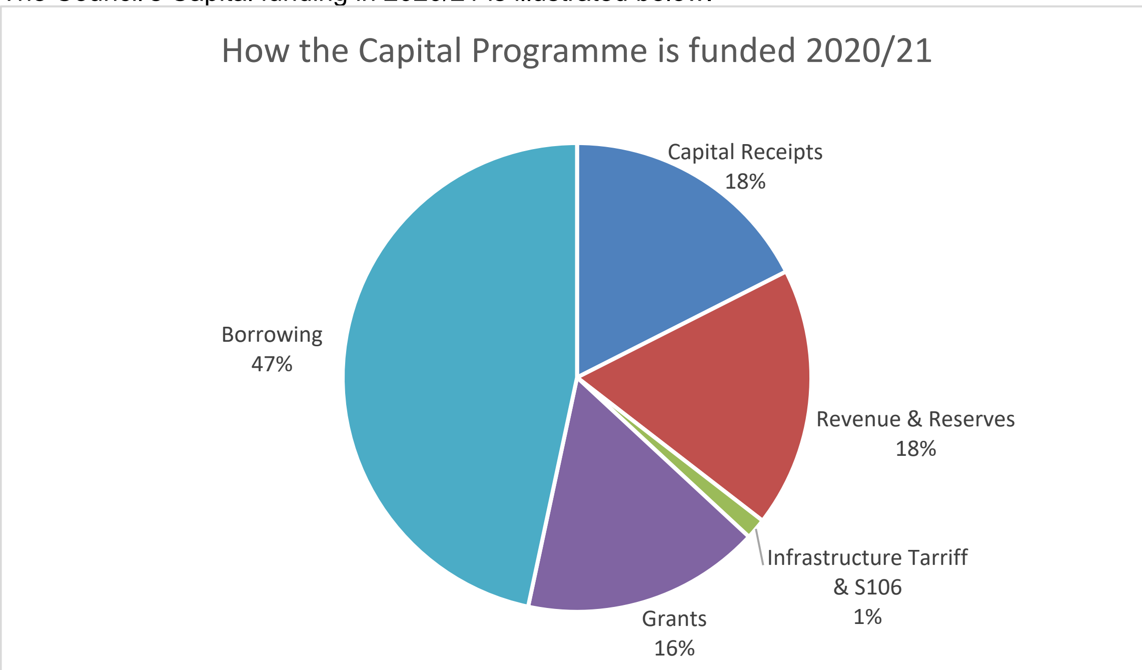
Actual capital spend at the end of the financial year 2020/21 was £117.694m financed from a variety of sources as set out below.

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

Sources of Funding

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

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



Capital Programme

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

Summary of Capital Programme	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**Total £m**
Adults Services	2.132	0.023	0.000	0.000	0.000	0.000	**2.154**
Asset Management	11.220	6.128	0.007	0.000	0.000	0.000	**17.355**
Registration & Bereavement Services	5.850	0.000	0.000	0.000	0.000	0.000	**5.850**
Children Services	0.042	0.005	0.000	0.000	0.000	0.000	**0.047**
Customer, Communications & Culture	8.577	3.235	4.721	0.000	0.000	0.000	**16.534**
Environment	20.463	13.800	1.800	1.000	0.000	0.000	**37.063**
ICT Infrastructure	11.142	8.044	8.242	4.930	3.630	2.830	**38.818**
Finance	7.000	0.000	0.000	0.000	0.000	0.000	**7.000**
Regeneration Programme	141.957	153.067	82.470	21.305	15.779	20.737	**435.315**
Total GF Capital Programme	**208.382**	**184.302**	**97.241**	**27.235**	**19.409**	**23.567**	**560.136**
HRA	142.970	174.740	167.649	205.093	185.994	0.000	**876.446**
Total Capital Programme	**351.352**	**359.042**	**264.890**	**232.328**	**205.403**	**23.567**	**1,436.582**

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.

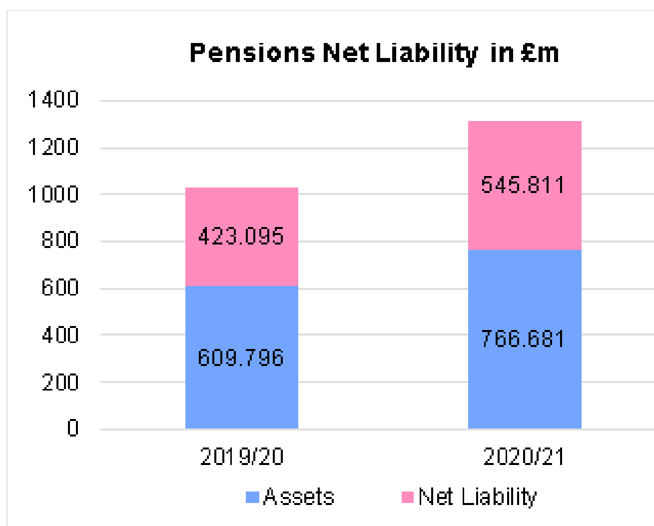
Treasury Management

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

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

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

Pension Fund



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

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

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

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

Jane West

Chief Operating (Section 151) Officer

London Borough of Havering

Date: 28 July 2021

Explanation of Accounting Statements

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

The key financial statements set out within this document include:

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

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

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

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

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

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

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

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

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

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Executive.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the statement of accounts.

The Chief 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 2021 and its income and expenditure for the year ended 31 March 2021.

Jane West

Jane West
Chief Operating (Section 151) Officer
28 July 2021

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

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

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Group Movement in Reserves Statement 2020/21

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

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Authority's Share of Reserves of Subsidiaries / Joint Ventures	Total inc Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	**12,287**	**69,110**	**4,907**	**54,881**	**30,915**	**47,146**	**219,246**	**433,987**	**(976)**	**652,257**
Movement in reserves during 2019/20										
(Deficit)/surplus on provision of services	(14,543)		24,187				9,644		(630)	9,014
Other comprehensive expenditure and income								119,276		119,276
Total comprehensive expenditure and income	**(14,543)**	**0**	**24,187**	**0**	**0**	**0**	**9,644**	**119,276**	**(630)**	**128,290**
Adjustments between accounting basis and funding basis under regulations	2,901		(18,872)	(5,662)	(9,182)	3,377	(27,438)	27,438		0
Net (decrease)/increase before transfers to earmarked reserves	**(11,642)**	**0**	**5,315**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**(630)**	**128,290**
Transfers to/(from) Earmarked Reserves	12,042	(11,652)	(390)				**0**	**0**		0
Decrease/increase in Year	**400**	**(11,652)**	**4,925**	**(5,662)**	**(9,182)**	**3,377**	**(17,794)**	**146,714**	**(630)**	**128,290**
Balance at 31 March 2020	**12,687**	**57,457**	**9,832**	**49,219**	**21,732**	**50,523**	**201,450**	**580,701**	**(1,606)**	**780,545**
Movement in reserves during 2020/21										
(Deficit)/surplus on provision of services	(9,718)		46,121				36,403		3,770	40,173
Other comprehensive expenditure and income							-	(20,021)	(125)	(20,146)
Total comprehensive expenditure and income	**(9,718)**	**0**	**46,121**	**0**	**0**	**0**	**36,403**	**(20,021)**	**3,645**	**20,027**
Adjustments between accounting basis and funding basis under regulations	28,854		(38,668)	(11,755)	(8,354)	1,067	(28,856)	28,856		0
Net (decrease)/increase before transfers to earmarked reserves	**19,136**	**0**	**7,453**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**8,835**	**3,645**	**20,027**
Transfers to/(from) Earmarked Reserves	(20,887)	21,144	(257)				0			0
(Decrease)/Increase in Year	**(1,751)**	**21,144**	**7,196**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**8,835**	**3,645**	**20,027**
Balance at 31 March 2021	**10,936**	**78,600**	**17,028**	**37,464**	**13,377**	**51,590**	**208,997**	**589,536**	**2,039**	**800,570**

Authority Movement in Reserves Statement 2020/21

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019	**12,287**	**69,110**	**4,907**	**54,881**	**30,915**	**47,146**	**219,246**	**433,987**	**653,233**
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**
Movement in reserves during 2020/21									
(Deficit)/surplus on provision of services	(9,718)		46,121				36,403		36,403
Other comprehensive expenditure and income							0	(20,021)	(20,021)
Total comprehensive expenditure and income	**(9,718)**	**0**	**46,121**	**0**	**0**	**0**	**36,403**	**(20,021)**	**16,382**
Adjustments between accounting basis and funding basis under regulations (Note 9)	28,854	0	(38,668)	(11,755)	(8,354)	1,067	(28,856)	28,856	0
Net (decrease)/increase before transfers to earmarked reserves	**19,136**	**0**	**7,453**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**8,835**	**16,382**
Transfers to/from Earmarked Reserves (Note 10)	(20,887)	21,144	(257)				0		0
(Decrease)/Increase in Year	**(1,751)**	**21,144**	**7,196**	**(11,755)**	**(8,354)**	**1,067**	**7,547**	**8,835**	**16,382**
Balance at 31 March 2021	**10,936**	**78,601**	**17,028**	**37,464**	**13,377**	**51,590**	**208,998**	**589,536**	**798,535**

Group Comprehensive Income and Expenditure Statement 2020/21

The Group Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2019 – 31 March 2020				1 April 2020 – 31 March 2021		
£000	£000	£000		£000	£000	£000
Gross Expenditure	Gross Income	Net		Gross Expenditure	Gross Income	Net
			Gross expenditure, gross income and net expenditure of continuing operations			
35,930	(4,166)	31,764	Corporate Budgets	33,397	(2,410)	30,987
43,629	(26,801)	16,828	Neighbourhoods	44,302	(22,666)	21,636
42,609	(65,153)	(22,544)	Housing	25,863	(65,693)	(39,830)
4,021	(2,540)	1,481	Regeneration Programme Delivery	10,500	(12,281)	(1,781)
81,451	(19,197)	62,254	Adult Services	97,547	(32,956)	64,591
212,404	(147,390)	65,014	Children's Services	205,731	(151,409)	54,323
10,257	(10,654)	(397)	Public Health	15,588	(19,710)	(4,121)
82,095	(74,444)	7,651	oneSource Non-Shared	84,844	(70,193)	14,651
24,012	(4,012)	20,000	oneSource Shared	24,790	(6,309)	18,481
536,408	**(354,357)**	**182,051**	**Cost of services**	**542,561**	**(383,626)**	**158,935**
		12,703	Other operating expenditure			16,191
		12,348	Financing and investment income and expenditure			15,522
		(216,116)	Taxation and non-specific grant income			(230,819)
		(9,014)	**(Surplus)/Deficit on provision of services**			**(40,171)**
		8,555	(Surplus)/Deficit on revaluation of property, plant and equipment assets			(99,572)
		(127,831)	Actuarial losses/(gains) on pension assets / liabilities			119,718
		(119,276)	**Other comprehensive income and expenditure**			**20,146**
		(128,290)	**Total comprehensive income and expenditure**			**(20,025)**

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

Balance Sheet as at 31 March 2021

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

31 March 2020 Authority £000	31 March 2020 Group £000		Notes	31 March 2021 Authority £000	31 March 2021 Group £000
1,245,262	1,256,770	**Property, plant and equipment**	14	1,432,160	1,450,251
132	132	**Heritage assets**	15	2,319	2,319
67,242	109,907	**Investment property**	16b	64,552	112,505
1,085	1,085	**Intangible assets**	17	621	621
13,000	13,000	**Long term investments**	18	0	0
21,992	178	**Long term investments in subsidiaries and joint ventures**	16d	26,460	693
26,505	232	**Long term debtors**	19	39,394	215
1,375,218	**1,381,304**	**Long-term assets**		**1,565,506**	**1,566,604**
142,800	142,800	**Short-term investments**	18	110,276	110,276
389	389	**Inventories**		400	400
55,878	53,579	**Short-term debtors**	19	67,046	64,677
26,750	27,860	**Cash and cash equivalents**	20	7,861	13,177
-	-	**Assets held for sale**	21	-	-
225,817	**224,628**	**Current assets**		**185,583**	**188,530**
(38,907)	(38,086)	**Short-term borrowing**	18	(12,242)	(11,938)
(103,272)	(110,050)	**Short-term creditors**	22	(111,328)	(112,266)
(142,179)	**(148,136)**	**Current liabilities**		**(123,570)**	**(124,204)**
		Long-term creditors			
(9,089)	(9,089)	**Provisions**	23	(10,955)	(12,075)
(235,234)	(235,780)	**Long-term borrowing**	18	(264,124)	(264,245)
(423,095)	(423,095)	**Other long-term liabilities**	42	(545,811)	(545,946)
(9,287)	(9,287)	**Capital grants receipts in advance**	35b	(8,094)	(8,094)
(676,705)	**(677,251)**	**Long-term liabilities**		**(828,984)**	**(830,360)**
782,151	**780,545**	**Net assets**		**798,535**	**800,570**
201,450	199,844	**Usable reserves**	24	208,999	211,034
580,701	580,701	**Unusable reserves**	25	589,536	589,536
782,151	**780,545**	**Total Reserves**		**798,535**	**800,570**

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

Authorised for Issue
Jane West

Jane West

Chief Operating (Section 151) Officer
London Borough of Havering
Date: 28 July 2021

Cash Flow Statement as at 31 March 2021

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

2019/20 Authority £000	2019/20 Group £000		Note	2020/21 Authority £000	2020/21 Group £000
9,644	9,014	Net surplus on the provision of services		36,405	40,171
62,264	77,306	Adjust net surplus or deficit on the provision of services for non-cash movements	26	3,889	2,746
(44,360)	(44,360)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(35,287)	(35,287)
27,548	**41,960**	**Net cash flows from Operating Activities**		**5,007**	**7,630**
(90,090)	(103,658)	Investing activities	27	(28,645)	(27,062)
62,628	62,628	Financing activities	28	4,749	4,749
86	**930**	**Net increase /(decrease) in cash and cash equivalents**		**(18,889)**	**(14,683)**
26,664	26,930	Cash and cash equivalents at the beginning of the reporting period	20	26,750	27,860
26,750	**27,860**	**Cash and cash equivalents at the end of the reporting period**	**20**	**7,861**	**13,177**

Authority Comprehensive Income and Expenditure Statement 2020/21

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

1 April 2019 – 31 March 2020					1 April 2020 – 31 March 2021		
£000 Gross Expenditure	£000 Gross Income	£000 Net		Notes	£000 Gross Expenditure	£000 Gross Income	£000 Net
			Gross expenditure, gross income and net expenditure of continuing operations				
35,930	(4,166)	31,764	Corporate Budgets		33,397	(2,410)	30,987
43,629	(26,801)	16,828	Neighbourhoods		44,302	(22,666)	21,636
42,609	(65,153)	(22,544)	Housing		25,863	(65,693)	(39,830)
3,565	(1,510)	2,055	Regeneration Programme Delivery		7,448	(1,692)	5,756
81,451	(19,197)	62,254	Adult Services		97,547	(32,956)	64,591
212,404	(147,390)	65,014	Children's Services		205,731	(151,409)	54,323
10,257	(10,654)	(397)	Public Health		15,588	(19,710)	(4,121)
82,095	(74,444)	7,651	oneSource Non-Shared		84,844	(70,193)	14,651
24,012	(4,012)	20,000	oneSource Shared		24,790	(6,309)	18,481
535,952	**(353,327)**	**182,625**	**Cost of services**		**539,509**	**(373,037)**	**166,472**
		12,688	Other operating expenditure	11			16,162
		11,159	Financing and investment income and expenditure	12			12,900
		(216,116)	Taxation and non-specific grant income	13			(231,939)
		(9,644)	**(Surplus)/Deficit on provision of services**				**(36,405)**
		8,555	(Surplus)/Deficit on revaluation of property, plant and equipment assets	25a			(99,572)
		(127,831)	Actuarial losses/(gains) on pension assets / liabilities	25e			119,593
		(119,276)	**Other comprehensive income and expenditure**				**20,021**
		(128,920)	**Total comprehensive income and expenditure**				**(16,384)**

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

Notes to the Core Financial Statements

1. Accounting Policies

Going Concern

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

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

i. General Principles

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

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

ii. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de-minimis for 2020/21 remains at £50,000.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

v. Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding fixed assets during the year:

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority’s General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

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

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

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

The Local Government Pension Scheme

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

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

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

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

    - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:

    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other comprehensive income and expenditure;

    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;

    - contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

viii. Events After the Reporting Period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

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

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

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

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

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

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

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

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

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

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

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

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

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

Non Ring-fenced Grants

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

Business Improvement Districts

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

xii. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

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

Heritage Buildings

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

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

xiii. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

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

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

xiv. Inventories

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

xv. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xvi. Interests in Companies and Other Entities

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

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

xvii. Interest in Joint Committee

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

xviii. Leases

All current leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

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

The Authority as Lessor

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

xix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received

xx. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

Finance costs are excluded in valuations for all assets.

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

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUVSH);
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued as a minimum every five years, with high value assets being re-valued annually, to ensure their carrying amount is not materially different from their fair value at the year end. In addition, an independent review is carried out annually. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

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

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

Development Costs

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

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

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as follows:

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

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

Depreciation

Depreciation is provided for on all property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is charged in full during the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

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

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

- new capital expenditure as it arises; and

- existing assets as they become subject to revaluation.

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

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

Annual Minimum Revenue Provision Statement

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

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

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

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the Accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xxiii Revenue Expenditure Funded from Capital under Statute

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

xxiv. Schools

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

xxv. VAT and Tax Duty

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income. If any tax duty is payable on goods purchased from EU, this will be part of the purchase cost and is not recoverable from HMRC.

xxvi. Fair Value Measurement

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

a) in the principal market for the asset or liability, or

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

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

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

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

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

The Authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following key accounting policy changes has been identified:

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

• Definition of a Business: Amendments to IFRS3 Business Combinations

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

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

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

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

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

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

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

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

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

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

4. Material Items of Income and Expense

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

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

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

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

5. Authorisation of the Statement of Accounts

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

6. Events after the Balance Sheet Date

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

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7. Expenditure and Funding Analysis 2020/21

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

1st April 2019 - 31st March 2020					1st April 2020 - 31st March 2021			
Net Expenditure Chargeable to the General Fund and HRA Balances £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**
47,636	(34,773)	18,901	**31,764**	Corporate Budgets	42,913	(20,734)	8,809	**30,987**
13,486	8,248	(4,906)	**16,828**	Neighbourhoods	18,728	8,195	(5,288)	**21,636**
(968)	(19,718)	(1,858)	**(22,544)**	Housing	4,315	(38,668)	(5,477)	**(39,830)**
1,654	56	345	**2,055**	Regeneration	6,256	50	(550)	**5,756**
61,133	698	423	**62,254**	Adult Services	66,383	1,051	(2,843)	**64,591**
39,482	25,135	396	**65,013**	Children's Service	48,375	11,595	(5,648)	**54,323**
11	42	(450)	**(397)**	Public Health	119	122	(4,363)	**(4,121)**
(1,201)	1,824	7,028	**7,651**	oneSource Non-Shared	3,851	7,202	3,597	**14,650**
2,485	1,093	16,422	**20,000**	oneSource Shared	6,272	1,394	10,816	**18,481**
163,718	**(17,395)**	**36,301**	**182,624**	**Net Cost of Services**	**197,213**	**(29,795)**	**(946)**	**166,472**
(169,043)	1,424	(24,649)	(192,268)	Other Income and Expenditure	(202,657)	19,981	(20,198)	(202,875)
(5,325)	**(15,971)**	**11,652**	**(9,644)**	**(Surplus) or Deficit**	**(5,445)**	**(9,814)**	**(21,144)**	**(36,403)**
17,196				Opening General Fund and HRA Balance	**22,521**			
5,325				Less/Plus Surplus or Deficit on General Fund and HRA Balance in Year**	5,445			
22,521				**Closing General Fund and HRA Balance at 31 March 2021**	**27,966**			

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

*This represents the movement in Earmarked Reserves. See Note 10.
** For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement.

7a. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020/21

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

Adjustments between Funding and Accounting Basis 2019/20
(This has been restated to be aligned to the authority's internal financial reporting structure)

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

Note 1 Adjustments for Capital Purposes

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

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

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

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

Note 2 Net Change for the Pensions Adjustments

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

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

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

Note 3 Other Differences

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

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

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

7b. Segmental Income

Income received on a segmental basis is analysed below:

2019/20 £000	Income from Services	2020/21 £000
4,166	Corporate Budgets	2,410
26,801	Neighbourhoods	22,666
65,153	Housing	65,693
1,510	Regeneration Programme Delivery	1,692
19,197	Adult Services	32,956
147,390	Children's Services	151,409
10,654	Public Health	19,710
74,444	oneSource Non -Shared	70,193
4,012	oneSource Shared	6,309
353,327	**Total income analysed on a segmental basis Net Cost of Services**	**373,037**

8. Expenditure and Income Analysed by Nature

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

2019/20 £000	Expenditure/Income	2020/21 £000
	Expenditure	
199,861	Employee benefits expenses	207,450
323,715	Other services expenses	336,569
12,693	Depreciation, amortisation, impairment	(1,708)
20,745	Interest payments	17,851
17,773	Precepts and levies	17,085
1,106	Payments to Housing Capital Receipts Pool	70
(6,191)	(Gain)/Loss on the disposal of assets	(993)
569,702	**Total expenditure**	**576,324**
	Income	
(121,564)	Fees, charges and other service income	(106,972)
(5,226)	Interest and investment income	(3,647)
(163,915)	Income from council tax and non-domestic rates	(164,324)
(288,641)	Government grants and contributions	(337,785)
(579,346)	**Total income**	**(612,728)**
(9,644)	**Surplus or Deficit on the Provision of Services**	**(36,404)**

9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

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

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

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

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

2020/21	Usable Reserves: General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	(2,770)	(353)				3,123
Financial instruments (transferred to the Financial Instruments Adjustments Account)	97					(97)
Transfer to negative DSG reserve	(2,366)					2,366
Council tax and NNDR (transfers to or from Collection Fund)	(17,615)					17,615
Holiday pay (transferred to the Accumulated Absences Reserve)	(2,299)	(194)				2,493
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	(7,223)	12,492			(20,433)	15,164
Total Adjustments to Revenue Resources	**(32,176)**	**11,945**	**0**	**0**	**(20,433)**	**40,664**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	765	12,752	(13,517)			0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(502)	251	251			0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,243)		1,243			0
Posting of HRA resources from revenue to the Major Repairs Reserve		8,888		(8,888)		0
Use of Capital Receipts To Repay Debt	(3,140)		3,140			0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	6,828					(6,828)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,858					(3,858)
Total Adjustments between Revenue and Capital Resources	**6,566**	**21,891**	**(8,883)**	**(8,888)**	**0**	**(10,686)**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure			20,638			(20,638)
Use of the Major Repairs Reserve to finance capital expenditure				17,242		(17,242)
Application of capital grants to finance capital expenditure	(3,244)	4,930			19,366	(21,052)
Cash payments in relation to deferred capital receipts		(98)				98
Total Adjustments to Capital Resources	**(3,244)**	**4,832**	**20,638**	**17,242**	**19,366**	**(58,834)**
Total Adjustments	**(28,854)**	**38,668**	**11,755**	**8,354**	**(1,067)**	**(28,856)**

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

10. Movements in Earmarked Reserves

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

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

General Fund Earmarked Reserves

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

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

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

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

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

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

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

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

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

Legal Reserve – This reserve provides funding for legal cases.

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

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

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

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

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

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

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

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

Schools Balances

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

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

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

11. Other Operating Expenditure

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

12. Financing And Investment Income And Expenditure

2019/20 £000		2020/21 £000
7,790	Interest payable and similar charges	8,201
12,955	Pensions net interest on the net defined benefit liability	9,650
(3,873)	Interest receivable and similar income	(3,647)
(4,360)	Income and expenditure in relation to investment properties (note 16)	(4,107)
(1,353)	Changes in the fair value of investment properties	2,803
11,159	**Total**	**12,900**

13.Taxation And Non-Specific Grant Income

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

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

14. Property, Plant and Equipment

Movements in Balances 2020/21

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	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 2020	**564,782**	**493,422**	**19,644**	**196,779**	**5,396**	**774**	**61,968**	**1,342,765**
Additions	42,513	5,356	3,462	13,687	-	-	27,927	**92,945**
Revaluation increases/(decreases) to :								
Revaluation Reserve	6,616	80,479	-	-	-	(97)		**86,998**
Revaluation gains to the CI&ES	23,010	(1,101)	-	-	-	-	-	**21,909**
Derecognition - Disposals	(4,797)	(3,612)	-	(58)	-	-	-	**(8,467)**
Derecognition - other	-	-	-	-	-	-	-	**0**
Reclassifications & Transfers	12,539	5,987	-	-	(1,829)	1,118	(17,869)	**(54)**
At 31 March 2021	**644,663**	**580,531**	**23,106**	**210,408**	**3,567**	**1,795**	**72,026**	**1,536,096**
Accumulated Depreciation and Impairment								
At 31 March 2020	**-**	**893**	**9,242**	**87,089**	**279**	**-**	**-**	**97,503**
Depreciation Charge	8,460	5,090	755	5,803	79	-	-	**20,187**
Depreciation written out upon Revaluation:								
Revaluation Reserve	(5,360)	(5,064)	-	-	-	-	**-**	**(10,424)**
CI &ES	(3,100)	(173)	-	-	-	-	**-**	**(3,273)**
De-recognition - disposals	-	-	-	(42)	-	-	**-**	**-42**
Reclassifications	-	18	-	-	(33)			**-15**
At 31 March 2021	**0**	**764**	**9,997**	**92,850**	**325**	**0**	**0**	**103,936**
Net book value at 31 March 2021	**644,663**	**579,767**	**13,109**	**117,558**	**3,242**	**1,795**	**72,026**	**1,432,160**
Net book value at 31 March 2020	**564,782**	**492,529**	**10,402**	**109,690**	**5,117**	**774**	**61,968**	**1,245,262**

14. Property, Plant and Equipment

Movements in Balances 2019/20

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

Capital Commitments

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

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

Revaluations

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

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

15. Heritage Assets

Carrying value of heritage assets held by the Authority

Cost or Valuation	Civic Regalia £'000	Heritage Buildings £'000	Total Assets £'000
31 March 2017	**80**	**24**	**104**
Depreciation	0	(1)	(1)
Revaluation	30	0	30
31 March 2018	**110**	**23**	**103**
Depreciation	0	0	0
Revaluation	0	0	0
31 March 2019	**110**	**23**	**133**
Depreciation	0	(1)	(1)
Revaluation	0	0	0
31 March 2020	**110**	**22**	**132**
Depreciation	0	(1)	(1)
Revaluation	0	2,150	2,150
Transfers	0	38	38
31 March 2021	**110**	**2,209**	**2,319**

16. Investment Properties and Joint Ventures Investment

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

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

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

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

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

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

c) Investments within the group balances

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

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

Fair Value Hierarchy

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

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

2020 Comparative Figures

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

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

Highest and Best Use of Investment Properties
In estimating the fair value of the authority's investment properties, the highest and best use of the asset has been used.

Valuation Techniques

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

Valuation Process for Investment Properties

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

d) Investment in Subsidiaries and Joint Ventures

2019/20 £000	Investments in subsidiary companies and Joint Ventures:	2020/21 £000
12,024	Opening Balance	21,992
9,968	Additions	4,468
21,992	Closing Balance	26,460

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 are joint ventures of the Council:

Name	Corporation of incorporation	Class of shares	Holding	Principal activity
Bridge Close	England	Ordinary	100%	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 movement on Intangible Asset balances during the year is as follows:

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

18. Financial Instruments

(a) Financial Instruments - Classification

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

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

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

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

Financial Assets

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

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts
- fixed term deposits and reverse repurchase agreements with banks and building societies
- loans to other local authorities
- loans to small companies
- trade receivables for goods and services delivered

(b) Financial Instruments - Balances

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

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

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

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

31 March 2020		Financial Assets	31 March 2021	
Long-Term £000	**Short-Term £000**		**Long-Term £000**	**Short-Term £000**
		Loans and receivables:		
10,000	142,800	- Principal at amortised cost		110,000
	789	- Accrued interest		276
3,000		- Other Principal at amortised cost		
	113	- Accrued interest		
13,000	**143,702**	**Total Investments ***	**0**	**110,276**
		Loans and receivables:		
	10,895	- Cash (including bank accounts)		7,861
	15,850	- Cash equivalents at amortised cost		
	5	- Accrued interest		
0	**26,750**	**Total cash and cash equivalents**	**0**	**7,861**
		Loans and receivables		
26,505	39,426	- Trade receivables	39,394	50,628
26,505	**39,426**	**Included in debtors**	**39,394**	**50,628**
39,505	**209,878**	**Total financial assets**	**39,394**	**168,765**

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

31 March 2020		Financial Assets	31 March 2021	
Long-Term £000	Short-Term £000		Long-Term £000	Short-Term £000
		Loans and receivables:		
10,000	142,800	- Principal at amortised cost		110,000
	789	- Accrued interest		276
3,000		- Other Principal at amortised cost		
	113	- Accrued interest		
13,000	**143,702**	**Total investments**	**0**	**110,276**
		Loans and receivables:		
	12,005	- Cash (including bank accounts)		13,177
	15,850	- Cash equivalents at amortised cost		
	5	- Accrued interest		
0	**27,860**	**Total cash and cash equivalents**	**0**	**13,177**
		Loans and receivables		
232	37,127	- Trade receivables	215	48,259
232	**37,127**	**Included in debtors**	**215**	**48,259**
13,232	**208,689**	**Total financial assets**	**215**	**171,712**

(c) Financial Instruments - Gains and Losses

Gains and losses in 2020/21 were as follows:

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

	Financial Liabilities		Financial Assets		2020/21 Total
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	
	£000	£000	£000	£000	£000
Interest expense	8,201				8,201
Interest payable and similar charges	**8,201**	**0**	**0**	**0**	**8,201**
Interest income			(3,647)		(3,647)
Increases in fair value					0
Interest and investment income	**0**	**0**	**(3,647)**	**0**	**(3,647)**
Changes in value of investment properties				2,803	2,803
Income and expenditure relating to investment properties				(4,107)	(4,107)
Pensions Net Interest		9,650			9,650
Impact in Other Comprehensive Income *	**0**	**9,650**		**(1,304)**	**8,346**
Net gain (loss) for the year	**8,201**	**9,650**	**(3,647)**	**(1,304)**	**12,900**

* Not financial instruments but included to reconcile to note 12

Gains and losses in 2019/20 were as follows:

	Financial Liabilities		Financial Assets		2019/20
	Amortised Cost	Fair Value though CI&ES	Amortised Cost	Fair Value though CI&ES	Total
	£000	£000	£000	£000	£000
Interest expense	7,802				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 2021. LINK, the Council's adviser have provided the fair value calculations.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

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

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

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

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

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

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

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

31 March 2020 Balance Sheet £000	31 March 2020 Fair Value £000		Fair Value Level	31 March 2021 Balance Sheet £000	31 March 2021 Fair Value £000
		Financial assets held at amortised cost:			
		Loans & Receivables			
10,000	10,205	- Long-term loans to local authorities	2	0	0
26,505	26,087	- Long-term other loans	2	39,394	39,301
90,000	90,398	- Short-term loans to local authorities	2	75,000	75,373
52,800	53,089	- Short-term bank deposits	2	35,000	35,014
3,000	3,315	- Unrated Corporate Bonds	2	0	0
		- Covered Bond	1		
902	902	- Accrued interest		276	276
		Cash and Cash equivalents			
26,745	26,745	- Cash equivalents at amortised cost	2	7,861	7,861
5	5	- Accrued interest	2		
209,957	**210,746**	**Total**		**157,531**	**157,825**
39,426	39,426	Assets for which fair value is not disclosed *		50,628	50,628
249,383	**250,172**	**Total Financial Assets**		**208,159**	**208,453**
		Recorded on balance sheet as:			
26,505	26,087	- Long-term debtors		39,394	39,301
13,000	13,520	- Long-term investments		0	0
40,328	40,328	- Short-term debtors		50,628	50,904
142,800	143,487	- Short-term investments		110,276	110,387
26,750	26,750	- Cash and cash equivalents		7,861	7,861
249,383	**250,172**	**Total Financial Assets**		**208,159**	**208,453**

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

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

(e) Financial Instruments - Risks

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

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

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

The main risks covered are:

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

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

Credit Risk: Investments

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

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

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

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

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

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

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

Credit Risk: Receivables

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

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

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

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

Credit risk exposure 31 March 2020 £000		Gross balance of debtors £000	Average % default based on past experience %	Average % default based on current experience %	Credit risk exposure 31 March 2021 £000
0	Capital	1,689	0	0	0
6,723	Housing	8,765	67	78	6,806
359	Social Services	9,068	10	5	478
6,294	Parking	7,214	80	93	6,721
0	Other local authorities	84	0	0	0
0	Health authorities	5,182	0	0	0
1,907	Other sundry debtors	33,582	9	10	3,276
15,283	**Total**	**65,584**	**28**	**26**	**17,281**

Liquidity Risk

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

Refinancing Risk

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

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

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

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

Market Risks: Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

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

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

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

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

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

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

19. Debtors

Short-Term Debtors

31 March 2020 £000				31 March 2021 £000		
Gross	Impairment Allowance	Net		Gross	Impairment Allowance	Net
			Collection Fund Debtors			
14,662	(7,764) *	6,898	Council Tax payers	16,687	(10,684) *	6,003
1,319	(677) *	642	Business Rate payers	882	(482) *	400
0	0		**Other Debtors**			
6,113	0 *	6,113	Government departments	7,766	0 *	7,766
3,369	0	3,369	Capital	1,689	0	1,689
8,866	(6,723)	2,143	Housing	8,765	(6,806)	1,959
10,415	(7,616) *	2,799	Housing Benefit	9,925	(7,676) *	2,249
8,017	(359)	7,658	Social Services	9,068	(478)	8,590
6,862	(6,294)	568	Parking Enforcement	7,214	(6,721)	493
767	0	767	Other local authorities	84	0	84
1,943	0	1,943	Health authorities	5,182	0	5,182
2,683	0	2,683	Mercury Land Holdings	2,632	0	2,632
22,202	(1,907)	20,295	Other sundry debtors	33,275	(3,276)	29,999
87,218	**(31,340)**	**55,878**	**Total Short-Term debtors**	**103,169**	**(36,123)**	**67,046**

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

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

Debtors for Local Taxation

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

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

Long-Term Debtors

31 March 2020 £000		31 March 2021 £000
24,108	Mercury Land Holdings	33,828
2,164	Wates JV	5,472
233	Other	94
26,505	**Total Long-Term Debtors**	**39,394**

20. Cash and Cash Equivalents

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

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

21. Assets Held for Sale

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

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

22. Short-Term Creditors

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

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

23. Provisions

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

Self-Insurance Provision

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

Collection Fund Provision

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

24. Usable Reserves

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

25. Unusable Reserves

31 March 2020 £000		31 March 2021 £000
393,756	Revaluation Reserve	489,322
615,623	Capital Adjustment Account	674,082
(475)	Financial Instruments Adjustment Account	(378)
(423,095)	Pension Reserve	(545,811)
166	Deferred Capital Receipts Reserve	69
(1,485)	Collection Fund Adjustment Account	(19,100)
0	Dedicated School Grant Reserve (see note 34)	(2,366)
(3,789)	Accumulated Absences Account	(6,282)
580,701	**Total unusable reserves**	**589,536**

a) Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost:
- used in the provision of services and the gains are consumed through depreciation: or
- disposed of and the gains are realised.

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

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

b) Financial Instruments Available for Sale Reserve

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

c) Capital Adjustment Account

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

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

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

2019/20 £000		2020/21 £000
570,839	**Balance at 1 April**	**615,623**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(20,652)	Net charges for depreciation of non-current assets	(20,187)
8,443	Net charges for impairment of non-current assets	25,181
0	Net charges for de-recognition of non-current assets	0
0	Mitigation of PPP Capitalised	0
(483)	Amortisation of intangible assets	(483)
(7,544)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11,002)
	Adjusting amounts written out of the Revaluation Reserve	
4,481	Excess of Fair Value Depreciation over Historical costs depreciation	4,005
4	Removal of Revaluation balance upon sale	0
0	Other	0
(15,751)	**Net written out amount of the cost of non-current assets consumed in the year**	**(2,486)**
	Capital financing applied in the year:	
18,231	Use of the Capital Receipts Reserve to finance new capital expenditure	20,638
17,997	Use of the Major Repairs Reserve to finance new capital expenditure	17,242
27,347	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	21,052
2,194	Statutory provision for the repayment of debt	6,828
8,940	Capital expenditure charged against the General Fund and HRA balances	3,858
74,709	**Capital financing applied in year**	**69,618**
(15,527)	**Revenue expenditure funded from capital under statute**	**(5,870)**
1,353	**Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement**	**(2,803)**
615,623	**Balance at 31 March**	**674,082**

d) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2019/20 £000		2020/21 £000
(572)	**Balance at 1 April**	(475)
97	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	97
(475)	**Balance at 31 March**	**(378)**

e) Pensions Reserve

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

2019/20 £000		2020/21 £000
(539,382)	**Balance at 1 April**	**(423,095)**
127,831	Actuarial gains or (losses) on pensions assets and liabilities	(119,593)
(45,066)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(37,885)
33,522	Employer's pensions contributions and direct payments to pensioners payable in the year	34,762
(423,095)	**Balance at 31 March**	**(545,811)**

f) Deferred Capital Receipts Reserve

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

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

g) Collection Fund Adjustment Account

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

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

h) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. The COVID restrictions have led to officers rolling over high annual leave balances at 31 March 2021 and this has caused the increase in the account.

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

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
12,209	12,219	Depreciation, impairment and downward revaluation	(4,994)	(4,984)
483	483	Amortisation	483	483
24,303	30,327	Movement in creditors	8,056	2,849
(77)	1,628	Movement in debtors	(11,168)	(11,622)
(7,435)	20	Movement in long-term debtors	(12,889)	(2,976)
(4)	(4)	Movement in inventories	(11)	(11)
11,544	11,544	Movement in pension liability	3,123	3,133
(616)	(616)	Decrease in provisions	1,866	1,866
7,544	7,474	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	11,002	5,373
14,313	14,231	Other non-cash items charged to the net surplus or deficit on the provision of services	8,421	8,635
62,264	**77,306**	**Net cash flows from operating activities**	**3,889**	**2,746**

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

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

27. Cash Flow Statement – Investing Activities

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
(136,489)	(136,489)	Purchase of property, plant and equipment, investment property and intangible assets	(103,302)	(103,302)
(188,790)	(217,230)	Purchase of short-term and long-term investments	(183,277)	(184,511)
13,636	13,636	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,168	13,168
26,427	41,299	Capital grants received	20,433	20,433
195,126	195,126	Proceeds from short-term and long-term investments	224,333	227,150
(90,090)	**(103,658)**	**Net cash flows from investing activities**	**(28,645)**	**(27,062)**

28. Cash Flow Statement – Financing Activities

2019/20 Authority £000	2019/20 Group £000		2020/21 Authority £000	2020/21 Group £000
180,623	180,623	Cash receipts of short-term and long-term borrowing	65,809	65,809
(117,995)	(117,995)	Repayments of short-term and long-term borrowing	(61,060)	(61,060)
62,628	**62,628**	**Net cash flows from financing activities**	**4,749**	**4,749**

29. Trading Operations

2019/20 (Surplus)/ Deficit £000		2020/21 Income £000	2020/21 Expenditure £000	2020/21 (Surplus)/ Deficit £000
	a) Open Air Market			
166	The Authority operates an open air market three days a week	(159)	589	430
	b) Other Trading Accounts			
(518)	Highways	(2,757)	2,418	(339)
(198)	Schools/Welfare Catering	(941)	4,139	3,198

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

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

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

Schools/Welfare Catering - COVID19 restrictions and resulting school closures caused the service to have a £3.19m deficit in 2020/21.

30. Pooled Budgets

Mental Health

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

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

Adult Services – Better Care Fund

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

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

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

The pooled budget is accounted for under a joint arrangement.

Expenditure in 2020/21 was as follows:

Section 75 Joint Pooled Budget between LBH and CCG	Budget 2020/21 £000	Actual 2020/21 £000	BCF Funding Outturn 20-21 £000
LBH Funding - Capital			
Disability Facility Grant Allocation	2,057	1,356	(701)
Net Pooled Capital	**2,057**	**1,356**	**(701)**
LBH Funding Revenue - CCG Commissioned Services			
Minimum CCG Contribution - Expenditure	**11,516**	**11,516**	**0**
Revenue - CCG/ LBH			
Minimum CCG Contribution - Expenditure	**8,650**	**8,650**	**0**
CCG Minimum contribution representing ex256 monies	5,223	5,223	
CCG minimum contribution element for services commissioned on behalf of CCG - Reablement	1,318	1,318	
CCG minimum contribution element for services commissioned on behalf of CCG - Riverside	172	172	
CCG contribution to Care Act	691	691	
CCG contribution to Home, Settle and Support Service (HSSS)	173	173	
CCG contribution to Local Area Co-ordinators	200	200	
LBH Additional Contribution	873	873	
Net Pooled Revenue	**20,166**	**20,166**	**0**
Total Pooled	**22,223**	**21,522**	**(701)**

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

Comparative figures for 2019/20 are as follows:

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

31. Members' Allowances

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

32. Officers' Remuneration

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

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

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

Senior Officers Remuneration

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

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

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

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

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

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2020/21 £	Employer's pension contribution £	Total Remuneration including pension contributions 2020/21 £
Chief Executive - Andrew Blake-Herbert		183,732		**183,732**	28,662	**212,394**
Chief Operating Officer - Jane West		159,216		**159,216**		**159,216**
Director of Neighbourhoods		145,774		**145,774**	22,741	**168,515**
Director of Children's Services		145,967		**145,967**	22,771	**168,738**
Director Adult Services - Barbara Nicholls		154,860		**154,860**	24,158	**179,018**
Director of Public Health		112,326		**112,326**	18,961	**131,287**
Director of Housing		146,064		**146,064**	22,786	**168,850**
Director of Regeneration	1	58,454	140,400	**198,854**		**198,854**
Total		**1,106,393**	**140,400**	**1,246,793**	**140,079**	**1,386,872**

Note 1 The Director of Regeneration post at 0.4 full time equivalent has an equivalent full-time annualised salary of £146,135. The other payment of £140,400 was to the Director's employing company rather than to the Director for the remaining 0.6 FTE.

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

The comparative figures for 2019/20 are as follows:

Post Holder Information	Notes	Salary £	Other payments £	Total Remuneration excluding pension contributions 2019/20 £	Employer's pension contribution £	Total Remuneration including pension contributions 2019/20 £
Chief Executive - Andrew Blake-Herbert	1	177,204	17,551	**194,755**	27,644	**222,398**
Chief Operating Officer - Jane West	1	154,956	2,399	**157,355**	-	**157,355**
Director of Neighbourhoods	2	57,490	369	**57,859**	8,968	**66,828**
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	-	**109,320**	15,720	**125,040**
Director of Housing	4	66,763	369	**67,132**	10,415	**77,547**
Director of Regeneration	5	50,591	156,000	**206,591**	-	**206,591**
Total		**960,649**	**178,025**	**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 0.4 FTE and has an equivalent full-time annualised salary of £137,976. The other payment of £156,000 was to the Director's employing company rather than to the Director for the remaining 0.6 FTE.

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

33. External Audit Costs

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

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

34. Dedicated Schools Grant

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

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

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2020/21 before academy recoupment			231,953
Less academy figure recouped for 2020/21			(108,299)
Total DSG after academy recoupment for 2020/21			**123,654**
Plus: brought forward from 2019/20			(1,034)
Agreed initial budgeted distribution for 2020/21	**37,885**	**84,034**	**121,919**
In year adjustments	701	0	701
Final budgeted distribution for 2020/21	**38,586**	**84,034**	**122,620**
Actual central expenditure	(40,251)		(40,251)
Actual ISB deployed to schools		(84,034)	(84,034)
Plus: Carry forward to 2021/22 agreed in advance	(701)		(701)
Carry forward to 2020/21 (negative DSG Reserve)	**(2,366)**	**0**	**(2,366)**

Comparative figures for 2019/20 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure £000	Individual Schools Budget £000	Totals £000
Final DSG for 2019/20 before academy recoupment			215,293
Less academy figure recouped for 2019/20			(101,200)
Total DSG after academy recoupment for 2019/20			**114,093**
Plus: brought forward from 2018/19			2,565
Agreed initial budgeted distribution for 2019/20	**37,215**	**80,006**	**117,221**
In year adjustments	0	0	0
Final budgeted distribution for 2019/20	**37,215**	**80,006**	**117,221**
Actual central expenditure	(38,249)		(38,249)
Actual ISB deployed to schools		(80,006)	(80,006)
Carry forward to 2020/21	**(1,034)**	**0**	**(1,034)**

35. Grant Income

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

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

Current Liabilities

b) Capital Grants – receipts in advance:

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

36. Related Parties

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

Members

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

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

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

Officers

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

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

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

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

Note 11 Other operating expenditure: levies;

Note 13 Taxation and Non-specific Grant Income;

Note 30 Pooled budgets;

Note 34 Dedicated Schools Grant; and

Note 35 Grant Income

Entity controlled or significantly influenced by the Authority

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

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

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

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

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

* Procurement is now shown separate from Finance

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

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

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

Mercury Land Holdings Ltd

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

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

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

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

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

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

Havering and Wates Regeneration LLP

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

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

Bridge Close Regeneration LLP

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

The Council took full control over the joint venture during 2020/21 by buying First Base/Savill's 50% share of the LLP through a wholly owned company. For the financial year ended 31st March 2021, the Council's share of the profit and loss account was a £19k loss. The balance sheet includes the Council's investment in the LLP, £11.802m as at 31st March 2021.

Rainham & Beam Park LLP Joint Venture

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

Pension Fund

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

37. Capital Expenditure and Capital Financing

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

2019/20 £000	Capital Expenditure	2020/21 £000
106,062	Property, Plant and Equipment	92,945
14,899	Investment fixed assets	112
0	Intangible Assets	19
15,526	Revenue expenditure funded from capital under statute	5,870
9,968	Long Term Investments	7,618
8,338	Long Term Loans	11,130
154,793	**Total capital expenditure**	**117,694**
	Less financed from	
(18,231)	Capital receipts	(20,638)
(17,997)	Major repairs	(17,242)
(8,940)	Revenue funds	(3,858)
(27,347)	Grants and contributions	(21,052)
82,278	**Increase in need to borrow**	**54,904**
(2,194)	Minimum Revenue Provision	(3,688)
0	Use of Receipts to repay Debt	(3,140)
80,084	**Change in Capital Financing Requirement**	**48,076**

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

31 March 2020 £000	Capital Financing Requirement	31 March 2021 £000
1,312,636	Tangible fixed assets	1,499,031
21,992	Capital Investments - Equity	29,610
27,092	Capital Investments - Loans	35,645
1,085	Intangible assets	621
(393,756)	Revaluation Reserve	(489,323)
(615,622)	Capital Adjustment Account	(674,082)
353,427	**Net Requirement**	**401,502**

38. Leases

Operating Leases

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

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

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

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

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

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

Changes to accounting standards:IFRS16 Leases

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

39. Revaluation Gains and Impairment Losses

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

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

40. Termination Benefits

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

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

41. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers Pensions

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

In 2020/21 the Authority paid £8.1m (£6.98m 2019/20) to Teachers Pensions in respect of teachers pension contributions. This represented a contribution rate of 23.68% (20.76% in 2019/20). There were no contributions remaining payable at the end of the period.

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

NHS Pension Scheme

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

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

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

In 2020/21 the Authority paid £53,888 (£44,640 in 2019/20) to NHS Pensions in respect of public health pension contributions. This represented 16.88% of pensionable pay (16.88% in 2019/20).

42. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered by London Borough of Havering. This is a funded defined benefit final salary scheme, meaning that Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The London Borough of Havering pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of the Authority. Policy is determined in accordance with the Pensions Fund Regulations. The day to day operations of the Fund have been delegated to the Statutory Section 151 officer, the Chief Operating Officer. The investment managers of the fund are appointed by the committee and consist of the following Investment Fund Managers:

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

The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities. The amount is included in the IAS 19 figures reported for the Local Government Pension Scheme.

Transactions Relating to Post-employment Benefits

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

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

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

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

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

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

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

Local Government Pension Scheme assets comprised:

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

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

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

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

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

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

Impact on the Authority's Cash Flows

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

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

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

43. Contingent Liabilities

MMI Scheme of Arrangement

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

44. Heritage Assets: Five-year Summary of Transactions

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

45. Trust Funds

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

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

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

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

Housing Revenue Account

Housing Revenue Account
Income and Expenditure Statement 2020/21

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Authority's housing stock. The increase or decrease in the year on the basis of which rents are raised is shown in the movement on the HRA Statement. The Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

2019/20 £000		Notes	2020/21 £000
	Income		
(45,359)	Dwelling rents		(46,168)
(401)	Non-dwelling rents		(395)
(7,829)	Charges for services and facilities		(7,970)
(1,209)	Contributions towards expenditure		(5,926)
(54,798)	**Total Income**		**(60,459)**
	Expenditure		
6,608	Repairs and maintenance		6,821
20,616	Supervision and management		22,615
1,295	Rents, rates, taxes and other charges		1,103
426	Increased provision for bad/doubtful debts		214
1,538	Depreciation and Impairment of tangible fixed assets	4	(17,480)
-	Debt management		15
30,483	**Total Expenditure**		**13,288**
(24,315)	**Net expenditure or income of HRA services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(47,171)**
333	HRA Services' share of Corporate and Democratic Core		303
(23,982)	**Net Expenditure of HRA Services**		**(46,868)**
	HRA Share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
(5,537)	Net gain on disposal of HRA assets		(5,583)
5,854	Interest payable and similar charges		6,396
(522)	Interest and investment income		(66)
(24,187)	**Deficit/(Surplus) for the year on HRA Services**		**(46,121)**

Movement on the Housing Revenue Account Balance during 2020/21

2019/20 £000		2020/21 £000
(4,907)	**Housing Revenue Account balance brought forward**	**(9,832)**
(24,187)	(Surplus)/deficit for the year on the HRA Income and Expenditure Account	(46,121)
18,872	Adjustments between accounting basis and funding basis under regulations	38,668
(10,222)	**HRA balance before transfer to earmarked reserves**	**(17,285)**
390	Transfers to earmarked reserves	257
(9,832)	**Housing Revenue Account balance carried forward**	**(17,028)**

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

2019/20 £000		2020/21 £000
Items included in the HRA Income and Expenditure but excluded from the movement in the HRA balance		
Adjustments to the Revenue Resources		
590	Pensions costs (transferred from the Pensions Reserve)	(353)
(21)	Holiday pay (transferred to the Accumulated Absences Reserve)	(194)
(7,200)	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	10,159
(6,631)	**Total Adjustments to Revenue Resources**	**9,612**
Adjustments between Revenue and Capital Resources		
10,548	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	12,752
(157)	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	251
8,815	Posting of HRA resources from revenue to the Major Repairs Reserve	8,889
6,335	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,332
(38)	Deferred Capital Receipt	(98)
25,503	Total Adjustments between Revenue and Capital Resources	**24,126**
18,872	**Adjustments between accounting basis and funding basis under regulations**	**38,668**

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

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

b) Balance Sheet Value of HRA Tangible Fixed Assets

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

c) Valuation of Council Dwellings at Year End

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

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

2. Movement on Major Repairs Reserve

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

3. a) Total Capital Expenditure and Funding

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

b) HRA Capital Receipts

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

4. Depreciation and Impairment Charge

The depreciation charged to the HRA breaks down as follows:

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

5. Rent Income, Arrears and Bad Debts

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

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

Collection Fund Account

Collection Fund 2020/21

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

Income and Expenditure Statement 2020/21

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

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of council tax in 2020/21 at £1893.30 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	5
A	2,018
B	5,480
C	19,926
D	31,128
E	16,835
F	8,639
G	4,749
H	626
Allowance for losses in collection 1.30%	(1,162)
Tax Base	**88,244**

2. Income from Business Rates

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

2a) Income collectable from Non Domestic Rates

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

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

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

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

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

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

Pension Fund Account

Pension Fund

Pension Fund Account for the year ended 31 March 2021

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

Net Asset Statement for the year ended 31 March 2021

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

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

Notes to the Pension Fund

1 Description of the Fund

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

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

a) General

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

The LGPS Regulations 2013 (as amended),

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

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

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

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

b) Membership

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

Organisations participating in the Fund include:

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

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

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

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

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

The membership profile is detailed below:

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

c) Funding

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

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

d) Benefits

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

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. 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 2020/21 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

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

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

The Administering Authority is satisfied that Havering Pension Fund is a going concern. The return for 2020/2021 of 24.90% is greater than the actuary's long term target return for the Fund of +3.89% pa. The Fund still has the remaining year of the actuarial period to achieve the target return, and beyond this has agreed a 20 year recovery period should this be necessary to make good an increase in the funding deficit at the next actuarial valuation. The Fund's cashflow remains robust. The Fund held cash of £19m at the Balance Sheet date, equivalent to 2% of the Fund Assets. In addition, the Fund held £724m in Level 1 and Level 2 investment assets which could be realised within 3 months if required. However, based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments. As such the accounts have been prep[illegible]

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

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

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

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

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

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

(b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

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

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

(c) Investment Income

i) Interest Income

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

ii) Dividend Income

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

iii) Distribution from Pooled Funds

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

iv) Property - Related Income

Property related income consists primarily of rental income and is recognised at the date of issue.

v) Movement in the Net Market Value of Investments

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

Fund Account – Expense Items

(d) Benefits payable

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

(e) Taxation

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

(f) Management Expenses

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

Administrative Expenses

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

Oversight and Governance Costs

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

Investment Management Fees

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

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

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

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

(g) Lifetime Allowances

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

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

Net Assets Statement

(h) Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: 0.5% decrease in the real discount rate could result in an increase of 9%. 0.5% increase in salary increase rate could result in an increase of 1% 0.5% increase in the pension increase rate could result in an increase of 10%	138 12 153

6 Events after the Reporting Date

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

COVID-19

The Fund has valued its assets based on the 31 March 2020 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

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

7 Contributions Receivable

By category

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

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

By authority

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

8 Transfers in from Other Pension Funds

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

9 Benefits Payable

By category

2019/20 £000		2020/21 £000
	Pensions	
30,137	London Borough of Havering	30,798
1,399	Scheduled Bodies	1,692
851	Admitted Bodies	881
32,387	**Pension Total**	**33,371**
	Commutation and Lump Sum Retirements	
4,431	London Borough of Havering	3,577
402	Scheduled Bodies	344
179	Admitted Bodies	394
5,012	**Commutation and Lump Sum Retirements Total**	**4,315**
	Lump Sum Death Benefits	
1305	London Borough of Havering	976
65	Scheduled Bodies	110
-	Admitted Bodies	32
1,370	**Lump Sum Death Benefits Total**	**1,118**
38,769	**Total Benefits Payable**	**38,804**

By authority

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

10 Payments To and On Account of Leavers

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

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

11 Management Expenses

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

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

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

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

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

11a. Investment Management Expenses

2020-21	Management fees	Performance Related fees	Transaction cost	2020/21 Total
	£000	£000	£000	£000
Bonds	162	-	-	162
Fixed Interest Unit Trust	106	-	-	106
Diversified Growth Funds	622	-	15	637
Infrastructure	313	-	-	313
Global Equity	1,445	-	52	1,497
Other Investments				
Pooled Property	304	102	-	406
Private Equity and joint venture	190	-	-	190
Derivatives -Forward Currency Contracts	17	-	-	17
	3,159	**102**	**67**	***3328**
Custody fees				37
Performance Measurement fees				33
Other Investment fees				14
Investment Management Expenses				**3,412**

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

11a Investment Management Expenses continued

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

12 Investment Income

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

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

** Management expenses to offest against gross income from dividends

13 Taxes on Income

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

14 Analysis of Investments

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

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2020 Restated	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2021
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	49,206	19,163	(32,774)	3,406	-	39,001
Index-linked Securities	40,033	95,380	(99,896)	1,380	-	36,897
Pooled Investment Vehicles	519,985	33,363	(43,672)	162,226	-	671,902
Other Investments	89,760	23,815	(4,685)	(3,079)	-	105,811
Derivatives – forward currency contracts	(728)	94,996	(94,996)	1,614	-	886
Cash Deposits (fund managers)	6,778	-	-	1	(3,458)	3,321
	705,034	**266,717**	**(276,023)**	**165,548**	**(3,458)**	**857,818**
Other Investment Balances	724	-	-	-	(245)	479
	705,758	**266,717**	**(276,023)**	**165,548**	**(3,703)**	**858,297**

	Market Value at 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2020
	£000	£000	£000	£000	£000	£000
Equities	96	-	(107)	11	-	-
Fixed Interest Securities	89,985	28,259	(71,671)	2,633	-	49,206
Index-linked Securities	33,086	41,935	(35,974)	986	-	40,033
Pooled Investment Vehicles	584,442	94,427	(45,707)	(23,417)	-	609,745
Derivatives – forward currency contracts	-	146,466	(146,466)	(728)	-	(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**

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 £0.67m (2019 Restated £0.96m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

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

14b. Investments analysed by Fund Manager

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

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

Market Value 31-Mar-20	% of total fund	Security	Market Value 31-Mar-21	% of total fund
£000			**£000**	
136,341	18.70	London CIV Global Alpha Fund	191,042	21.85
97,738	13.41	London CIV Ruffer Absolute Return Fund	111,270	12.73
80,000	10.97	London CIV Diversified Growth Fund	87,978	10.06
51,296	7.04	LGIM All World Equity Index	71,550	8.18
44,638	6.12	LGIM FTSE RAFI AW 3000 Index	64,316	7.36
-	-	Royal London Multi Asset Credit Pooled Fund	61,821	7.07
41,067	5.65	UBS Property	-	-
451,080		**Total Fund**	**587,978**	

14c. Stock Lending

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

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

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

15 Analysis of derivatives

Objectives and policies for holding derivatives

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

Forward foreign currency

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

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

16 Fair Value Basis of Valuation

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

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

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

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

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

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

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

16 Fair Value Basis of Valuation (continued)

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

16 Fair Value Basis of Valuation (continued)

Sensitivity of assets valued at level 3

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

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

16a. Fair Value Hierarchy

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	704,263	150	150,346	854,759
Loans and receivables	20,204	-	-	20,204
Total Financial Assets	**724,467**	**150**	**150,346**	**874,963**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(728)	-	-	(728)
Total Financial Liabilities	**(728)**	**-**	**-**	**(728)**
Net Financial Assets	**723,739**	**150**	**150,346**	**874,235**

16a. Fair Value Hierarchy continued

	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**

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

16b. Reconciliation of Fair Value Measurement within Level 3

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

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

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

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

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

17 Financial Instruments

(a) Classification of financial instruments

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

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

(b) Net Gains and Losses on Financial Instruments

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

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

18 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

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

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

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

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

Asset Type	Value as at 31 March 2020 £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**

Interest Rate Risk

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

Interest Rate Risk Sensitivity Analysis

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

Assets exposed to Interest Rate Risk

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

Assets exposed to interest rate risk	Asset Values as at 31 March 2020 £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**	**1,520**	**153,469**	**150,428**

Currency Risk

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

Currency Risk (cont'd)

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

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

Currency Risk – Sensitivity Analysis

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

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

(b) Credit Risk

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

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

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

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

(c) Liquidity Risk

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

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

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

(d) Refinancing Risk

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

19 Funding Arrangements

Actuarial Statement for 2020/21

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

Description of Funding Policy

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

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

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

Funding Position as at the last formal funding valuation

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

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

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

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

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

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

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

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

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

** Aged 45 at the 2019 Valuation*

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

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

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

20 Actuarial Present Value of Promised Retirements

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

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

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

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

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

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

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

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

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

Longevity assumption

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

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

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

Commutation assumption

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

Sensitivity Analysis

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

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

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

Professional notes

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

21 Current Assets

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

22 Current Liabilities

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

23 Additional Voluntary Contributions

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

*Prudential unable to provide statement until July 2021

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

24 Agency Services

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

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

25 Related Party Transactions

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

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

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

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of London Borough of Havering, through a service level agreement. As at 31 March 2021 cash holdings totalled £15.837m (2019/20 £23.056m), earning interest over the year of £0.126m (2019/20 £0.202m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2021 (19/20 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 14b. During 2020/21 a total of £2.086m was charged to the Fund by the London CIV in respect of investment management services (19/20 £1.732m).

Governance

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions Committee and Local Pension Board are required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 11.

25a Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

26 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 were £50.62m. (31 March 2020 were £49.94m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. There are potential liabilities of £0.706m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Three admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.33m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.36m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.

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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London Borough of Havering and Havering Pension Fund

Annual Audit Letter for the year ended 31 March 2020

June 2021

EY

Building a better working world

Contents

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.

Section 1

Executive Summary

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Executive Summary

We are required to issue an Annual Audit Letter to London Borough of Havering and Havering Pension Fund (the Council and Pension Fund) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

`	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales (Council and Pension Fund)	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.
Impact on our risk assessment	
► Valuation of investment property, and any property, plant and equipment assets valued at fair value (Council only)	We had previously identified the valuation of all land and buildings as a higher inherent risk. 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. We therefore increased the risk around the valuation of these types of assets to a significant risk.
► Disclosures on going concern (Council and Pension Fund)	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date (Pension Fund only)	We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic may need to be disclosed, with the main areas specifically for the Pension Fund being changes to the value of investments after year end. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Pension Fund.
► Valuation of complex investments (Pension Fund only)	The valuation of complex (level 3) investments was impacted by the uncertainty arising from Covid-19 where asset valuations are based on unobservable inputs (i.e. there is no readily available market data). We therefore had to plan additional procedures to address this risk.

Executive Summary

We are required to issue an Annual Audit Letter to London Borough of Havering and Havering Pension Fund (the Council and Pension Fund) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the scope of our audit	
► Information Produced by the Entity (IPE) (Council and Pension Fund)	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.
► Consultation requirements (Council and Pension Fund)	The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. Because of the ongoing uncertainty Covid-19 presents, we introduced a rigorous consultation process for all auditor reports to ensure that we are providing the appropriate assurance to the readers of accounts.

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Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Pension Fund's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of their expenditure and income for the year then ended. We issued our audit report on the Council and Pension Fund accounts on 28 May 2021.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council has put in place proper arrangements to secure value for money in your use of resources. We do not issue a value for money conclusion on the Pension Fund.

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Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The information in the Annual Governance Statement is consistent with our knowledge of the Council and Pension Fund.
▶ Public interest report	We did not identify any issues which required us to issue a report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council and Pension Fund communicating significant findings resulting from our audit.	Our Audit Results Reports were presented to the Audit Committee on 24 February 2021.
Issued a certificate that we have completed the audit of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 June 2021. We do not issue a certificate on the Pension Fund.

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We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter
The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council and Pension Fund. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the 24 February 2021 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Pension Fund.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Planning Reports presented to the Audit Committee on 28 July 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements, including the Pension Fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the Annual Governance Statement is misleading or not consistent with our understanding of the Council and Pension Fund;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

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Responsibilities of the Council and Pension Fund

The Council and Pension Fund are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council and Pension Fund report publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council and Pension Fund Statement of Accounts are an important tool for the Council and Pension Fund to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 May 2021.

Our detailed findings were reported to the 24 February 2021 Audit Committee in our Audit Results Reports.

The key risks identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error (Council and Pension Fund) 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. **(Pension Fund only)** 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.	In response to this risk we: • Made enquiries 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 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 Council or Pension Fund's normal course of business

Financial Statement Audit

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Misstatements due to fraud and error: Incorrect posting of investment valuation journals (Pension Fund only) 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.	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. 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.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Incorrect capitalisation of revenue expenditure (Council only) 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.	To address this risk 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. Our work did not identify any expenditure that were incorrectly capitalised.

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Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of investment properties (Council only) The fair value of investment properties represents a significant balance in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. At 31 March 2020, the value of investment property in the Group accounts totalled £109.9 million. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We had previously identified the valuation of all land and buildings as a higher inherent risk. 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. We therefore increased the risk around the valuation of these types of assets to a significant risk.	To address this risk we employed the use of our own expert to support the work in relation to the valuation of investment properties, and to assess the impact of the material uncertainty issued by the Council's valuer in their valuation report due to the impact of Covid-19. 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 this was updated in the final version of the financial statements.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of complex investments (Level 3 investments including pooled property funds) (Pension Fund only) 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.	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. 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.

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Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
	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 consulted internally on whether we needed 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 concluded that this was not required based on a sensitivity analysis that indicates that there would need to be a 10% change in value of the fund's total pooled property to have a material impact on the pension fund's financial statements.

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Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Valuation of land and buildings (Council only)	To address this risk we undertook procedures to gain assurance over the material accuracy of the this balance. As a result of the procedures undertaken: ▸ 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. 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 asked the Council to enhance its disclosure around the valuers material uncertainty within the estimation uncertainty note in the Council's financial statements. We have also consulted internally in relation to the adequacy of these disclosures and concluded that no emphasis of matter in our audit report is required.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Pension liability valuation (Council only)	We have received reports from the Havering Pension Auditor and the EY Pensions actuarial team are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable. We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements. Our testing has not identified any material misstatements The assurance report from the Havering Pension Fund Auditor noted that the Council's share of the downward valuation of investment assets was £2.4 million. Management have not adjusted for this misstatement on the basis that it is not material. We are also satisfied that appropriate allowances have been made in relation to recent legal rulings within the IAS 19 reports provided by the actuary which are used in the preparation of the draft financial statement.
Accounting for the Council's regeneration assets (Council only)	We identified those assets relating to the Council's regeneration programmes and considered the classification of these assets to confirm this is in line with their current usage and CIFPA Code requirements. We ensured the valuation basis adopted is appropriate and reviewed the associated accounting treatment. Our work did not identify any issues.
Group Financial Statements (Council only)	We considered the Council's assessment of whether any transactions or balances relating to joint venture arrangements with Rainham and Beam Park Housing Zone, Bridge Close, and 12 Housing Estates within the Borough should be consolidated within its group financial statements. We agreed with the Council's assessment that these arrangements be consolidated in the Group accounts. We also reviewed the associated group disclosures in the financial statements and concluded they were appropriate.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Going concern disclosures (Council and Pension Fund)	We have reviewed managements going concern assessment, including stress testing of assumptions and cash flow forecasts. We have also reviewed the going concern disclosure for consistency with managements going concern assessment. As a result of our work, we proposed some enhancements to the going concern disclosures which have been reflected in the final statements of account.
Events after the Balance Sheet Date (Pension Fund only)	We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.

Section 4

Value for Money

Value for Money

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.

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.

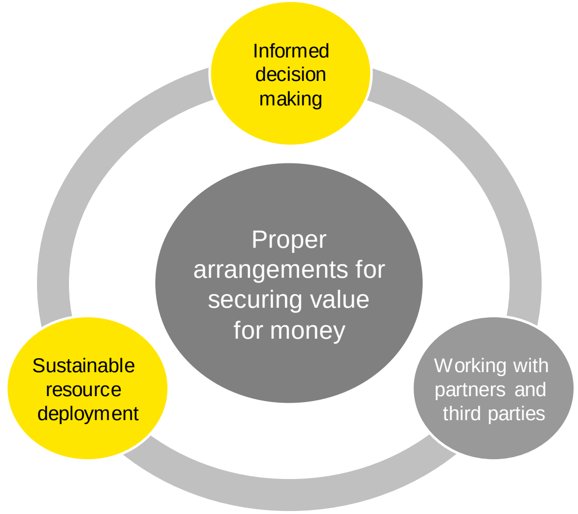
We identified the following areas as potential significant value for money risk in our Audit Plan:

- 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 slide and have no issues to report in relation to the Council’s arrangements for value for money.



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 28 May 2021.

Significant Risk	Conclusion
Governance of the regeneration schemes being delivered through the joint ventures In 2018, the Council entered into joint venture (JV) arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 Housing Estates within the Borough. 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.	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 Park. 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 clear 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.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

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.

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Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 24 February 2021. 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 regulatory and professional requirements.

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Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

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Appendix A

Audit Fees

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Audit Fees

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

We confirm that we have undertaken the non-audit services for the year ended 31st March 2020 set out in the table below.

Description23	Planned Fee 2019/20 £	Final Fee 2018/19 £
Scale Fee Council accounts – Code work (Note 1)	116,920	116,920
Additional work to address areas of risk and others (Note 2)	57,856	27,853
Additional work required due to changes in scope and as a result of Covid-19 including additional internal consultation on the audit report (Note 3)	14,154	0
Total audit fees – Council	188,930	144,773
Scale Fee Pension Fund accounts –Code work (Note 1)	16,170	16,170
IAS 19 assurance letters – non Code work	8,000	5,500
Additional triennial review procedures – non Code work	4,000	0
Work to address additional risks including Covid-19 and others	4,320	0
Going concern and PBSE assessments and disclosures, including EY consultations (note 3)	3,500	0
Total audit fee – Pension Fund	35,990	21,670
Non-Audit Fees – Council		
Other non-audit services not covered above (Note 4)	12,000	18,500

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Audit Fees

Notes

Note 1: *For 2019/20, we have proposed an increase to the scale fee for both the Council and Pension Fund to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Planning Reports. Our proposed increases have been discussed with management and are currently being considered by PSAA. These proposed increases are not reflected in the figures in this Letter.*

Note 2: *For 2019/20, additional work was undertaken to address the areas of risk identified, as detailed in our Audit Planning Reports. The main areas of additional work was the work on valuation of other land an buildings and investment property, group consolidation, pension liability valuation and accounting for Council's regeneration assets which were all designated as either significant or higher inherent risks. In addition, in order to address and respond to value for money risk identified we engaged EY specialists (Forensics team) to complete this work.*

Note 3*: As a result of Covid-19 we identified increased risk and work required in relation to the higher risk related to going concern disclosures as well as the work to address the material uncertainty in the valuer's report relating to the valuation of land and buildings, in particular investment property. We also engaged our own internal valuation experts to review a sample of property valuations. Additional time was also required for internal consultation processes on the audit report as a result of Covid-19.*

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.*

Additional fees are subject to agreement by management and PSAA.

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ED None

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From:	Bella MacDonald
To:	Jane West
Subject:	Retender of External Audit Contracts
Date:	23 September 2021 12:34:57
Attachments:	image001.png image002.jpg image003.jpg 0.png

CAUTION – External Email & Phishing Alert.
Be aware that this could be a phishing attempt. If you think this is a phishing email, do not respond or click links. Block Sender and Delete it.

From the Chairman of the Association
Cllr James Jamieson

To: Mayors/Leaders/Chief Executives/Chief Finance Officers of English Principal Councils

23 September 2021

Dear Jane West,

Retender of External Audit Contracts

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11th March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan

Finch (alan.finch@local.gov.uk) if you have any issues you would like to raise.

Yours sincerely

Cllr James Jamieson
Chairman

cc: Chief Executive
Chief Finance Officer

RETENDER OF EXTERNAL AUDIT CONTRACTS
Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially. councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
    - The service being procured is defined by statute and by accounting and auditing codes
    - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
    - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
    - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
    - PSAA has commissioned high quality research to understand the nature of the audit market.
    - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) (alan.finch@local.gov.uk).

-

PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24

FREQUENTLY ASKED QUESTIONS

-

"Were prices set too low in the current contract?"

It is clear that firms did submit bids that reflected what seemed at the time to be very stable market conditions. Unfortunately, a series of financial collapses in the private sector have since created a very different climate and resulted in a whole series of new regulatory pressures. It is very likely that firms thought they could make savings as a result of the new timetable, essentially finishing the accounts audits by the end of July each year. Of course, that is not what has happened.

The Government opened up the market principally on the argument that costs would reduce, and views were mixed in the sector when the first contract was being let. Some councils wanted more savings and some were worried about reduced standards.

"Has the current contract helped cause these issues?"

Since the current contract is based around the Code of Audit Practice and the local government accounting code, this is unlikely. The first year of the new contract coincided with the introduction of new standards and with the emergence of some difficult audit issues such as the McCloud judgement (a legal case which affected the valuation of pension liabilities). The second year was affected by COVID-19. This laid bare the lack of capacity in the supplier side of the market and led to considerable delays. It is hard to see how the contract could have pre-empted this, but now we are clearer about the level of uncertainty in the system, the next contract can adjust for it.

"If we let our own contract, could we have more influence over auditors?"

No. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator's expectations or face action under the regulatory framework.

As far as delays in audits is concerned, auditors are required to allocate resources according to risk and councils that procure for themselves will find themselves in the same queue as those within the national arrangement.

"If we let our own contract, can we get the auditors to prioritise our audit over others?"

Very unlikely. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. It is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

"Didn't we used to get more from our auditors?"

Yes we did. For example, auditors were often prepared to provide training to audit committees on a pro-bono basis. The fact that they used to be with us for most of the year meant officers could develop professional working relationships with auditors and they understood us better, within the boundaries required of their independent status. Auditors no longer have the capacity to do extra work and the light shone on audit independence in other sectors of the economy has reinforced the rules on the way auditors and councils work together.

"Under the national framework we have had to negotiate our own fee variations. Will that continue to be the case?"

Unfortunately, virtually all councils have had to engage in discussions with auditors about fee variations linked to new regulatory requirements and, of course, the challenges of COVID-19. SAA has worked hard with MHCLG to enable the recent consultation on changes to the fee setting regime, and the resulting regulatory change will bring scope for more issues to be settled at a national level in future.

"Can we band together in joint procurements to get most of the benefits of not going it alone?"

We understand that this is lawful. However, joint procurement partners would not be part of PSAA's efforts on behalf of the sector to increase the number of firms competing in the market, which will therefore be less likely to succeed.

At best, joint procurement spreads the pain of procuring over a larger number of councils and at worst it introduces a new layer of bureaucracy, because someone is going to have to take the lead and bring all the members of the consortium along.   It's not altogether clear to us why a joint procurement would be better than the national contract, especially as the consortium would then have to manage the contract throughout its life (for example, the implications of changes of audit scope).

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