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Havering
LONDON BOROUGH

AUDIT COMMITTEE
AGENDA

7.00 pm	**Tuesday 22 February 2022**	**via ZOOM**

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:
Christine Elsasser 01708 433675
christine.elsasser@OneSource.co.uk

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

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

Reporting means:-

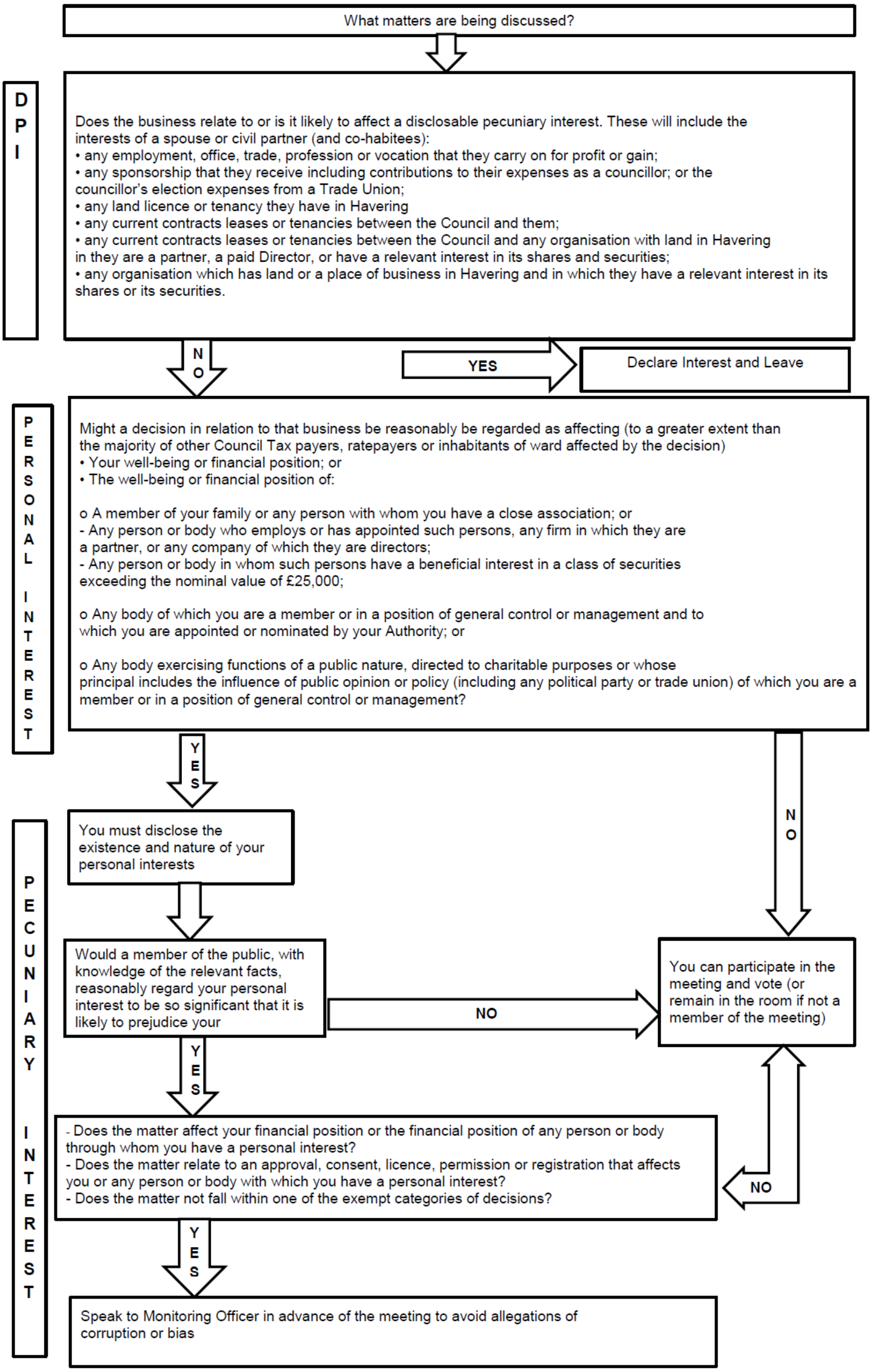
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the protocol for Zoom meetings.

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 28 October 2021 and authorise the Chairman to sign them.

5 PSSA DECISION FOR PROCUREMENT (Pages 3 - 10)

Report attached.

6 ASSURANCE PROGRESS REPORT (Pages 11 - 26)

Report and appendices attached.

7 ACCOUNTING POLICIES 2022-23 (Pages 27 - 50)

Reports and appendices attached.

8 CLOSEDOWN TIMETABLE 2021-22 (Pages 51 - 56)

Report attached.

9 HOUSING COMPLIANCE AUDIT (Pages 57 - 122)

Report and appendices attached.

10 MID-YEAR TREASURY REVIEW 2021-22 (Pages 123 - 138)

Report attached.

11 TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2022-2023 (Pages 139 - 174)

Report attached.

Zena Smith

Democratic and Election Services Manager

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MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Council Chamber - Town Hall
28 October 2021 (7.00 - 8.10 pm)

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (Vice-Chair), Roger Ramsey and Judith Holt
Residents' Group	Gerry O'Sullivan
Upminster & Cranham Residents' Group	Gillian Ford
North Havering Residents Group	Martin Goode (in the Chair)

There were no apologies for absence.

There were no disclosures of interests.

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

78 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 22nd July 2021 were agreed as a correct record and signed by the Chairman at a later date.

79 **ASSURANCE PROGRESS REPORT**

The Committee were presented with a report outlining the work undertaken by the Assurance Service during the period from 1st July 2021 to 30th September 2021.

The Committee noted that 18 reports had been completed and requested a breakdown of each of the reports to be circulated by the appropriate officer. Members noted that the service had found an incident relating to direct debits paid to the Council by residents. The Service had found that the BACS system had been upgraded which had caused the direct debit amounts to be much higher than they should have been. The Committee were pleased to hear that no residents had been put into debt due to the error and that the management team had conducted an investigation into the problem. The Committee **agreed** to receive a more detailed report at the next meeting.

The Committee also noted that the Council was still undergoing the process to retrieve the money which was used for fraudulent actions using a corporate card.

Members were pleased with the level of information presented in the risk register and requested an indicator to show whether a risk was newly added.

The Committee **noted** the report.

80 STATEMENT OF ACCOUNTS 2020/21

The Committee was presented with the 2020/21 Statement of Accounts.

Members noted the Statement of Accounts was published in July 2021 but Ernst & Young were continuing with Audit which is due to complete before December 2021. No issues have been raised by the Auditors so far. Training slides were to be circulated by Kevin Miles. Members noted the general reserve balance was £10.9 million, the property, plants and equipment value had increased by £187 million and the Business Rates Income had reduced by £42 million (mainly due to reliefs offered due to COVID) but was offset by Government grants. Members noted that a decision was due to be made to continue with PSAA group tender exercise to decide on external auditors.

The Committee member were disappointed to hear that the EY audit had not been completed by officers explained that this was due to a lack of staff due to the COVID-19 pandemic and that the majority of councils were delayed in signing off their accounts.

The Committee **noted** the report.

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Chairman

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	**External Audit procurement for the London Borough of Havering and Havering Pension Fund 2023/24 to 2027/28**
SLT Lead:	Jane West
Report Author and contact details:	Julie Oldale Designation: Deputy s151 Officer, Finance Telephone: 01708 434551 E-mail: julie.oldale@onesource.co.uk
Policy context:	This report proposes the procurement route for external audit requirements 2023/24 to via the PSAA. The referral from Audit committee will be made to council to inform their decision.
Financial summary:	The procurement will establish a contract for the provision of statutory external audit services for the period 2023/24 to 20027/28. The financial implications will become clear as the procurement process progresses.

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

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

SUMMARY

1.1 Members are being asked to comment on the proposed routes to procure the next external audit contract. A decision needs to be taken by the end of February 2022 as to whether to opt in to the Public Sector Audit Appointments (PSAA) led procurement.

RECOMMENDATIONS

For the reasons set out in the report, the Committee is asked to agree to procure an external audit contract through the PSAA for both the London Borough of Havering and the Havering Pension Fund:

The Committee is asked to:

Discuss the contents of the report and comment accordingly in order that the committee's views are taken into account when the matter is determined by Full Council.

REPORT DETAIL

2 Background

2.1 The Local Audit and Accountability Act 2014 sets out the requirements for the appointment of external auditors, referred to as local auditors in the Act, by local authorities, relevant authority. Section 7 (1) of the Act states that a relevant authority must appoint a local auditor to audit accounts for a financial year not later than 31 December in the preceding financial year.

2.2 Section 7 (2) of the Act allows a relevant authority to appoint local auditors for more than one year, but must reappoint at least once every five years.

2.3 The current contract for the external audit of the annual accounts, currently awarded to Ernst & Young (EY), commenced from the 2018/19 annual audit runs until the end of the audit for the 2022/23 annual accounts, for both the London Borough of Havering and the Havering Pension Fund. This means the latest that the next contract can be awarded is 31 December 2022

2.4 The authority has to decide the process for the appointment of the external auditors for the audit of the 2023/24 statement of accounts. The options are;

- to tender as a stand alone organisation, for both the London Borough of Havering and the Havering Pension Fund,

- work as a consortium with a group of other local authorities to procure the new contract
- or join the Public Sector Audit Appointments (PSAA) procurement.

2.5 The PSAA will be inviting all local authorities to opt-in to their procurement process during September 2022 and have asked for responses by 11 March 2022 as to whether authorities wish to opt in to the PSAA tendering process.

2.6 To date, since the abolition of the Audit Commission, nearly all local authorities have procured their external auditor via the PSAA. Informal indications are that most authorities will continue down this route. However, the committee should nonetheless consider the matter and make recommendations accordingly.

2.7 The decision is a matter for Full Council and the recommendation of this committee will be forwarded for the final decision.

3 Key Considerations & Proposals

3.1 There are three options to consider for the procurement of the external audit service. The decision is a matter for Full Council, but the views of the Audit Committee would be taken into account. The options are to:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other local authorities, such as near neighbours; or
- join PSAA's sector led national scheme.

3.2 Section 9 of the Act requires each relevant authority to have an auditor panel. The relevant authority must consult with and take into account the advice of its auditor panel on the selection and appointment of a local auditor. The exception is if the authority opts to join the PSAA sector led national scheme.

3.3 The pros and cons of an individual auditor procurement and appointment exercise are:

3.3.1 In pursuing any local procurement approach there would be a further administrative overhead due to the requirement under the legislation to create an auditor panel.

3.3.2 The auditor panel must consist of a majority of independent members and be chaired by an independent member. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This represents an administrative burden for Havering.

3.3.3 This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

3.3.4 The Council would retain control of contract management and performance as well as directly negotiating fee variations with the external auditor.

3.3.5 The Council could align the external audit so that it and its subsidiaries would use the same audit firm.

3.3.6 Informal discussions suggest that the single council Havering audit is likely to be commercially attractive to large audit firms and so there is a reasonable degree of confidence that an appointment could be made. It is difficult to assess whether this is likely to be more expensive or cheaper than the PSAA option. Arguably it might be a little cheaper, since the PSAA model inevitably involves a degree of cross-subsidy for commercially unattractive audits and some audit firms consider that there is an overhead in dealing with the PSAA. However, there is no guarantee of this and in any event price is probably not the most important factor in evaluating a contract of this nature.

3.4 The Council could opt to join with other authorities to establish a joint auditor panel.

4.4.1 Again the appointment of the contract would need to be made by a body constituted of wholly or a majority of independent members.

4.4.2 Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

4.4.3 It is difficult to see the benefits of this arrangement. It adds in the complexity inherent in joint procurements with none of the "strength in numbers" potential arguments of the PSAA approach. Officers recommend that this option should not be pursued as impractical and providing little or no obvious benefits over the other two options.

3.5 The PSAA sector led approach.

3.5.1 The Council could join the PSAA's national scheme. At present 498 out of 508 local authority bodies use this and indications are that something like this very clear majority will continue to do so.

Havering would therefore be a clear outlier in not following the approach.

3.5.2 This will be the least onerous procurement option for the Council, however the Council has no control over contract performance and relies on the PSAA for contract management and fee variations.

3.5.3 Arguably, the PSAA regime has not been the success intended and many commentators have suggested that the audit market for local authorities has been challenging in recent years. Many of these factors are beyond the control of the PSAA.

3.5.4 Under this option the PSAA holds the contract with the auditor, arguably separating contract management from the client (i.e. Havering). However, there should be a collective bargaining or "strength in numbers" to the PSAA approach and it also clearly separates out the audit appointment from the audited body (i.e. Havering). This is an important point of governance, although the alternative requirement for an auditor appointment panel largely deals with it.

3.5.5 Arguably the downside of this has been a lack of clarity over fees, with a complex system of standard (or "scale") fees for types of audit and variations, all of which are determined by the PSAA in discussion with the auditor. The Council is consulted on those fees, but as it is not a party to the contract cannot control them.

3.5.6 Despite these possible disadvantages the PSAA approach is without doubt the simplest way to ensure that an appropriately qualified external auditor is appointed for Havering and it is an approach that the vast majority of the sector uses.

3.6 Since the current contracts were awarded, the requirements of international auditing standards have changed and increased the work that the external auditors are required to undertake which has resulted in additional fees to local authorities over the contracted price.

3.7 The fees in the current contract are unlikely to reduce and it is expected that they will increase in the next procurement round regardless of the option chosen.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the decision on the procurement method. However the annual budget requirement for the audit will become clear as a result of the procurement process. The indication is that the annual audit fees will increase from the current contract values. This would need to be managed as part of the medium term financial planning process.

The current fees for the audit are as shown below.

	Actual costs	
	2020/21	2019/20
	£	£
LBH - Audit Fees	226,567	226,567
LBH - Pension Fund - Audit Fees	23,325	21,170
Additional non recurring fee in year.		12,000
	249,892	**259,737**

Legal implications and risks:

None arising directly.

The Committee has been constituted by the Council to oversee internal and external audit, including arrangements for the same and has authority to consider and comment on the selection of an external auditor.

The Local Audit and Accountability Act 2014 and supporting Regulations specify the PSAA as an appointing person for local auditors. The committee may approve the recommendation to join the PSAA scheme if so minded.

Human Resources implications and risks:

There are no apparent human resources implications in noting the content of the report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:
(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.
There are no Equality implications regarding this matter.

Havering
LONDON BOROUGH

AUDIT COMMITTEE
22 02 2022

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 three 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 October to 31st December 2021. This report is presented in three sections:

Section 1: Introduction

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

Section 3: Appendices: Provide supporting detail for Member's information

RECOMMENDATIONS

1. To note the contents of the report.

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

REPORT DETAIL

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner/sponsor
- Third line – independent assurance.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

1.1.3 An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

1.1.5 The Annual Audit Plan was present to 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 Section 6 of Appendix A.

1.1.6 This report brings together all aspects of internal audit and counter fraud work undertaken during the period from 1st October to 31st December 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 three of 2021/22

2.1 Internal Audit

2.1.1 In giving an overall Audit opinion on the system control environment within the areas reviewed, there are 2 levels of assurance as follows:

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.

2.1.2 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.

2.1.3 There have been six audit reviews completed during this period of which two were schools, both given a reasonable assurance. Of the four system reviews, one was given Limited Assurance and one Reasonable Assurance. Of the remaining two, one was a Grant Review and one was an externally commissioned piece of work, where an assurance opinion is not usually provided. Section 6 of Appendix A shows the current position of the 2021/22 audit plan.

2.1.3 There were six 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.

2.1.4 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.

2.1.5 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.

2.1.6 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.

2.2 Pro-Active and Counter Fraud

2.2.1 The counter fraud service are continuing to follow up, fraud referrals, desk based intelligence checks and investigations with door step visits and Interviews under Caution where necessary (following all Covid-19 social distancing measures).

2.2.2 During the 1st October to 31st January 2022 five referrals were received; four of which were Whistleblowing referrals. Two cases have been investigated and concluded and three referrals are currently being investigated.

Appendices: Provide supporting detail for Member's information

Appendix A: Detailed Assurance Progress Report

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.

Climate Change implications and risks:

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register and incorporated into the scope of audits where relevant.

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.

Appendix A: Assurance Progress Report

1. Audit Plan Progress

1.1 Current, cumulative progress toward delivery of the 2021/22 audit plan, as at the end of December 2021, is summarised in the table below, with further detail provided in Section 6 below. 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	22
Draft reports issued	2
Underway	10

2. Risk Based Systems and Schools Audit Work for Quarter Three

2.1 The tables below details the results of the work undertaken during quarter three. Summaries of any limited assurance reports (where applicable) are provided in section 4.

Audit Title – LBH Systems Audits	Assurance	Recommendations			
		H	M	Adv	Total
Business Continuity & Emergency Planning	Reasonable	0	0	0	0
Payroll (compliance key financial work)	Limited	6	2	0	8
Romford Combined Charities	Not Applicable – Grant Review				
Housing – Compliance work*	Completed (externally commissioned work)				
Totals for Quarter 3		**6**	**2**	**0**	**8**

*This report is provided as an additional item on the agenda

Audit Title – LBH Schools Audits	Assurance	Recommendations			
		H	M	Adv	Total
Crowlands Primary	Reasonable	0	0	3	3
Crownfield Infants	Reasonable	0	0	5	5
Totals for Quarter 3		**0**	**0**	**8**	**8**

In addition, three school health checks were completed during October to December 2021.

3. Audit Recommendations Update and Status of High Risk Recommendations

3.1 All high and medium risk recommendations due as at the end of December 2021 have been confirmed as implemented.

3.2 There were six high risk recommendations raised during quarter three of 2021/22. These recommendations are provided along with the summary report in section 4.

3.3 A full list of recommendations raised during the year, and the status of implementation will be provided as part of the Annual Assurance Opinion Report to be presented at the next Audit Committee.

4. Limited Assurance Report Summaries & Recommendations

4.1 Payroll – Executive Summary

As part of the Internal Audit Plan for 2021/22 agreed by Audit Committee, a review of The Payroll System was undertaken.

Scope of Review

Payroll systems and processes were last reviewed as part of the 2018/2019 internal audit plan. Since then the Council has implemented the new Fusion system, in September 2019. The scope of this audit focused on the following areas:

- Follow up on the implementation of recommendations raised during the 2018/2019 audit that aimed to mitigate against risks previously identified;
- Identify any changes arising from the introduction of Fusion, including controls lost / gained; and
- Compliance against policies and procedures.

Summary of Findings

This review has identified weaknesses in the control environment within the payroll process, particularly in relation to the recording of payroll errors identified through the exception report process. In addition, testing identified overpayments totalling £3,500 that had not been recovered. Given the small sample size, no assurance can be given that this is not a wider issue and therefore it would be proportionate for all leavers to be reviewed to ensure any overpayments have been raised as sundry debtor accounts.

This audit has determined that fundamental risks within the process are materialising, creating significant increases in work for both the Payroll and Systems Teams. In a large proportion of cases, what is perceived to be an error or problem with the Fusion Payroll system are not technical / operating issues, but are instead caused by a lack of understanding across the organisation as to the internal system processes.

These issues have an impact on the efficiency and effectiveness of the payroll controls, pose risks to the accuracy of the payroll and create unnecessary additional work. Every effort should be taken to minimise the number of avoidable exceptions occurring each month.

Key to addressing these issues is the need to ensure that Managers have access to key information essential to ensuring the accuracy of data within the system, as well as a mechanism for detecting anomalies. Managers need access to purposeful payroll related information in order to take greater responsibility and accountability for the accuracy of their payroll.

Enabling managers to have access to exception based information, coupled with additional training and education as to the internal processes within the Fusion Payroll system, should reduce the level of non-compliance, enhance the quality of the data within the system and reduce the number of errors currently occurring.

4. Limited Assurance Report Summaries & Recommendations (continued)

The issues identified during this review are not isolated to the Payroll Team and when the payroll system is considered within the wider control environment operating within the Council, then we can only provide **limited assurance** that the controls and risks are being managed appropriately. This means 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 six high and two medium priority recommendations to mitigate the risks identified.

Expected Outcome	Management Response inc. Planned Actions
Recommendation 1: In order to reduce the number of exceptions being reported and strengthen the exception report process, a review should be undertaken of the current report parameters in order to remove exceptions not related to changes in pay and allow variations to be categorised by type, enabling high volume / low risk exceptions to be identified and officers to carry out a more targeted approach to checks.	Recommendation Agreed. CBST will provide the report parameters. Parameters will be reviewed with Payroll and amended accordingly. Review of the report will be added to weekly payroll/CBST call. SR will be raised. **Timescale:** April 2022
Recommendation 2: Action should be taken to recover the two overpayments identified during the audit. However, given the small sample from which these overpayments were identified, it would be considered proportionate to review all leavers, to ensure action has been taken to recover any overpayments identified.	Recommendation Agreed. Actions already in place to identify and review overpayments as exceptions for future leavers. Invoices have been raised for the two cases identified. **Timescale:** January 2022

4. Limited Assurance Report Summaries & Recommendations (continued)

Recommendation 3: Management should review the current process of logging errors identified through the exception report process. As part of this review, Management should look to standardise the comments being recorded by Payroll Officers, to provide a clear and concise explanation of the exception, allowing exception reasons to be monitored. Consideration should be given to secondary checks by Payroll Team Leads and how to ensure any follow up action is undertaken, such as the raising of sundry debtor accounts. Once reviewed, staff should be reminded of the importance of this process.	Recommendation Agreed. Work to be undertaken with Team Leads to ensure any errors/exceptions are explained clearly and concisely including training with the template being updated. This will be reviewed to ensure relevant follow up action is appropriate and successful. Ongoing monitoring will ensure a consistent approach in the payroll team. The payroll team received a de-brief of the Audit, specifically this recommendation and reminded of their responsibilities. **Timescale:** April 2022
Recommendation 4: Management should investigate the current Fusion Payroll system default of putting employees back into full pay after one year. Depending on the number of instances occurring each year, action should be taken to either stop the system taking this action or to introduce a manual process to monitor cases and take remedial action where necessary.	Recommendation Agreed. Review the ability to amend Fusion to prevent sick pay re-instating after 1 year. If the system cannot be amended, implement a manual process to capture affected staff so their records can be manually amended. **Timescale:** February 2022 April 2022 – if there is a need to create a new report to allow manual monitoring within Payroll.
Recommendation 5: A post implementation review of the Fusion Payroll system should be undertaken. The aim of this review should be to: • Understand the internal Fusion Payroll system processes; • Determine the impact of making manual adjustments to the system; • Identify where system functionality has required manual workarounds to be put in place; • Ensure manual processes work cohesively alongside the system; and • Build resilience within the team.	Recommendation Agreed. This has been discussed at oneSource OMT and initial meeting has taken place with Oracle who will be carrying out an initial review of the Payroll reviewing processes and areas of improvement **Timescale:** February 2022

4. Limited Assurance Report Summaries & Recommendations (continued)

Recommendation 6: Exceptions should be added to Payroll's Key Performance Indicators (KPI) with the aim of reducing the number of exceptions occurring.	The KPIs have been agreed for 22/23 and are based on accuracy in payrolls. With CBST delivering a report that focusses on real exceptions to pay the error rate should decrease. Therefore this is complete. **Timescale:** Completed
Recommendation 7: In order to address non-compliance and reduce the unnecessary pressures being created within the Payroll, management should look to utilise the Manager Dashboard. Ensuring Managers have access to purposeful information will enable greater responsibility and accountability for maintaining the accuracy of the payroll, in keeping with the Council's self-service model.	Recommendation Agreed. Dashboards to support managers in the self-service model so they can identify issues and inaccuracies are on the "to do" list of the CBST. **Timescale:** April 2022
Recommendation 8: In order to reduce the level of reliance on Evosys for system support, the Payroll Team and Systems Team should seek to clarify the roles, responsibilities and expectations of both teams in relation to the raising and reporting of Payroll Fusion issues. Given the costs associated with raising requests with Evosys, the process should ensure that where applicable, there is an agreement by both teams that the issue needs to be escalated to Evosys.	Recommendation Agreed. Since implementation of Fusion and due to the lack of payroll knowledge, skills and experience in the CBST it has meant more reliance on Evosys for system support. A recent review by the CBST has identified calls, errors and issues raised by payroll and ongoing work with the teams aims to reduce the number of calls and issues with increased support from CBST. Temporarily there remains additional specialist resources in each team to try to increase the knowledge and resilience of the Payroll and CBST, the risk of losing the resources may increase calls further. **Timescale:** March 2022

5. Counter Fraud Audit Work

5.1 Proactive Counter Fraud Investigations

Proactive work undertaken during 01/10/2021 to 31/01/22 below:

Description	No. Received
Advice to Directorates: General advice and support to Directors, Heads of Service etc. including short ad-hoc investigations, audits and compliance.	4
Advice to Other Local Authorities: All Data Protection Act requests via Local Authorities, Police etc.	1
Fraud Hotline: To take all telephone calls and emails relating to the 'Fraud Hotline' and action / refer appropriately.	7
FOI Requests: To undertake all Freedom of Information (FOI) Requests.	0
National Fraud Initiative: The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. To co-ordinate the 2020/21 NFI and issue reports to relevant services for review.	Matching has now been completed and the results are now being reviewed.

5.2 Reactive Investigation Cases

During 01/10/2021 to 31/01/22 five referrals were received; four of which, information was provided by Whistle-blowers:

- Two cases have been investigated and concluded; and
- Three referrals are currently being investigated.

5.3 Housing Cases

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 investigated	57	68
Properties recovered	2	5
Notional Saving	£36,000	£90,000
RTB referred and reviewed	178	125
RTB stopped	4	2
Notional Saving	£449,200	£225,600
Total Notional Saving	**£485,200**	**£315,600**

6. Status of Internal Audit Plan 2021 / 2022					
Audit Title – LBH Systems Audits	**Opinion for Completed Audits / Status as at end Q3**	**Recommendations**			
		H	**M**	**Adv**	**Total**
Business Continuity & Emergency Planning	Reasonable	0	0	0	0
Payroll (compliance key financial work)*	Limited	6	2	0	8
Romford Combined Charities	Not Applicable – Grant Review				
Housing – Compliance work	Completed (externally commissioned work)				
	Totals for Quarter 3	**6**	**2**	**0**	**8**
Housing Voids	Limited	3	4	0	7
Social Care Contract Award	Limited	1	0	0	1
Reablement Quality Review	Reasonable	0	2	1	3
Direct Debits (Phase One)	Not Applicable – Advisory Review				
Office Decant Process (Phase One)	Not Applicable – Advisory Review				
Supported Families (mid-year review)	Not Applicable – Grant Review				
Mayor's Appeal Charity Fund	Not Applicable – Grant Review				
Project Management Review	Not Applicable – Advisory Review				
	Totals for Quarter 2	**4**	**6**	**1**	**11**
HMO Enforcement	Reasonable	0	0	0	0
Supporting Families – Phase one	Not Applicable – Grant Review				
	Totals for Quarter 1	**0**	**0**	**0**	**0**
Environmental Health	Draft Report				
Youth Justice Service	Draft Report				
Accounts Payable (compliance key financial work)*	Underway				
Social Care Transitions	Underway				
Public Protection – Risk Mapping	Underway				
Post Implementation Review of Liquid Logic	Underway				
Procurement inc Contract Management	Underway				
ICT	Underway				
SEND – Transport	Q4				
Housing - Property buy-back	Q4				
Safeguarding Adults	Q4				
Parking	Q4				
Direct Payments	Q4				
Highways Services	Q4				
Voids – Follow Up	Q4				
Housing - Service Charges	For consideration in 2022 / 2023				
Housing – Responsive Repairs	For consideration in 2022 / 2023				
Continuing Healthcare	For consideration in 2022 / 2023				
Planning	For consideration in 2022 / 2023				
Joint Counter-Fraud work	Ongoing as demand arises				

Audit Title – LBH Schools Audits	Opinion for Completed Audits / Status as at end Q2	Recommendations			
		H	M	Adv	Total
Crowlands Primary	Reasonable	0	0	3	3
Crownfield Infants	Reasonable	0	0	5	5
	Totals for Quarter 3	**0**	**0**	**8**	**8**
Squirrels Heath Infants	Reasonable	0	2	5	7
St Edwards Primary	Reasonable	0	1	6	7
	Totals for Quarter 2	**0**	**3**	**11**	**14**
Rainham Village Primary	Reasonable	0	7	4	11
The Towers Federation	Reasonable	0	4	4	8
Harold Wood Primary	Reasonable	0	3	8	11
Crownfield Juniors	Reasonable	0	6	5	11
	Totals for Quarter 1	**0**	**20**	**21**	**41**
Nelmes Primary	Underway				
Branfil Primary	Underway				
Hylands Primary	Underway				
Parsonage Farm Primary	Underway				
Ardleigh Green	Q4				
Brady Primary	Q4				
Engayne Primary	Q4				
Gidea Park 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				
Academies					
Emerson Park Academy	Reasonable	0	4	0	4
Shaw Academy	Reasonable	0	0	2	2
Health Checks					
Health Checks (13)	8 Completed	5 Underway			

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Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Accounting Policies 2021/22 & 2022/23
SLT Lead:	Jane West
Report Author and contact details:	Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2021/22 & 2022/23
Financial summary:	There are no direct financial implications to the report.

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

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

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2021/22 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes to the 2021/22 policies will be highlighted to the committee in the Statement of Accounts report in January 2022.

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

Appendix A includes the revised accounting policies for 2021/22 and 2022/23 combined into one document – differences are highlighted. The policies for both years are the same except where marked for leased assets and the changes to policy section. Relevant dates will be updated for the 2022/23 policies.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial years 2021/22 & 2022/23.

REPORT DETAIL

1. Introduction

1.1 This report sets out the revised accounting policies that will be applied during the financial years 2021/22 and 2022/23 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

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

1.3 The audited Statement of Accounts for 2020/21 are expected to be presented to the February 2022 Audit Committee for approval. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers. There might be a need to make changes to these policies following the completion of the audit.

2. Purpose of Accounting Policies

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

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

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

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

3. Contents of Accounting Policies

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

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

4. Changes in Accounting Policies for 2021/22

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

4.2 There are no material changes proposed to Havering's accounting policies for the 2021/22 accounts.

5. Changes in Accounting Policies for 2022/23

5.1 No material changes to the 2022/23 policies are expected other than from 1 April 2022 all leased in assets (where the agreement is longer than one year) have to be brought onto the balance sheet from 1 April 2022. Officers are working to identify all leased assets and will agree the proposed accounting treatment with EY prior to the 2022/23 closedown. An item of consideration will be if the de-minimis level. Guidance refers to the value of a small vehicle as being a guideline minimum level for consideration. Therefore, a £10,000 de-minimis has been selected. A number of other Councils are adopting the same lower limit. This change in accounting treatment will not have a material impact upon the Council's usable financial resources as the amounts payable under the leases will remain the same.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

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

Human Resources implications and risks:

No implications.

Equalities implications and risks:

No implications

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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 2021/22 financial year and its position at the year end of 31 March 2022. 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* 2021/22, 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 2021/22 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.

Leases (2022/23 Revised Policy)

The Authority as Lessee

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

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

The Authority as Lessor

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

xix. Overheads and Support Services

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

xx. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

Finance costs are excluded in valuations for all assets.

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

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

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

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

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

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

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

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

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

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

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

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

Development Costs

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

- new capital expenditure as it arises; and
- existing assets as they become subject to revaluation.

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

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

Annual Minimum Revenue Provision Statement

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

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

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

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities

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

Contingent Assets

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

xxii. Reserves

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

xxiii Revenue Expenditure Funded from Capital under Statute

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

xxiv. Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and

Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Schools' transactions, cash flows and balances are therefore recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

xxv. VAT and Tax Duty

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

xxvi. Fair Value Measurement

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

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

To be updated for 2021/22 accounts when CIPFA publish guidelines.

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Closure of Accounts Timetable 2021/22
SLT Lead:	Jane West
Report Author and contact details:	Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2021/22.
Financial summary:	There are no direct financial implications to the report, however an efficient closedown allows the Council to plan its future financial strategy with more certainty.

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

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

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2021/22 Accounts.

RECOMMENDATIONS

The Committee is asked to note the content of the report in particular the risk areas and the key dates in connection with the closure of the 2021/22 Accounts.

REPORT DETAIL

1. Background

The Council closed its accounts and prepared its Financial Statements for 2020/21 in the last week of July 2021. The external audit of the accounts is still ongoing at January 2022 – it was due to be completed by the 30th September 2021 extension for Covid-19 (normally 31st July).

This report outlines the Council's preparations to ensure the 2021/22 accounts are published on time and are audited timely.

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

2. Preparing for Closedown

2.1 The statutory deadline under the Accounts and Audit Regulations 2021 (Amendment) is for having the 2021/22 draft accounts published by 31st July 2022 and audited by 30th September 2022. At the time of writing, draft legislation subject to consultation has been published which suggests deferring the audit deadline to 30th November 2022. However there is no mention of whether the draft accounts publication date for 2022/23 will revert back to an earlier 31st May or will remain at a more realistic 31st July. Once the legislation has been confirmed, the Committee will be updated. Whatever the publication deadline is, there is still the need from a Corporate financial management point of view to report the revenue outturn to Cabinet in May even if some technical adjustments that do not affect usable resources (such as for IAS19) can be made to the accounting statements afterwards. Legislation that defers the publication date would give scope for fewer estimates to be used in areas such as investment values in the IAS19 report – this would reduce the need for the audit review of estimates compared to actuals.

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

3. Closedown Timetable

Following consultation with key officers, the 2021/22 closedown timetable was issued which incorporates the feedback from the consultation, and in line with project management methodology clearly sets out the critical path and named owners for each activity. This is being monitored regularly by Financial Control. Any slippages identified will be addressed before year-end.

4. Interim Audit

For 2021/22, the Financial Control team are focusing on some of the risk areas identified last year but also to improve streamlining the preparation of accounts where possible. With the 2020/21 audit continuing, at this stage we don't know what interim audit arrangements EY will be making for 2021/22. Any interim audit is likely to focus on walk-through process testing. The date of the final audit will be confirmed in the audit plan to be tabled at Committee, probably in April. Officers will be working closely with the auditors to ensure the audit opinion for 2021/22 is provided quickly – progress of the audit will be closely monitored to ensure it is progressing and potential delays are addressed.

5. Risk areas

5.1 The closedown planning process began in earnest in November 2021 which we have identified a number of risk areas that could cause delays or problems with the audit. These have been reviewed and a plan to mitigate the risks included. One of the more complex areas is the formation of group accounts. As Havering has two 100% subsidiary and two joint ventures, a line by line consolidation is needed to incorporate the entity into Havering's accounts. In order for this to be completed, the draft set of Mercury Land Holdings and Bridge Close as well as the joint venture accounts would need to be provided in late April. In addition an audited version would need to be prepared and signed off as soon as possible in order to avoid any amendments to Havering's accounts. In the event of any late changes to the accounts, there is a risk that these changes could prompt an ISA260 comment as part of the Annual Audit Report.

5.2 The ongoing 2020/21 audit is presenting a risk to the 2021/22 closedown process as the rollover of the fixed asset accounting module cannot be done until the auditors have confirmed they will not request any changes to the 31st March 2021 balances.

5.3 A risk to the closedown is if the reconciliation of debtors and creditors on the balance sheet is not kept up to date during the year. During 2021/22, finance and service staff has been asked to reconcile on a quarterly basis to check this are taking place sufficiently. Currently the Financial Control team is working with specific services to ensure that reconciliations are sufficient and are provided in a timely manner. Inclusion of bank statement excerpts and third party documentation will assist with the audit process.

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

Deadline	**Task**
Friday 25th March 2022	Final date for invoices to be raised and paid for to be automatically included in 2020/21 accounts
Thursday 31st March 2022	Final date for receipting for goods and services received in 2021/22
Friday 1st April 2022	Final deadline for service capital journals
Monday 4th April 2022	Final deadline for service's journals to be provided to business partnering for review
Tuesday 12th April 2022 (tbc)	Open CP (Collaborative Planning) module to allow outturn variance reasons be recorded on system (Subject to change)
Tuesday 12th April 2022 (tbc)	Final Corporate adjustments
Thursday 14th April 2022 (tbc)	All Balance Sheet reconciliations provided to Financial Control
Friday 29th April 2022	Receipt of Group Accounts from Mercury Land Holdings, Bridge Close LLP and Joint Ventures.
Wednesday 4th May 2022 (tbc)	SLT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Tuesday 26th July 2022 (tbc)	Draft Statement of Accounts signed by Section 151 Officer for accounts publication on website by 31st July 2022.
Friday 30th September 2022 (tbc)	Audit sign off of the Accounts per 2021 Accounts and Audit Regulations (Amendment). The DLUHC have announced plans to defer this deadline to 30th November.

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

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

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

Human Resources implications and risks:

There are no apparent human resources implications in noting the content of the report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:
(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.
There are no Equality implications regarding this matter.

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AUDIT COMMITTEE **22 February 2022**

Subject Heading:	Housing Compliance Audit
SLT Lead:	Patrick Odling-Smee Director of Housing
Report Author and contact details:	Garry Knights Assistant Director of Housing Property Services Garry.knights@havering.gov.uk 01708 432834
Policy context:	LBH has a legislative duty to undertake compliance programmes and associated works to its properties owned and managed by the HRA.
Financial summary:	None, this is for information only

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

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

SUMMARY

The Council has a duty to ensure all of its properties which are owned and managed through the Housing Revenue Account are safe and meet all relevant statutory compliance. As part of the Council's assurance and governance approach

toward housing compliance it undertook an independent audit of its compliance activities, using and external consultant, Mazars, and this report provides a summary of that audit and an update on the outcomes and actions identified.

RECOMMENDATIONS

That members note the contents of this report.

REPORT DETAIL

The Council has a duty to ensure its properties meet all of the landlord's health and safety requirements and has effective controls in place to manage and report on these.

Over the last 2 years significant work has been undertaken to improve the Council's compliance position and provide an assurance framework which ensures ongoing scrutiny is applied.

In addition to the improvement in performance, an improved governance approach has been implemented, with a dedicated Housing Compliance Board, Corporate Health and Safety Board, Senior Leadership Team and Cabinet Members scrutinising the compliance position monthly.

There has also been a significant drive towards improving data and systems used for managing compliance, with a dedicated IT work stream, focussing on making the IT systems and data management robust.

As part of the ongoing assurance Savills have been engaged to provide additional impartial expert support to the Council, advising on compliance matters. Mazars were engaged to undertake an external audit to provide independent assurance on the systems and processes used within the housing resident safety and compliance team. There report is contained in appendix 1.

The audit was undertake between Q4 2020 - Q1 2021 and completed in May 2021 however their final report was not agreed until October 2021. Many of the actions arising from the audit have already been completed and those that are set out in the action plan arising from the audit.

At the time the audit was completed 2 items showed limited assurance and 4 which need improvement, 2 items considered critical and 7 significant. All of these items identified had already been identified and included on both the compliance action plan and risk register, and where therefore already being worked on prior to the audit.

Cabinet will receive a report on the 26th January 2022 that will set out the wider actions the council is taking, in its roles as a landlord, to implement the requirements of the Building Safety Bill. The specific actions arising from the Audit will be included in the action plan required for the implementation of the Building Safety Bill.

The Council is determined to ensure that assurance of the systems and processes are robust and will repeat the audit in the summer of 2022 to confirm that the actions have been completed and the systems and processes can be relied upon.

The Mazars Report made a number of recommendations and the responses to these are set out below.

5.3.1 Accuracy of programme data.

The audit noted that the council relies on data held on spreadsheets rather than dedicated compliance software which increased the risk of errors due to the manual nature of updating required. They also noted that there was no regular process of ensuring that a number of databases being used were reconciled.

As part of the project to upgrade the council's housing compliance IT systems, a significant data cleansing exercise was undertaken to ensure all system contained the same data and an automated interface created between the Open Housing Management System and the asset management system, Keystone. This has now been completed and automated reconciliations are carried out which ensure that all systems hold the same information, with all information provide to contractors delivering the council's compliance programmes flowing directly from these systems.

In addition a new compliance module has been implemented in our core asset management system, Keystone, which will remove the use of spreadsheets and utilise automated workflows to manage compliance. This is operational for gas servicing and will be implemented for all work streams in Q4 2021/22.

5.4.1 Adding Properties to the gas register

As detailed above the Council had been using a number of databases which did not automatically interface, and this led to the potential risk of new properties not immediately being included on the compliance programme. Although a manual reconciliation was undertaken annually there was a risk of properties being missed and Mazars did identify some that were not listed. The automatic interface has now eliminated this risk.

5.1.1 Operational Procedures – Gas and Electrical

The audit noted that a number of compliance procedures were not documented, although the compliance team and contractors used a standard approach. New polices and management plans were introduced in 2020 for all compliance areas and the relevant procedures will be included in these as part of the implementation of the new compliance modules in Keystone.

5.2.1 Remedial Actions KPIs

The audit noted the manual nature of producing the compliance KPIs. Once the new compliance module is implemented all KPIs will be system generated and remove the manual risk.

5.5.1 Overdue Fire Risk Assessment (FRA)

The audit noted that a number of FRAs were over 3 years old. There is no statutory timeframe for when an FRA needed to be completed, however our policy states that these should have been completed annually. The Council was aware of this issue and had a programme of Type 4 FRAs which planned.

This programme has been completed and we have a valid FRA for all relevant buildings and are now completing the cyclical programmes of re-assessments as per our policy.

5.5.2 Missing FRA Remedial Actions

As noted above, we currently use spreadsheets to monitor a number of compliance programmes. Our new keystone module will remove a large element of this manual process, automating the cyclical monitoring and servicing programmes, and we are developing systems to raise and monitor progress any repairs which are identified. Ahead of full implementation of systems which will remove this manual approach a regular secondary checking approach by the Resident Safety and Compliance Manager has been implemented.

5.5.3 Completion of FRA Remedial Actions

As 5.5.2

5.5.4 Contract Management Meetings

Although regular progress meeting were undertaken these we not always minuted. Full minuted formal contract meetings are now undertaken with all compliance contractors.

5.6.1 Updating the Asbestos Register

2 properties were missing from the property list provided by the asbestos contractor despite surveys having been completed. This has been rectified by the interface between systems.

Whilst the audit highlighted some issues there has been a continued and concerted effort by all officers involved to continue to make Havering's properties as safe as possible.

There is a significant issue across the sector in recruiting qualified compliance staff and this has also affected the Council, and we are considering alternative approaches should we continue to struggle to recruit to some technical roles.
With the impending Building Safety Bill coming into force into 2022, which introduces an increased level of scrutiny from the new Building Safety Regulator,

there is a huge demand on certified contractors which has impacted on some authority's ability to deliver compliance programmes, and this has been made especially difficult when coupled with Covid and the supply chain issues.

Despite these challenges the Council have been able to maintain almost 100% compliance through proactive approaches and good relationship with contractors, and we look to maintain this position in the future.

To ensure effective assurance on the housing compliance programme we will commission Mazars to carry out a further audit in 2022.

IMPLICATIONS AND RISKS

Financial implications and risks:

This report is for noting and has no finance implications arising

Legal implications and risks:

This report is for noting and has no legal implications arising

Human Resources implications and risks:

This report is for noting and has no HR implications arising

Equalities implications and risks:

No EQHIA has been completed as this paper is for information only

Appendices

1. Mazars Housing Compliance Audit Report
2. Housing Compliance Action Plan

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Appendix 2

Housing Compliance Action Plan

	Recommendation	Priority	Management Response Action	Responsibility	Timescale	Progress
1	LBH should document key operational procedures for gas and electrical safety. These procedures should outline key processes, such as when letters should be sent to tenants for gas servicing, and how new build properties should be added to the gas register.	Significant	Policies have been rewritten and were shared. Procedures are in place to ensure that the Council manages gas and electrical risks appropriately. However, it is noted that these are not drawn together in a procedural manual and we will amend the current policies/management plans to include relevant processes.	Resident Safety and Compliance Manager	March 2022	The process maps have been completed as part of the keystone implementation and will be incorporated into the policies once the system is tested and fully live in early January
2	LBH should: 1. Ensure all overdue remedial actions are included in its performance reporting. KPIs should include all actions that became overdue in the	Significant	Due to the manual nature of our approaches some errors in reporting were found, this will be addressed once we go live with the new Keystone modules which will automatically generate	Resident Safety and Compliance Manager	Servicing Module – Jan 2022	Keystone will provide automatic KPIs for all compliance programmes once

	month (rather than a 'snapshot' of those that are overdue at the time of reporting. Investigate how these actions were missed in KPI reporting to ensure future reporting includes all overdue remedial actions.		KPIs and highlight overdue actions. This is part of the CADI IT project.			live in January 2022 T
3	LBH should amend the programmes where our testing highlighted data integrity issues through sampling, as detailed in **Section 7** of this report. 4The Authority should review the m5echanisms for recording landlord health and6 safety compliance data where it is recei7ved, and put in place a suitable control frame8work to prevent programme data becom9ing inaccurate. LBH should perform reconciliations for each area of landlord health and safety, reconciling its register or programme against an independent source of data that includes a complete list of properties that require a risk assessment or service (housing management system/asset management system). Reconciliations should be performed on a periodic basis going forward, and any discrepancies noted should be investigated.	Critical	Due to the manual nature of our approaches some errors in reporting were found, this will be addressed once we go live with the new Keystone modules which will automatically generate servicing and aid in tracking jobs. This is part of the Cadi project. Keystone will carry out an automatic reconciliation daily with Open Housing to ensure one version of the truth. It will run the servicing elements and highlight actions that are reaching their overdue date by way of a jeopardy report. In lieu of Keystone going live a 20% per month spot check of FRA actions being captured is taking place, we have looked back 5 years to ensure all newly acquired properties are on the gas servicing schedule and the special project and compliance manager is doing spot checks on data	Resident Safety and Compliance Manager	Immediately – 6 months	Keystone will provide automatic KPIs for all compliance programmes once live in January 2022 An automatic interface is now working between systems which automatically reconcile data

4	LBH should: 1. Ensure it adds the properties highlighted to the gas register. Conduct a review of new build properties more than 24 months old, to ensure these properties are included on the gas register and have not been missed. LBH should also document a process for ensuring these properties are added, and this should be communicated to all partied involved.	Critical	We accept there were five that were not on the register. This was due to the recipient of the information leaving the council without actioning. The others would have been picked up when we did our reconciliation and interfaced every UPRN from Open Housing to Keystone in June prior to going live with the servicing module. Moving forward all newly acquired properties, upon receiving a rent account and UPRN into Open Housing will be automatically interfaced with Keystone which will run the servicing programs which will mean no properties are lost. We checked back 5 years to check for any properties not on the servicing schedule and found none.	Resident Safety and Compliance Manager	January 2022	Completed
5	LBH should: 1. Remove the properties highlighted from the gas register. Document a process for ensuring disposals are removed from the register, and this should be communicated to all partied involved.	Minor	We will define a process for adding and removing properties from relevant systems.	AD of Property Services	March 2022	An automatic interface is now working between systems which automatically reconcile data
6	LBH should:	Minor	We will amend the policies and management plans	AD of Property Services	January 2022	Complete

	1. Include reference to PCM's post inspections of gas servicing in its Housing Compliance policy. Ensure PCM's post inspection visits capture all its gas safety contractors.					
7	LBH should monitor the number of post inspections completed by PCM against the total number of gas services completed, to ensure PCM is adhering to its 5% contractual target.	Minor	This will form part of monthly contract meetings.	Resident Safety and Compliance Manager	November 2021	Complete
8	LBH should ensure all its properties have a valid and up to date FRA. The properties highlighted as being overdue should be monitored and reported on an ongoing basis, and clear timescales for completing these FRAs should be agreed with Oakleaf.	Significant	Three years is our policy but there is no statutory timescales, just a matter of reasonableness. We risk assessed our property portfolio and prioritised completing Type 4 FRAs in high risk properties. All blocks will have an FRA type 4 by October 21	Resident Safety and Compliance Manager	October 2021	Completed October 2021
9	LBH should: 1. Ensure all FRA remedial actions are added to the master action tracker. 2. Whilst this process is manual, LBH should implement a secondary check to ensure every action from an FRA is added to the tracker after exporting actions to Excel. This should involve a comparison between the total number of actions exported to the total number of actions added to the master action tracker.	Significant	This is a result of the manual approach currently taken and will be resolved once the keystone modules go live. We have as an interim measure implemented an additional checking approach to ensure the risk of errors is reduced. A monthly 20% check of FRAs is ongoing to ensure all actions are captured	Resident Safety and Compliance Manager	March 2022	Partially complete

	Conduct a full review of FRA remedial actions raised in FRAs, confirming they have been included in the master action tracker. A risk-based approach should be adopted for this review, beginning with priority A actions in its high-risk properties.					
10	LBH should: 1. Ensure FRA remedial actions are completed before their due dates. Ensure clear timetables are put in place for overdue actions, which set out when overdue actions will be completed by. This should be actively monitored to ensure actions are completed in a timely manner and sufficiently monitored.		The Resident Safety and Compliance manager now undertakes weekly audits of the FRA action sheet, to ensure all information has been updated correctly	Resident Safety and Compliance Manager	Immediate	Complete
11	LBH should hold formal contract management meetings with Oakleaf on a periodic basis to discuss operational and strategic issues, and the contractor's performance. Meetings should be minuted, and actions discussed in meetings should be tracked through to completion.	Significant	Monthly contract meetings are now in place	Resident Safety and Compliance Manager	Immediate	Complete
12	LBH should ensure data from all surveys completed by Cube are added on to the asbestos register. LBH should seek a comprehensive list from Cube of all surveys completed in a given period, and this data should be reconciled to the asbestos register.	Significant	Prior to works all contractors must either undertake their own asbestos or obtain the relevant information from LBH where we hold it. Our asbestos team check all asbestos reports received from our contractors and verify these before uploading to our database, and undertake	Asbestos and Legionella manager	Immediate	Completed

			reconciliations to keystone database			

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London Borough of Havering

Landlord Health & Safety Review

May 2021

Internal Audit Report

mazars

Contents

1. Audit Context

1.1 Audit introduction & scope

This review is to provide assurance that the London Borough of Havering (LBH) has effective controls in place around the management of landlord health & safety, with an assessment of the governance and control framework around the gas, fire, asbestos, electrical, water and lift safety arrangements. LBH manages approximately 9,500 general needs properties, and 2,500 leasehold properties; which includes ten high rises and approximately 30 sheltered housing schemes.

The fieldwork for this audit was completed whilst government measures were in place in response to the coronavirus pandemic (Covid-19). The fieldwork for this audit has been completed and the agreed scope fully covered. Whilst we had to complete this audit remotely, we have been able to obtain all relevant documentation and/or review evidence via screen sharing functionality to enable us to complete the work.

1.2 LBH's compliance arrangements

The Regulator of Social Housing's Consumer Standards apply to all stock-holding local authorities in England. In May 2019 the RSH issued a letter to all stock-owning local authorities about the RSH's consumer standards, setting out their obligations on a range of health and safety requirements. The letter states all local authorities, where it is the stock owning body, have an obligation to 'meet all applicable statutory requirements that provide for the health and safety of occupants in their homes[1]'.

The Home Standard is one of four consumer standards that LBH must comply with. It sets expectations for LBH in providing its tenants with quality accommodation and a cost-effective repairs and maintenance service. The Home Standard includes the following required outcomes[2]:

Quality of accommodation

- *Ensure that tenants' homes meet the standard set out in section five of the Government's Decent Homes Guidance*https://www.gov.uk/government/publications/home-standard/home-standard-2015 - fn:i *and continue to maintain their homes to at least this standard*
- *Meet the standards of design and quality that applied when the home was built, and were required as a condition of publicly funded financial assistance*https://www.gov.uk/government/publications/home-standard/home-standard-2015 - fn:ii *if these standards are higher than the Decent Homes Standard*
- *In agreeing a local offer, ensure that it is set at a level not less than these standards and have regard to section six of the Government's Decent Homes Guidance.*

Repairs and maintenance

- *Provide a cost-effective repairs and maintenance service to homes and communal areas that responds to the needs of, and offers choices to, tenants, and has the objective of completing repairs and improvements right first time*
- *Meet all applicable statutory requirements that provide for the health and safety of the occupants in their homes.*

The last 18 months has seen considerable changes at LBH in landlord health and safety arrangements. Historically, there have been historical issues with demonstrating compliance with regulatory requirements, and compliance data has been inaccurate. After a new Compliance team was put in place, LBH began to review all systems and processes to ensure the Authority meets health and safety duties as a landlord. This meant new programmes, such as Electrical, Asbestos and Type 4 FRAs, were put in place; disregarding the historic data held. Other programmes, such as Gas and Legionella were maintained, now with a revised control and governance framework in place. A Health & Safety Compliance Board was also set up, chaired by the Director of Housing Services to review KPIs, operational issues and progress against compliance programmes.

LBH is also implementing in-built compliance modules into its Asset Management System, Keystone. This move should ensure many manual processes across each area of landlord health and safety become

[1] Letter to stock-owning local authorities about RSH consumer standards, published 17 May 2019

[2] Home Standard 2015

automatic. At the time of this review however, the system had not yet been implemented, and issues were noted around the data integrity of LBH's compliance programmes.

1.3 Gas safety

Previously, under the Gas Safety (Installation and Use) Regulations 1998, landlords were required to undertake gas servicing on a 12-month programme with the next service due no later than 365 days after the previous LGSR. However, the Gas Safety (Installation and Use) (Amendment) Regulations 2018 (which came into effect on 6 April 2018) provides an MOT-style change that allows landlords to carry out their annual gas safety checks in the two months before the due date, whilst retaining the original expiry and anniversary date. LBH adopts the approach whereby the next service is due 12 months after the last, aiming to service a property on a 10-month cycle to ensure services do not expire.

Gas Servicing at LBH covers c.9,300 properties for which it has responsibility. The services are completed by a Gas Safe registered contractor, K&T. Following a service, LGSRs are subsequently sent to LBH electronically, and these are retained on Swordfish; LBH's document management system. K&T manages the gas servicing process for its domestic properties, which includes maintaining the gas servicing database and organising appointments with tenants. LBH also uses the contractor Stonegrove to complete gas servicing at approximately 80 of its communal areas where there is a communal gas system in place.

1.4 Fire safety

Landlords have a statutory duty under the Regulatory Reform (Fire Safety) Order 2005 to identify and assess the risk of fire in properties where they have responsibility for maintenance. Having identified the hazards and people at risk, they have a duty to take precautions to prevent the risk of fire, and in the event of fire; ensure there is a means of escape or otherwise an effective response to protect the safety of occupiers. Since Grenfell, there is greater emphasis placed on landlords by residents and the media, thus it is essential that robust frameworks on fire safety are in place to mitigate the heightened risk levels.

LBH uses Oakleaf as its main fire safety contractor. Type 1 FRAs[3] have historically been completed at its properties, however after recent changes to the Compliance team a new programme of Type 4 FRAs[4] has been implemented. This programme began in April 2020, and focused on LBH's high risk properties initially. As at the start of the audit fieldwork, LBH had completed 624 Type 4 FRAs out of 929 communal areas since the programme began. LBH aims to have a Type 4 FRA in place for all its communal areas by the end of the 2021/22 financial year.

1.5 Asbestos management

Landlords have a duty of care towards their staff, contractors and their tenants (and others) in respect of the presence of asbestos in dwellings. The Control of Asbestos Regulations 2012, whilst not applicable to domestic premises, place a specific duty to manage asbestos in communal areas. The Defective Premises Act 1972 requires landlords to take reasonable care to see that tenants and visitors are safe from personal injury or disease caused by a defect in the state of the premises, although there is no specific reference to asbestos. The Health & Safety at Work Act 1974 also places a duty on property managers to ensure that staff and contractors are not exposed to asbestos during their work and have access to suitable training and information on the presence of any asbestos they may encounter.

The law states that when there is the potential that a material may contain asbestos, it must be assumed as containing such until proven otherwise. The identification and safe management of asbestos containing materials (ACMs) is vital for LBH in order to provide a safe home environment for its residents and contractors, and to meet its legal responsibilities.

LBH began a new asbestos programme in 2019/20. The Authority surveyed 1,138 communal areas, ending the programme in October 2020. The domestic asbestos programme began in April 2020, with approximately 30% of domestic properties now surveyed. LBH aims to complete a survey at 100% of domestic properties.

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[3] Type 1 FRAs are the most common type of FRA. They involve a non-destructive assessment of the common parts of the building, however not the private dwellings.

[4] Type 4 FRAs differ from Type 1 FRAs as they include destructive sampling. They are intrusive assessments that can assess a building on the integrity of separating construction, fire separation throughout the building, the sub-structure of the building and fire barriers in the building structure for example. Type 4 FRAs incorporate all communal areas and 10% of the residential apartments; and is deemed to be a true reflection of the standard of fireproofing.

1.6 Electrical inspections

Periodic testing of electrical installations and appliances is the landlord's responsibility in order to ensure tenants are safe throughout their tenancy. The frequency of electrical inspections and testing depends on the type of property. The management of Houses in Multiple Occupation (HMO) Regulations 2006 requires that every fixed electrical installation in a HMO is inspected and tested at intervals not exceeding five years by a person qualified to undertake such an inspection and testing, with a certificate produced as evidence. For all other types of property, the requirement is that the electrical installation should be safe for use. Electrical Safety First (ESF) and the Electrical Safety Roundtable (ESR) advise that for tenanted properties a five-yearly inspection frequency is recommended in order to ensure the required level of safety, whilst owner-occupied homes are recommended to be checked every ten tears. There is however no law mandating a specific inspection frequency for properties other than HMOs, so some organisations take a risk-based approach, whereby newly-built properties may be tested less frequently than older properties.

LBH carries out (Electrical Installation Condition Report) EICRs at its properties using AJS. Management explained that LBH is currently operating a five-year EICR frequency, aiming to have EICRs in place for all its properties in the 2021/22 financial year (after beginning its programme in 2020/21). EICRs for approximately 4,500 domestic properties were completed in 2020/21 as part of its new electrical programme, and LBH remains on track to complete the remaining 3,600 properties (approx.) in 2021/22.

1.7 Legionella

The legionella bacteria is a water-borne organism which, if inhaled or consumed can potentially cause Legionnaires Disease. The Health and Safety Executive (HSE) has produced an Approved Code of Practice L8 which sets out the legal obligations for duty holders, including:

- Identifying and assessing sources of risk, such as checking whether conditions will encourage bacteria to multiply. This would include the water temperature being between 20–45 °C and there being a means of creating and disseminating breathable droplets. In addition, the duty holder is required to consider whether residents are deemed to be 'at risk';
- If appropriate, prepare a written scheme for preventing or controlling the risk;
- Implement, management and monitor precautions;
- Keep records of the precautions;
- Appoint a competent person with sufficient authority to help take the measures needed to comply with the law.

Individual dwellings are unlikely to require any specific action to neutralise the risk of legionella exposure. Blocks with communal water tanks, on the other hand, are likely to require regular checks and maintenance to ensure the risk remains within tolerable limits. Regular temperature checks of hot and cold outlets, and routine tank cleans and system flushes can play an important role in mitigating legionella risk. Legionella risk assessments/water risk assessments (LRAs/WRAs) are highly likely to recommend such ongoing actions and many organisation's policies also include a blanket approach specifying a minimum level of regular checks and maintenance to all communal water facilities.

1.8 Lifts

The Lifting Operations and Lifting Equipment Regulations 1998 (LOLER) and the Provision and Use of Work Equipment Regulations 1998 (PUWER) are the key pieces of legislation guiding interpretation of the legal requirements regarding lifting equipment. LOLER and associated guidance stipulate requirements for the safe provision and use of lifting equipment; specifically, Regulation 9 of LOLER requires that all lifts provided for use in work activities are thoroughly examined by a competent person at regular intervals; six months for lifting equipment, any associated accessories used to lift people, and all lifting accessories, and 12 months for all other lifting equipment.

LBH uses Precision Lifts as its approved lift contractors. Each of LBH's 35 passenger lifts are serviced by Precision Lifts each month. Additionally, Phoenix Compliancy Management (PCM) visit each lift bi-monthly, and Zurich complete an insurance inspection each quarter.

2. Executive Summary

We categorise our opinions according to the assessment of the controls in place, the level of compliance with those controls, and with the residual risks present in the areas under review. Detailed assurance definitions are set out at **Section 8**.

Area	Assurance Grading[5]			
Policies & procedures	Limited	Needs Improvement	**Reasonable**	Substantial
Performance reporting	Limited	Needs Improvement	**Reasonable**	Substantial
Data Integrity	**Limited**	Needs Improvement	Reasonable	Substantial
Gas safety	**Limited**	Needs Improvement	Reasonable	Substantial
Fire risk management	Limited	**Needs Improvement**	Reasonable	Substantial
Asbestos management	Limited	**Needs Improvement**	Reasonable	Substantial
Electrical safety	Limited	**Needs Improvement**	Reasonable	Substantial
Water safety	Limited	**Needs Improvement**	Reasonable	Substantial
Passenger lifts	Limited	Needs Improvement	Reasonable	**Substantial**

	Number of recommendations & priority			
	Critical	Significant	Minor	**Total**
Total	**2**	**7**	**3**	**13**

2.1 Rationale for audit opinion

We noted consistent issues across the areas under review; the most frequent being integrity of the data within LBH's systems. Many of LBH's processes remain manual, and additional controls (such as second person checks/reviews) have not yet been implemented. Manual data entry has resulted in multiple data integrity issues across compliance areas. Having robust and reliable data is a key pillar in having an effective landlord health and safety control framework. The new Keystone compliance modules should mitigate the data integrity risks highlighted; however, this system is not currently in place, and in the interim, it is essential LBH puts in place arrangements to mitigate against further data integrity issues. This is currently in in the process of being implemented as part of the CADI project, and we were advised this should be implemented by November 2021.

We noted at the time of the audit reconciliations of landlord health and safety programmes (such as the FRA register, gas database) against stock data are not performed by LBH. Reconciliations are another key control in managing landlord health and safety. It is imperative programmes and registers are regularly confirmed as complete, gaining assurance that all LBH's properties are captured in its compliance programmes. We noted, for example, 67 new build properties from the last 24 months that have not been added to the gas register, which presents a critical risk to LBH's tenants and its reputation.

[5] Assurance gradings have been determined considering recommendations in the table above, and individual Data Integrity observations outlined in **section 5**. All Data Integrity observations have been combined into one Critical Recommendation

Our review also noted 272 properties where FRAs are overdue. Management confirmed each as low risk, however each had exceeded the three years assigned by the fire risk assessor, meaning FRAs at these properties are overdue, according to timescales in LBH's Fire Safety Policy.

3. Detailed Audit Findings – Strengths

We noted the following areas where we raised no recommendations

3.1 Policies & procedures

3.1.1 Landlord health & safety policies

- We confirmed up to date policies were in place for each of the key areas of Landlord Health & Safety covered as part of this review.

3.1.2 Operational procedures - fire and water safety

- Our review found operational procedures and workflows are adequate for managing legionella and fire risk. We confirmed procedures and process maps provided during the audit fieldwork outline key process steps and responsibilities.

3.2 Performance Reporting

3.2.1 Reporting mechanisms

- LBH reports performance indicators for fire safety, gas safety, electrical compliance, legionella compliance, asbestos and lifts compliance. Compliance reports are produced each month, and reported to the:
    - Compliance Board - which includes the Director of Housing, and representatives across related departments, such as sheltered housing, rented accommodation and Corporate Health & Safety;
    - Senior Management Team (SMT) - which includes all LBH's Assistant Directors and the Director of Housing;
    - Senior Leadership Team (SLT) - which includes all LBH's Directors and the Chief Executive;
    - Theme Board, and
    - Cabinet
- We reviewed minutes from the last three meetings for the Compliance Board, SMT, SLT, Theme Board and Cabinet and confirmed performance indicators had been reported and discussed; and from our review of the minutes, we were able to confirm serious matters are raised to Theme Board and Cabinet.
- We have included examples of forward looking KPIs in **Appendix 1** to this report, highlighting where LBH can further improve its KPI reporting.

3.2.2 Review of performance indicators

- Performance indicators used in reporting are reviewed for accuracy by the respective service managers on a monthly basis, after the initial monthly run. Compliance reports are then revised, if required, with any amendments prior to being reported.

3.2.3 Compliance Risk Register

- We reviewed the Compliance Risk Register and confirmed mitigating controls have been outlined for each risk, and the three lines of defence model has been adopted - outlining controls for the function that owns the risk, how the risk will be managed through the governing body, and how independent assurance is gained through independent sources.

3.2.4 Addressing poor performance

- From our review of the minutes from Cabinet and Theme Board meetings, we confirmed where poor performance is identified, this is raised and discussed. We also confirmed reasons for poor performance are identified and discussed during our attendance of the April 2021 Compliance Board.

3.3 Gas Safety

3.3.1 Non-boiler gas assets

- We were provided with a record of all non-boiler gas assets (e.g. cookers) at LBH's properties, and we reconciled these properties against the gas register. From our testing we found no properties with non-boiler gas assets which were not included on the gas register.

3.3.2 Component installation dates

- We reviewed a sample of new builds to confirm when newly-developed properties are added to the gas register, the anniversary date of the service is based on the component installation date rather than the property handover date. From our sample of ten new builds, we found in each case the anniversary date was based on the component installation date.

3.3.3 Review of properties with gas carcassing

- We were advised LBH performs a periodic review of all properties with gas carcassing[6]. These properties are reviewed at least once a year, and has been outlined in LBH's Housing Compliance Policy. We reviewed Compliance reports from the last three months and confirmed LBH has reported 100% review of its properties with gas carcasses.

3.3.4 Compliance reports

- We were provided with Compliance Reports, reported to Board each month, for the last six months. These Compliance Reports include KPIs for each area of Landlord H&S, and the following KPIs related to gas safety:
    - Domestic Gas - General Needs;
    - Domestic Gas – Private Sector Leasing (PSL);
    - Gas Carcassing;
    - Communal Gas servicing.

3.3.5 No access cases

- We selected a sample of five properties where LBH was attempting to gain access to complete an LGSR and requested each letter sent during contractor's attempts to gain access. From our review, we found LBH had taken reasonable steps to access the property. We were also advised LBH has had no instances of escalation to legal stage since February 2020. We did note, however, LBH does not have a No Access procedure in place setting out timeframes for actioning these properties. Please refer to the **Recommendations** section for further detail.

3.3.6 Addressing issues noted in post inspections

- During our review we were able to conduct walkthrough testing of three cases where issues were noted in post inspections and subsequently actioned. PCM conduct post inspections each month, sending reports to LBH of the outcome of each of its visits. Issues noted by PCM are sent directly to contractors for a re-visit to be scheduled. Management were able to provide evidence demonstrating issues identified through post inspections by PCM were followed up by the Electrical manager and the relevant contractor completed further work or a re-visit, as required.

3.3.7 LGSRs

- We reviewed a sample of 30 properties, and confirmed in each case copies of LGSRs (saved in Swordfish) could be provided on request, and the details recorded on LGSRs matched the details recorded on the gas register.

[6] Gas carcassing refers to a dead or closed off gas supply to a property, or an unused gas meter. These properties are attended to ensure a gas appliance has not been connected and that there are no other changes to the gas carcass.

3.3.8 Contract Management Meetings - K&T

- Contractor meetings with K&T take place on a monthly basis. We were provided with minutes from the last three meetings and confirmed progress against the annual programme, and other matters such as operational issues, had been discussed.

3.3.9 Data Integrity - K&T's and Stonegrove's Gas Registers

- We performed data integrity testing on K&Ts and Stonegrove's gas registers, checking the registers for missing dates, anomalous dates, dates in the future and key data left blank. From our review of the registers we found no data integrity issues.

3.4 Fire Risk Management

3.4.1 LBH's stock risk profile

- Our review noted LBH adopts a risk-based approach to fire risk management. Currently, all high-rise properties have a Type 4 FRA, and LBH is working towards having a Type 4 FRA for all its properties. All of its stock also has a Type 1 FRA, however 272 of these are overdue (as noted in the **Recommendations** section of this report). Our review of the FRA programme found it contains information on the risk profile of a building, including when it was made, whether it is a high rise, how many storeys it has, demonstrating LBH has assessed the risk profile of its stock. Below we have included a table of property types, associated risk profiles and their required FRA frequency, as set by LBH. It is worth noting the relationship between property types and risk profiles are not definitive and intended as a guide only. Its also worth noting timescales for Type 4 FRAs have been determined by the fire risk assessor as a guide, with no legislative requirement to complete FRAs to the timescales outlined below.

Property types	Risk profile	Type 4 FRA timescale
High rises, Sheltered properties, HMOs etc	Substantial	1 year
Medium rises 3-4 storeys, low rises 1-2 storeys	Moderate	2 years
Low rises 1-2 storeys	Tolerable	3 years

3.4.2 Completeness of the FRA programme

- We performed a reconciliation of the FRA programme against a list of all LBH's communal areas, and found no properties were missing from the FRA programme.

3.4.3 Content of FRAs

- We selected a sample of 25 FRAs across each risk category, completed by Oakleaf, and reviewed the contents of each FRA. From our testing we confirmed FRAs have taken into account:
    - The size, build and complexity of the building;
    - The activities and services carried out by the premises;
    - The number and nature of occupants; and
    - A history of fires or other relevant incidents.
- We also confirmed each of the FRAs included:
    - The fire protection measures in place at the time of the FRA;
    - The fire safety management measures in place; and
    - An assessment of the number of occupants at risk and the possible consequences to them.

3.4.4 Oakleaf's qualifications

- We reviewed qualifications for five members of staff at Oakleaf, and confirmed in each case they were appropriately qualified in matters of fire safety. We also confirmed Oakleaf is a BAFE SP205 certified contractor.

3.4.5 Risk-based approach to remedial actions

- We were advised LBH adopts a risk-based approach when completing overdue and outstanding actions. For example, LBH actions Priory A actions first, then B, then C etc. We also confirmed outstanding and overdue FRA remedial actions, by priority, are tracked and reported each month in Compliance reports.

3.4.6 Fire safety equipment

- During our review we were provided with a register of LBH’s fire extinguishers, sprinkler systems and fire alarms. Asset data held in this register is updated as FRAs are completed. For example, if equipment is found that has not been recorded by LBH, an FRA remedial action is created to ensure this piece of equipment is added. We reviewed a sample of 20 FRAs and found fire extinguishers and sprinkler systems noted in FRAs matched data held by LBH. We also confirmed each of these FRAs included a review of the fire alarms at these schemes.

3.4.7 Oakleaf's performance requirements

- We were able to confirm Oakleaf's performance requirements have been communicated to them. LBH's agreement with Oakleaf is such that it completes all its medium and low risk FRAs, consisting of at least 40 per month. From our review of Compliance Reports, we confirmed this is being monitored by LBH.

3.5 Asbestos Management

3.5.1 Asbestos surveys

- We reviewed a sample of 20 communal properties to confirm an asbestos survey is in place for each and could be provided on request. In each case, management were able to provide the survey, completed within the last two years, on request.

3.5.2 Contractor's access to the Asbestos register

- We were advised every contractor that works with the Compliance team has access to the asbestos register. LBH provides a full download of the asbestos register to its contractors every two weeks. Breyers, LBH's main repairs contractor, also has direct access to OPEN Housing, and as such it is able to access asbestos reports for each property.
- We were also advised any contractor conducting any type of refurbishment work in a property must request a new Refurbishment / Demolition survey. Furthermore, the Housing Asbestos Policy states operatives should check the register for the presence of asbestos, and they are instructed to contact the Asbestos team if the information contained in the register is insufficient.

3.5.3 Asbestos removals

- We reviewed a sample of ten asbestos removals from the last six months and confirmed all asbestos removals had been undertaken by contractors licensed with the HSE to remove asbestos.

3.5.4 Asbestos training

- During our review we were provided with the health & safety training matrix, confirming each member of the Compliance team has taken the asbestos awareness training or is scheduled to take it in June 2021 or January 2022. We also confirmed asbestos awareness training has been completed at least once in the last 24 months by an additional 64 members of staff across Housing Estates, Maintenance, Resident Services and Capital Projects, for whom asbestos training was not mandatory. The asbestos awareness training was provided by Pellings Consultants in February 2020 and March 2021.
- Strategic regulatory training has also been delivered to senior members of staff including the Councillor, Assistant Director of Property Services and Operations Manager. This training included an in depth look at asbestos regulation and a landlord's duty to manage.

3.5.5 Guidance to residents

- We were provided with the Resident Asbestos Leaflet, provided to residents through the new tenant starter pack. We confirmed this leaflet contains information around what asbestos is, why it is dangerous, who is at risk and what LBH is doing as a landlord.

3.5.6 Incident investigation and reporting

- We confirmed LBH's process for incidents and accidental exposures has been outlined in the Asbestos Management Plan. We were advised of one incident relating to the exposure of asbestos within the past 12 months. For this incident, management were able to provide the Health & Safety Corporate Accident and Incident Report form. From our review of the form we confirmed the incident had been investigated, and actions to prevent future occurrences had been outlined in line with the plan.

3.6 Electrical Safety

3.6.1 Electrical safety contractors

- We selected a sample of LBH's main electrical contractors, including Smyth & Byford, AJS and Breyers and confirmed each is an NICEIC approved contractor.

3.6.2 Electrical safety programme

- LBH adopts the approach of undertaking electrical inspections no later than five years from the date of the last inspection for both domestic and communal electrical systems. This approach is consistent with best practice seen in other local authorities and the social housing sector.

3.6.3 Voids

- We reviewed a sample of 15 void properties from the last six months to confirm LBH completes EICRs at properties whilst they are void. In each case, management were able to provide an EICR that had been completed during the property’s void period.

3.6.4 Category 1 and 2 failures

- LBH requires that Category 1 and 2 (C1 and C2) failures raised during inspections are rectified whilst on site by the contractor, or the system be decommissioned and reported to LBH. Where works exceed contractor's self-approval limits, unsatisfactory certificates are returned to LBH, and subsequently quotes are sent across and approved by the Electrical Manager. The contractor then re-schedules the work and completes the inspection until a satisfactory certificate is achieved. A standard self-approval limit of £250 is pre-agreed with both electrical contractors, AJS and Breyers.
- We reviewed a sample of ten remedial actions from EICRs, consisting of C1 and C2 actions and confirmed each had been completed whilst the contractor was on site.

3.6.5 Contract management meetings - AJS and Breyers

- We were advised formal contract management meetings take place each month with both AJS and Breyers. We were provided with minutes from the last three meetings with both contractors and confirmed performance against the programme, as well as other matters such as operational issues, had been discussed.

3.7 Water Safety

3.7.1 Legionella Policy and Procedure

- We confirmed LBH has a Housing Compliance Policy in place, last reviewed in August 2020, and Corporate Health & Safety Legionella Policy last reviewed in December 2019, covering key points around the management of water safety. There are also Legionella Monitoring and Legionella Risk Assessment process map notes in place which outline key processes around managing and monitoring legionella.
- In the Corporate Health & Safety Legionella Policy LBH has outlined key roles and responsibilities in managing water safety. For example, responsibilities have been outlined for: Executive Director, Director, Head of Technical Resources and Premises Controllers / Managers. From a review of the roles and responsibilities in the Corporate Health & Safety Policy we were able to confirm LBH has considered overall responsibility for the legionella programme and responsibilities for risk mitigation activities at individual schemes.

3.7.2 Legionella risk mitigation activities

- We selected a sample of five schemes and requested evidence system flushing, outlet temperature checks, communal tank inspections and temperature testing had taken place. We were provided with evidence of communal tank inspections for each property in our sample. One property in the sample also required system flushing, and evidence of this was provided by management.

3.7.3 Legionella risk assessment programme

- We were provided with an asset list of water components extracted from Keystone, and we reconciled this against LBH's legionella risk assessment tracker. Our reconciliation found all properties on the asset list of water components have been included in the legionella risk assessment tracker.
- We reviewed LBH's legionella risk assessment programme and confirmed every property included has data of an up to date legionella risk assessment in place. We reviewed a sample of 30 properties to confirm in each case the LRA referred to in the programme could be provided. Through our testing, we found in each case up to date risk assessment could be provided on request.

3.8 Passenger Lift Safety

3.8.1 Service Level Agreement with Precision Lifts

- Precision Lifts have the responsibility to service all of LBH’s passenger lifts. We were provided with evidence of the Service Level Agreement in place between LBH and Precision Lifts, and confirmed the agreement with Precision Lifts covers the servicing and maintenance of all council lifts.

3.8.2 Lift servicing

- We reviewed a sample of ten lifts and requested evidence of services completed in February and March 2021. In each case, LBH was able to demonstrate services had been completed in February and March for each lift in the sample.

3.8.3 Central monitoring of lift recommendations

- Recommendations and faults from lift services are completed by Precision Lifts during the service if they pose an immediate risk. PCM also visit every lift at least once every two months, and confirm all necessary actions have been completed. We were advised Precision Lifts keep a central record of all faults, as they are required to ensure lifts are adequately safe as part of their Service Level Agreement. As a result, LBH doesn’t monitor recommendations, and doesn’t report on lift recommendations or faults, as Precision Lifts is required to complete all actions that present immediate risk to injury whilst on site.

3.8.4 Completion of recommendations from lift services

- We reviewed five recommendations from our sample of lifts to confirm if recommendations are being tracked and actioned. From our sample of recommendations and review of the recommendations and faults tracker, we confirmed these actions had been completed, and were being monitored through PCMs recommendations and faults tracker.

3.8.5 Service histories

- LBH is able to request a full-service history of each lift from Precision Lifts. On request, Precision Lifts can provide a record of information such as the number of times the lift was visited, number of faults, recommendations, all works completed at the lift etc. LBH is also able to generate a list of all quotes for lifts works in a given period through its finance system, and can therefore view all works completed at any given lift in this way as well.

3.8.6 Lift emergency arrangements

- We were advised where a lift breakdown is reported, and no person is in the lift, the lift is closed down, contractors Precision Lifts attend within four hours to identify the fault, and after LBH's approval the lift is repaired. We confirmed these emergency arrangements have also been outlined in LBH’s Housing Compliance Policy.

4. Areas for Improvement without Recommendations

We noted the following areas where improvements could be made, however issues noted were rectified during the audit fieldwork, or are in the process of being remedied; and as a result we have not raised recommendations in these areas.

4.1 Contractors and Value for Money

- During our review, we noted many of the compliance contractors used by LBH do not have formal contracts in place. For example, LBH does not have a contract in place with Cube (asbestos management), Stonegrove (communal gas servicing), Oakleaf (fire safety contractor), AJS (electrical testing), Precision Lifts (lifts maintenance and servicing) etc. It is worth noting this is not an exhaustive list. We are of the opinion this does not represent value for money, as no competitive tendering nor comparison exercise could be evidenced. We were advised LBH is aware of this issue, confirmed it had been discussed by Cabinet through our review of meeting minutes, and were informed the Council is in the process of tendering new 5-7 year contracts for all its Compliance contractors by the end of 2022.

4.2 Completeness of Asbestos register

- We were provided with LBH's asset list, and we reconciled this to the asbestos register. We found three blocks built before 2000 that had not had an asbestos survey completed. We queried these with management and were advised the one block without a survey is a row of houses, and has no communal area. The other two noted were confirmed as hostels, and had been wrongly omitted from the asbestos register download. We confirmed records of asbestos surveys were held in Keystone, and hostels have now been included in the template used for the download of the asbestos register. We confirmed this was rectified during the audit fieldwork, and LBH was able to demonstrate additional controls in place to ensure contractors would be informed of asbestos in the hostels prior to visiting.

4.3 Asbestos re-inspections

- LBH's Asbestos Policy states properties will be re-inspected as per the risk assessment, but at a minimum of every three years. We found that LBH has 7,007 properties with asbestos data more than three years old, some ranging back to 2002. However, we acknowledge that as LBH has disregarded all historic asbestos data due to historic issues with landlord health and safety compliance, and is currently completing a new asbestos programme (which began in April 2020). LBH has completed the communal programme, and we were advised approximately 30% of domestic stock has a survey in place. LBH aims to survey 100% of its domestic stock, and we confirmed, through a review of the programme and comparison against the number of surveys completed in 2020/21, is on track to complete this in the 2021/22 financial year.

4.4 EICR programme – Domestic properties

- From our review of the domestic electrical programme, we found LBH has 3,619 domestic properties (of the 9,362 dwellings) without an EICR. However, we confirmed these properties are on the programme to complete this year as part of its new electrical programme. We confirmed LBH competed approximately 4,500 EICRs in the 2020/21 financial year.

5. Recommendations

5.1 Policies & Procedures

5.1.1 Operational procedures – Gas & Electrical

<table>
<tr><th colspan="2">Observation</th><th>Risk</th></tr>
<tr><td colspan="2">Our review noted operational procedures for managing gas and electrical safety do not provide sufficient detail on LBH's key processes. We were advised, for example, LBH does not have a Gas Management Procedure in place, and from our review of LBH's documents around managing gas safety, we noted details around the following processes have not been defined:
• How and when to contact tenants to complete gas services;
• Key processes, such as adding new builds to the gas register;
• Monitoring and reporting performance;
• Administering certificates, how these are shared with LBH and retained;
• No access procedure, including escalation to legal stage, and the timescales for sending each formal letter;
• Process for conducting remedial works.
From our review of documents around electrical safety, we also noted the following areas have not been defined:
• Administering satisfactory certificates, how they are shared with LBH and retained;
• No access procedure, including escalation to legal stage, and the timescales for sending each formal letter;
• Process for conducting remedial works;
• Monitoring and reporting of performance.
It should be noted that the above is not an exhaustive list. It is also worth noting some areas listed above have been briefly outlined in policies, however detailed steps in how staff enact these processes have not been outlined.</td><td>Processes are unclear, missing and / or inadequate; resulting in inconsistent approaches and potential failure to enact / follow key processes impacting tenant's safety.</td></tr>
<tr><th colspan="2">Recommendation</th><th>Priority</th></tr>
<tr><td colspan="2">LBH should document key operational procedures for gas and electrical safety. These procedures should outline key processes, such as when letters should be sent to tenants for gas servicing, and how new build properties should be added to the gas register.</td><td>Significant</td></tr>
<tr><th>Management Response</th><th>Responsibility</th><th>Timescale</th></tr>
<tr><td>Policies have been rewritten and were shared Procedures are in place to ensure that the Council manages gas and electrical risks appropriately. However, it is noted that these are not drawn together in a procedural manual and we will amend the current policies/management plans to include relevant processes</td><td>Special Project and Resident Safety And Compliance Manager</td><td>March 2022</td></tr>
</table>

5.2 Performance Reporting

5.2.1 Remedial Action KPIs

Observation	Risk
Our review found three LRA remedial actions and two FRA remedial actions that were completed after their due date, one FRA remedial action missing from the action tracker and 21 FRA remedial actions that are currently overdue (as of the audit fieldwork). We were provided with Compliance reports between October 2020 – April 2021 and reviewed reports to confirm if these overdue actions were reported. We found that KPI reporting did not include: • 21 overdue FRA remedial actions (**Data Integrity 5.2**); • Missing FRA remedial action from the action tracker (**Recommendation 6.5.2**); • Two FRA remedial actions completed after their due date (**Recommendation 6.5.3**); • Two LRA remedial actions completed after their due date (**Recommendation 6.7.1**).	Actions become overdue and are not reported, potentially giving management, Board and Cabinet an incorrect picture of performance.

Recommendation	Priority
LBH should: 1. Ensure all overdue remedial actions are included in its performance reporting. KPIs should include all actions that became overdue in the month (rather than a 'snapshot' of those that are overdue at the time of reporting. 2. Investigate how these actions were missed in KPI reporting to ensure future reporting includes all overdue remedial actions.	Significant

Management Response	Responsibility	Timescale
Due to the manual nature of our approaches some errors in reporting were found, this will be addressed once we go live with the new Keystone modules which will automatically generate KPIs and highlight overdue actions. This is part of the Cadi project	Resident Safety And Compliance Manager	Immediate

5.3 Data integrity

5.3.1 Accuracy of programme data

<table>
<tr><th>Observation</th><th>Risk</th></tr>
<tr><td>Throughout our review, we conducted a range of data integrity testing across the systems and databases which drive and record compliance with the areas of landlord health and safety reviewed. This included comparing data within compliance documents held by LBH with the data recorded on the compliance systems.

The results of this testing highlighted an array of issues across the data used in supporting and delivering compliance in each area. The results of these data errors resulted in:

• 67 new build properties not included in the gas register (please refer to Recommendation 5.4.1 below)
• Two hostels omitted from the asbestos register.
• 21 FRA remedial actions becoming overdue by between 8 and 183 days.
• The dates of FRAs being incorrectly recorded by up to 1,464 days.
• Dates of the most recent EICR being recorded incorrectly by between 400 and 800 days.
• One property in the PAT testing programme which had not been included within LBH’s systems.
• One property where the Legionella Risk Assessment date was recorded 405 days after the actual date.

The results of this testing highlight a weakness in the accuracy of data being transferred from compliance documents, such as testing certificates or risk assessments, and the data within LBH’s compliance systems. Periodic reconciliations would have highlighted the majority of these issues to LBH, and we are of the opinion reconciliations are essential in ensuring areas of landlord health and safety are effectively managed.

Full details of our results can be found in Section 7 of this report.</td><td>Landlord health and safety programmes are not accurate, leading to properties becoming unsafe or non-compliant.

Tenants, customers and staff are put in the way of harm due to a lack of clarity around the safety of properties.</td></tr>
<tr><th>Recommendation</th><th>Priority</th></tr>
<tr><td>LBH should amend the programmes where our testing highlighted data integrity issues through sampling, as detailed in Section 7 of this report.

The Authority should review the mechanisms for recording landlord health and safety compliance data where it is received, and put in place a suitable control framework to prevent programme data becoming inaccurate.

LBH should perform reconciliations for each area of landlord health and safety, reconciling its register or programme against an independent source of data that includes a complete list of properties that require a risk assessment or service (housing management system/asset management system).

Reconciliations should be performed on a periodic basis going forward, and any discrepancies noted should be investigated.</td><td>Critical</td></tr>
</table>

Management Response	Responsibility	Timescale
Due to the manual nature of our approaches some errors in reporting were found, once we go live with the new Keystone modules this will automatically generate servicing and aid in tracking jobs. This is part of the Cadi project. Keystone will carry out an automatic reconciliation daily with Open Housing to ensure one version of the truth. It will run the servicing elements and highlight actions that are reaching their overdue date by way of a jeopardy report. In lieu of Keystone going live a 20% per month spot check of FRA actions being captured is taking place, we have looked back 5 years to ensure all newly acquired properties are on the gas servicing schedule and the special project and compliance manager is doing spot checks on data	Resident Safety and Compliance Manager	Immediately – 6 months

5.4 Gas servicing

5.4.1 Adding Properties to the Gas Register

Observation	Risk
We were provided with a list of new builds and new acquisitions from the last 24 months, consisting of 103 new builds and 27 buy backs[7]. We reconciled this list to the gas register and found 67 new builds that were not on the gas register. Five of these properties were built in 2019, and are overdue for a gas service at the time of audit. The remaining 62 reached practical completion between July and December 2020, and were not due for an LGSR at the time of the audit, however would have not been serviced prior to expiry. All 67 new builds identified were confirmed as missing from the gas register. We were advised these properties were missed due to a lack of communication and an undefined, undocumented process to ensure new builds are added onto the register. Key evidence requested during the initial fieldwork was not provided in order to establish the full extent of the risk.	LGSRs are overdue at new builds not added to the gas register, leaving tenants at risk.
Recommendation	**Priority**
LBH should: 1. Ensure it adds the properties highlighted to the gas register. 2. Conduct a review of new build properties more than 24 months old, to ensure these properties are included on the gas register and have not been missed. LBH should also document a process for ensuring these properties are added, and this should be communicated to all partied involved.	Critical

Management Response	Responsibility	Timescale
We accept there were five that were not on the register. This was due to the recipient of the information leaving the council without actioning. The others would have been picked up when we did our reconciliation and interfaced every UPRN from Open Housing to Keystone prior to going live with the servicing module. A new Open housing to Keystone interface is live which automatically ensures both systems have matching properties and this should no longer occur. We also checked back 5 years to check for any properties not on the servicing schedule and found none.	Resident Safety and Compliance Manager	January 2022

[7] Former council properties bought back, which were sold through the Right to Buy scheme

5.4.2 Disposals

Observation		Risk
We were provided with a list of all property disposals from the last 12 months, and we reconciled these properties against the gas register. From our testing, we identified 13 properties disposed of in the last 12 months that are have not yet been removed from the gas register		Inefficient processes around managing gas safety resulting in unnecessary financial loss.
Recommendation		**Priority**
LBH should: 1. Remove the properties highlighted from the gas register. 2. Document a process for ensuring disposals are removed from the register, and this should be communicated to all partied involved.		Minor
Management Response	**Responsibility**	**Timescale**
We will define a process for adding and removing properties from relevant systems.	AD of Property Services	March 2022

5.4.3 Post Inspections

Observation		Risk
During our review, we confirmed LBH has an arrangement in place with PCM, whereby PCM completed post inspections of 5% of all gas servicing and electrical testing. PCM also complete a desktop review of 100% of LGSRs. This approach, however, has not been defined in LBH's policies, and no differentiation has been made on a contractor by contractor basis (ensuring all contractors are captured in the post inspections conducted).		Safety issues are not highlighted and poor contractor performance is not addressed.
Recommendation		**Priority**
LBH should: 1. Include reference to PCM's post inspections of gas servicing in its Housing Compliance policy. 2. Ensure PCM's post inspection visits capture all its gas safety contractors.		Minor
Management Response	**Responsibility**	**Timescale**
We will amend the policies and management plans.	Resident Safety and Compliance Manager	January 2022

5.4.4 Monitoring of Post Inspections

Observation		Risk
Management were able to evidence PCM were completing post inspections of gas services each month. For example, we were provided with evidence of 77 of PCM's post inspection reports completed by PCM over the last 5 months. However, PCM has a contractual target to post inspect 5% of gas services, and we were not provided with evidence that this target was being achieved, or being monitored by LBH.		Potential safety issues are not highlighted and tenants are put at risk as a result.
Recommendation		**Priority**
LBH should monitor the number of post inspections completed by PCM against the total number of gas services completed, to ensure PCM is adhering to its 5% contractual target.		Minor
Management Response	**Responsibility**	**Timescale**
This will form part of monthly contract meetings.	Resident Safety and Compliance Manager	January 2022

5.5 Fire Risk Management

5.5.1 Overdue FRAs

Observation		Risk
We reviewed the Type 1 FRA programme and found the most recent FRA data for 272 of 920 properties (c.30%) is over three years old. Each of these properties became overdue for an assessment between February and April 2021. From our review of the Type 1 programme, and through our conversations with management, were confirmed these are all classed as low risk properties under the fire management policies, and scheduled to be completed by Oakleaf before October 2021. We queried with management the reason behind the delay to these properties, and were advised that LBH prioritised completing Type 4 FRAs at high risk and medium risk properties. Type 1 FRAs at its low risk properties have been left until after its Type 4 FRA programme has completed, and this resulted in them becoming overdue.		FRAs at the properties highlighted are no longer up to date, presenting undue fire risk to the tenants that occupy these properties.
Recommendation		**Priority**
LBH should ensure all its properties have a valid and up to date FRA. The properties highlighted as being overdue should be monitored and reported on an ongoing basis, and clear timescales for completing these FRAs should be agreed with Oakleaf.		Significant
Management Response	**Responsibility**	**Timescale**
Three years is our policy but there is no statutory timescales, just a matter of reasonableness. We risk assessed our property portfolio and prioritised completing Type 4 FRAs in high risk properties. All blocks now have a type 4 FRA.	Resident Safety and Compliance Manager	Complete

5.5.2 Missing FRA Remedial Actions

Observation	Risk
We reviewed a sample of ten FRA remedial actions and noted one action, RB-G3UL5D (priority B) was not included on the master action tracker. This action was due on 23/04/2021, and therefore overdue. Remedial actions from FRAs are exported into excel and manually added to the master action tracker. We were advised during this manual addition, the action highlighted had been missed. This resulted in this action also being omitted from remedial action KPI reporting.	FRA remedial actions to mitigate fire risk are not completed, presenting undue health and safety risks to LBH's tenants.
Recommendation	**Priority**
LBH should: 1. Ensure all FRA remedial actions are added to the master action tracker. 2. Whilst this process is manual, LBH should implement a secondary check to ensure every action from an FRA is added to the tracker after exporting actions to Excel. This should involve a comparison between the total number of actions exported to the total number of actions added to the master action tracker. 3. Conduct a full review of FRA remedial actions raised in FRAs, confirming they have been included in the master action tracker. A risk-based approach should be adopted for this review, beginning with priority A actions in its high-risk properties.	Significant

Management Response	Responsibility	Timescale
This is a result of the manual approach currently taken and will be resolved once the keystone modules go live. We have as an interim measure implemented an additional checking approach to ensure the risk of errors is reduced. A monthly 20% check of FRAs is ongoing to ensure all actions are captured.	Resident Safety and Compliance Manager	March 2022

5.5.3 Completion of FRA Remedial Actions

<table>
<tr><th colspan="2">Observation</th><th>Risk</th></tr>
<tr><td colspan="2">We reviewed a sample of ten FRA remedial actions. We sought to confirm with management if FRA remedial actions had been completed, and whether they were completed within their target timescales. From our testing, we found two actions were completed after their due date, by seven days (priority A) and 70 days (priority B).</td><td>Actions are left open and incomplete for extended periods of time, increasing the fire risk and potential harm to tenants.</td></tr>
<tr><th colspan="2">Recommendation</th><th>Priority</th></tr>
<tr><td colspan="2">LBH should:
1. Ensure FRA remedial actions are completed before their due dates.
2. Ensure clear timetables are put in place for overdue actions, which set out when overdue actions will be completed by. This should be actively monitored to ensure actions are completed in a timely manner and sufficiently monitored.</td><td>Significant</td></tr>
<tr><th>Management Response</th><th>Responsibility</th><th>Timescale</th></tr>
<tr><td>This is a result of the manual spreadsheet approach currently taken
We will undertake additional checking of the action tracker to ensure no action goes past its due date.</td><td>Resident Safety and Compliance Manager</td><td>Immediate and ongoing</td></tr>
</table>

5.5.4 Contract management meetings - Oakleaf

<table>
<tr><th colspan="2">Observation</th><th>Risk</th></tr>
<tr><td colspan="2">We were advised LBH does not hold formal contract management meetings with Oakleaf, the fire safety contractor. Management advised ad-hoc site meetings are held, however these meetings are informal and are not minuted. LBH is unable to confirm Oakleaf's performance is monitored and discussed appropriately.</td><td>Poor performance of Oakleaf is not addressed for extended period of time.</td></tr>
<tr><th colspan="2">Recommendation</th><th>Priority</th></tr>
<tr><td colspan="2">LBH should hold formal contract management meetings with Oakleaf on a periodic basis to discuss operational and strategic issues, and the contractor’s performance. Meetings should be minuted, and actions discussed in meetings should be tracked through to completion.</td><td>Significant</td></tr>
<tr><th>Management Response</th><th>Responsibility</th><th>Timescale</th></tr>
<tr><td>Formal meetings are now being held.</td><td>Resident Safety and Compliance Manager</td><td>Complete</td></tr>
</table>

5.6 Asbestos Management

5.6.1 Updating the asbestos register

Observation		Risk
We selected a sample of 20 residential properties and requested asbestos surveys for each. We then reconciled physical surveys to data held in the asbestos register. We found two cases where the asbestos register had not been updated with the most recent survey. In one case a survey was completed in 2020, however the register had data from 2014 and 2015 only. Asbestos was confirmed in 2020, similarly to 2014 and 2015. In another case, a survey was completed in 2020 however no asbestos data for this dwelling had been updated on the register. There was no asbestos present at this property. We queried these with management and were advised these properties were missed by Cube, LBH's asbestos contractor, when uploading surveys. These were added to the register during the audit fieldwork.		Contractors are exposed to asbestos because of out of date information on the asbestos register.
Recommendation		**Priority**
LBH should ensure data from all surveys completed by Cube are added on to the asbestos register. LBH should seek a comprehensive list from Cube of all surveys completed in a given period, and this data should be reconciled to the asbestos register.		Significant
Management Response	**Responsibility**	**Timescale**
The two properties in question were our two hostels. These had not been added to the list for Cube to update after undertaking the asbestos survey; they have now been added.	Resident Safety and Compliance Manager	Complete

6. Terms of Reference

#	Risk	Expected Control
1	**Policies & procedures**	
1.1	There is an inappropriate approach to landlord health and safety	For the key areas of health and safety under review; gas, fire safety, asbestos, electricity, water testing and lift maintenance, LBH have in place: • A policy that includes the relevant requirements and responsibilities; • Procedures and workflows that provide the detail operational requirements to meet the policy.
2	**Reporting & monitoring**	

2.1	Reporting and monitoring of H&S is not robust and may not identify performance issues	For the key areas of health and safety under review LBH have in place:
		• Performance indicators that are reported periodically to determine compliance with the relevant legislation;
		• Effective reporting workflows that ensure H&S reports and performance
		  ○ is effectively reviewed for accuracy and completeness
		  ○ scrutinised at an appropriate level
		• Measures to ensure that serious H&S matters are reported to Board
		• An assurance map that identifies key controls / assurances for each line of defence (following the three lines of defence model)

2.2	Performance issues identified are not understood and rectified	Where poor performance is reported this is • Identified to understand the issue present; • Challenged or reviewed to ensure performance is improved; and • Reviewed to ensure any lessons are learnt for future working performance. *N.B. compare the performance reporting to sector best practice.*
3	**Gas safety**	
3.1	Inaccurate data on gas serviceable components results in properties being missed off the gas servicing register.	A gas servicing register is in place and LBH can provide evidence to comprehensively demonstrate that all properties with gas serviceable components have been identified and included within this record. *(NB: Use data analysis where possible to conduct a reconciliation between systems such as spreadsheets, the housing management system, and the asset management database.)*

#	Risk	Expected Control
		Non-boiler gas assets (e.g. cookers) have been included on the gas safety register. *(NB: Use data analysis software to identify non-boiler gas assets and reconcile these properties to the gas servicing register).*
		The gas register is kept up to date with details of newly acquired properties. *(NB: Obtain independent records from the Development Team and reconcile these to the gas register.)*
		Where newly developed properties are added to the gas register, the anniversary date of the service is based on the component installation date rather than the property handover date. *(NB: test a sample of new builds.)*
3.2	LBH cannot positively evidence that properties not having a gas service do not contain gas serviceable assets.	LBH perform a periodic review of all properties to ensure accurate records are held on gas appliances within properties
3.3	Gas servicing work is not effectively managed, resulting in a breach of legislative and regulatory requirements.	A programme is in place to carry out gas servicing at all gas properties on an annual basis.
		Households are contacted sufficiently in advance to facilitate entry prior to the expiry of the LGSR (e.g. 10 or 11 month programme in place).
		Systems and tools in place to manage the programme of gas servicing are sufficient and fit for purpose (consider ease of use and transparency over performance).
		There are detailed procedures in place which set out the processes for contacting households and arranging servicing visits. The procedures are followed (sample testing required).
		Sufficient performance data is available to operational management to facilitate the effective management of the servicing programme.
3.4	Access cannot be gained to tenanted properties in order to carry out servicing work	LBH has procedures in place which detail the processes to be followed when access cannot be obtained to undertake gas servicing work.
		The procedures include an appropriate process of escalation (i.e. to legal proceedings) where access cannot be gained to properties, and this escalation process takes place prior to the expiry of the LGSR. The procedures are followed (sample testing required).
3.5	Gas servicing is undertaken at properties no longer owned by LBH.	LBH has clear processes in place for updating the gas servicing programme for properties sold, demolished, or where gas appliances have been taken out.

#	Risk	Expected Control
		(NB: obtain records of recent property disposals from Finance and reconcile these to the gas register)
3.6	The quality of the gas servicing carried out is inadequate.	LBH has defined a policy approach to the post inspection of gas servicing works, which ensures that an even coverage of quality review is given to all parties undertaking such works (e.g. all contractors / DLO staff are included).
		Evidence can be provided to demonstrate that post inspections are being undertaken in line with policy.
		LBH can demonstrate that poor quality results from post inspections are followed up and issues are addressed.
		Post inspection performance is monitored over the long term so that trends in performance can be identified.
3.7	LBH cannot demonstrate that it has met its legislative and regulatory requirements.	Copies of LGSRs are maintained by LBH, the details of which are accurately represented on the gas servicing register (sample testing required).
3.8	There is inadequate monitoring of the party delivering the gas servicing programme	LBH has an agreed contract / SLA in place where work is outsourced.
		Regular meetings take place between LBH and contractors on progress made against the annual programme.
3.9	Gas servicing arrangements do not demonstrate VFM	LBH can demonstrate value for money in its gas servicing arrangements (consider cost or service, quality review results, customer satisfaction etc.).
3.10	Data integrity issues exist within gas data.	The following data integrity tests will be undertaken as part of the review (where possible): • Review gas register for data integrity issues such as missing servicing dates, inaccurate servicing dates (e.g. outside of expected boundaries), service dates which only appear on leap years (i.e. 29th February) and issues in the completeness of address data. • Recent performance figures reported to the board will be recalculated and / or assurance will be given over the accuracy of performance reporting arrangements. • Other – as considered necessary
4	**Fire risk management**	
4.1	Fire risk is not managed in accordance with the risk profile of buildings within the stock.	LBH has assessed the risk profile of its various building types (i.e. high rises / care schemes etc.); and, has adopted an appropriate risk based approach to undertaking FRA reviews.

#	Risk	Expected Control
4.2	Fire risk assessments are not in place, or not up to date and relevant, for all communal areas.	Fire risk assessments are in place for all LBH's communal areas. *NB: Use data analysis to reconcile a list of the properties communal areas (as per the housing management or asset management databases) to records of the FRA programme.*
		Fire risk assessments are up to date and reviewed on a periodic basis. *NB: Obtain a report of all FRA review dates, and test to ensure that 100% of FRAs are up to date as per requirements within the fire risk management policy.*
4.3	Fire risk assessments are incomplete, or of inadequate depth and breadth in their coverage.	Fire risk assessments for each of LBH's premises have considered the following: ▪ The size, build and complexity of the premises; ▪ The activities and services carried out at the premises; ▪ The number and nature of the occupants of the premises (e.g. employees, residents); ▪ Any history of fires or other relevant incidents.
		Each fire risk assessment provides clear details on: ▪ The current fire protection measures in place (e.g. alarms, detectors, extinguishers etc.); ▪ The current fire safety management measure in place (e.g. equipment testing, fire drills, staff training); ▪ An assessment of the number of occupants at risk and the possible consequences to them in the event of a fire.
		Fire risk assessors are trained and qualified in matters of fire safety, and can demonstrate that they have relevant skills and experience to understand and report on complex matters such as the integrity of the building fabric with regards to fire safety, as well as more minor issues such as obstructions to exit ways.
4.4	Issues raised in the FRA are not addressed within the required timescales.	All remedial actions raised within FRAs are actioned in line with target timescales. *NB: Obtain a report on all outstanding remedial actions, and assess whether any of these are over-target for completion.* *Also select a sample of FRAs and ensure that all remedial actions within have been actioned in line with target timescales.*
		There are appropriate systems and processes in place to ensure that all remedial actions raised within FRAs are effectively managed, and are actioned in a timely manner.
		LBH adopts a risk based approach to the completion of remedial actions, ensuring that the most high risk items are undertaken as a priority.
4.5	LBH has insufficient asset data on fire	Asset data on fire safety equipment (e.g. fire extinguishers / sprinkler systems etc.) is maintained and can be made available on request.

#	Risk	Expected Control
	safety equipment within its properties.	LBH can demonstrate that it has processes in place to periodically update asset data on fire safety equipment. *NB: For the sample of fire risk assessments reviewed during the review, reconcile details of fire safety equipment detailed within the FRA, to asset data held.* *Obtain a report of properties containing fire alarm systems, firefighting equipment, internal doors, and emergency lighting from the asset management system and reconcile this to FRA programme records.*
4.6	Fire risk contractors are not effective and do not represent value for money.	Fire risk contractors have been chosen by an appropriate process of competitive selection.
		The contractor's performance requirements have been clearly communicated, and are being achieved.
		LBH is effectively monitoring and controlling the performance of the contractor. *NB: Consider where any performance issues noted during the review are being actively and effectively managed with the contractor.*
		Contractors are required to demonstrate continuing professional development so as to keep up to date with changes in fire safety guidance / regulations.
5	**Asbestos management**	
5.1	LBH is not managing asbestos effectively.	LBH can demonstrate that asbestos surveys are being undertaken in line with the requirements of its asbestos management plan. *(NB: Use data analysis techniques to identify all properties with asbestos surveys).*
		ACMs are being periodically re-inspected in line with the requirements of LBH's asbestos management plan, and in a way that is appropriate to their risk profile. *(NB: Use data analysis techniques to identify all overdue re-inspections).*
		LBH maintains an up to date register of the location and condition of ACMs or presumed asbestos in its properties. *(NB: reconcile the register to a sample of asbestos surveys to review its accuracy.)*
5.2	Maintenance operatives are not made aware of ACMs within the properties they are working in.	Maintenance operatives have access to the asbestos register.
		Effective procedures are in place to ensure that maintenance operatives are made aware the asbestos status of a property before all jobs are undertaken.

#	Risk	Expected Control
5.3	LBH undertakes work it is not licenced to carry out.	All asbestos removals are undertaken by companies that are registered and licensed with the HSE to remove asbestos. *(NB: sample test recent removals.)*
5.4	Preventable exposure to asbestos occurs.	Adequate training is provided to staff to ensure that they are aware of LBH's policies on asbestos and of current legislation, and that they are able to identify potential asbestos risks when visiting properties within the stock.
		Guidance on asbestos risks has been made available to tenants.
5.5	Incidents relating to asbestos exposure are not appropriately managed and reported.	LBH has processes in place to ensure that any incidents resulting accidental exposure to asbestos are formally reported and investigated. *(NB: review previous incident reports and ensure that action was taken to investigate, and prevent future occurrences where possible.)*
		Serious incidents (see published HSE guidance) of exposure have been reported to the HSE under RIDDOR requirements.
5.6	Asbestos management arrangements do not represent value for money.	LBH can demonstrate that value for money has been effectively considered within its asbestos management arrangements.
		Asbestos contractors have been selected through a process of competitive selection, as per the requirements of LBH's financial regulations.
6	**Electrical safety**	
6.1	Electrical safety is ineffectively managed.	Electrical testing is carried out by NICEIC and ECA approved Contractors.
		Electrical testing is carried out at all sites where LBH has a responsibility for electrical health and safety. *(N.B. conduct data analysis over LBH data to identify potential missing sites)*
		LBH, as a landlord, has appropriate controls in place to provide assurance that electrical equipment provided to tenants is compliant with applicable electrical safety standards, maintained and tested.
		There is a nominated officer with overall responsibility for electrical safety (supported by relevant job description detail).
6.2	Electrical testing is not undertaken within the procedural timeframes.	There is a programme in place to ensure that periodic electrical assessments take place in line with timescales set out in policy and that LBH's approach in this area is consistent with peers.
		The electrical safety programme is being effectively implemented in accordance with LBH's policy. *(N.B. Assess where gaps have been identified and whether these are appropriately explained.)*

#	Risk	Expected Control
		LBH has an effective system in place to obtain and store its electrical safety certificates. *(N.B. Select a sample of certificates)*
		LBH is undertaking electrical testing on all void properties, in line with policy. *(N.B Review a sample of void properties to confirm an electrical assessment has been undertaken)*
6.3	Issues raised as a result of the electrical safety programme are not addressed	LBH has an appropriate framework in place to ensure that remedial actions raised within electrical safety surveys are actioned in line with target timescales. *(N.B. Obtain a report on all outstanding remedial actions, and assess whether any of these are over-target for completion. Ensure remedial actions which are known to be overdue have been booked in for action.* *Select a sample of electrical safety surveys and ensure that all remedial actions within have been logged and actioned within target timescales.)*
		LBH adopts a risk based approach to the completion of remedial actions, ensuring that the most high risk items are undertaken as a priority.
6.4	Reporting on the progress of the electrical safety programme is not transparent.	Performance reports are provided to senior management and the Board, which provide a clear and transparent assessment of the status of the electrical safety programme. Consider whether performance indicators such as the following are in use: • % of properties with an up-to-date electrical safety survey • % of electrical safety surveys overdue for renewal • % of priority 1 remedial actions overdue for completion • % of priority 2 remedial actions overdue for completion • % of priority 3 remedial actions overdue for completion
6.5	Issues with electrical safety contractors prevent effective completion of the safety programme.	LBH has appointed an electrical safety contractor following a formal procurement exercise which considered quality alongside value for money.
		Electrical safety contractors are qualified to carry out electrical safety works.
		Formal contractor management meetings take place to monitor contractor performance against the programme.
		The electrical safety programme records used by the contractor is regularly compared with LBH's own asset records to ensure the complete coverage of the works.
7	**Water safety**	

#	Risk	Expected Control
7.1	LBH has not defined and communicated its approach to Legionella risk.	LBH has documented policies and procedures around the management of water safety.
		Roles and responsibilities for Legionella management within LBH have been clearly communicated. *(NB: Consider both overall responsibility for the Legionella programme, and also responsibilities for risk mitigation activities at individual schemes / sites.)*
7.2	Properties where Legionella prevention and detection activities are required are not included within the programme of works.	LBH has identified and documented all properties containing communal water facilities and communal water tanks, and can demonstrate that its records are comprehensive. *(NB: Where possible, undertake data analysis on communal water components within the asset management system and reconcile this to the water safety programme records.)*
7.3	Risks specific to individual properties are not identified.	Legionella risk assessments have been undertaken at all properties with communal water facilities.
		Legionella risk assessments have been undertaken by an appropriately qualified company / individual.
7.4	Insufficient actions are undertaken to prevent and detect Legionella.	Action plans are in place to ensure that the issues identified from the risk assessments are appropriately dealt with.
		Remedial maintenance works arising from Legionella risk assessments have been dealt with in line with timescales set out with the risk assessments and within LBH's own policies and procedures.
		Periodic risk mitigation activities such as temperature checks and system flushes are being undertaken at all schemes and sites; and, LBH has central oversight of these activities.
		A comprehensive programme of communal water tank testing and cleaning is in place.
8	**Lift safety**	
8.1	Inaccurate records are held of lift maintenance requirements.	LBH has data based on physical inspection (i.e. stock condition surveys and/or a reviewed asset register) of where lifts exist in its stock, and this can be reconciled to the lift servicing programme.
		Each lift in LBH's office buildings is accounted for in lift servicing records.
8.2	LBH does not have contracts for lift servicing and maintenance.	Contracts are in place that cover all stock and office premises where a lift is present, and suitable arrangements are in place to ensure these comply with insurance requirements.
8.3	Compliance with requirements cannot be demonstrated.	For a sample of properties where a lift is present, it can be evidenced that a service has been carried out in the last 6 months and a certification is held to evidence compliance.

#	Risk	Expected Control
8.4	Maintenance as a result of servicing are not actioned promptly leaving lifts unsafe and insurance potentially invalid.	Review the outcomes of each service sampled above and ensure that any failures or issues to be addressed have been actioned in a timely manner.
		Ensure that LBH is maintaining sufficient centralised records of where faults are identified by Lift inspections, that would allow them to have oversight of all required or suggested remedial works.
		Where there are delays in completing remedial works, Management can evidence that the lift was made safe to prevent injury.
		Review the records of remedial works completed, and compare these to management reporting to confirm that where there have been delays these have been brought to the attention of the relevant Management.
		Select a sample of outstanding actions and ensure that these are being managed in line with time periods stipulated by qualified personnel.
8.5	Insufficient transparency of contractors' work, leading to a lack of effective scrutiny and control.	Central records are held enabling LBH to view details of contractors' works including a full repairs history for each lift on the contract. This is used as a basis for effective contract management, with contractors challenged around any issues such as recurring faults or required works or services not being completed promptly.
8.6	LBH does not have suitable arrangements in place in the event of lift failure.	Emergency arrangements are in place for lift maintenance and these are suitable based upon the risks to residents.

7. Data Integrity

As referred to in **Recommendation 5.4.1**, our testing highlighted the following observations in relation to the adequacy and accuracy of the data driving LBH's compliance programmes. Details of our testing and results in each programme is below:

7.1 FRA Programme

- We reviewed a sample of 30 FRAs to confirm data in the programme matched data in their respective FRAs. As part of our testing, we reviewed the FRA date, frequency of review and risk rating. Our testing identified eight instances FRA dates did not match dates in the programme. These were different by between 5 and 1,464 days.
- In six of the eight cases, the most recent FRA had not been updated on the programme. In two cases, the date in the programme was incorrect due to errors made during manual data entry.

7.2 FRA Remedial Action Tracker

- We were provided with the Master Action Tracker, which contained 6,363 FRA remedial actions. From our review of the action tracker, we found 21 FRA remedial actions that were due before the audit fieldwork had not yet been completed, and were overdue. All actions were priority B, and due between 30/08/2020 and 30/04/2021; meaning these were overdue by between 8 and 183 days, and by an average of 83 days.
- From our review of Compliance reports, we found that these overdue remedial actions had not been reported. Please refer to **Recommendation 6.3.1** for further detail.

7.3 Electrical Safety Programme

- We reviewed the EICR programme for communal properties. Of 837 communal areas, we found
    - Four properties where EICRs were completed over five years ago. Three were completed in July 2014, and one in October 2014. We queried these with management and were advised these have been completed (two in 2019 and two in 2020), however the programme has not been updated.
    - 13 properties with no EICRs. We were provided with evidence confirming each of these have been carried out in the last five years, however the tracker was not updated
    - One property with a last test date of 22/10/2024. We were advised this occurred due to human error when entering the last test date.
- We reviewed a sample of 30 domestic properties and 15 communal properties to confirm an EICR could be provided, and the data on the EICR matched the data held in the programme. We noted for two of the 30 domestic properties sampled, and seven of the 15 communal properties sampled, the EICR date on the programme did not match the EICR. They were different by an average of 97 days, with the recorded date between 789 days before and 429 days after the EICR was completed. We were advised each of these errors occurred due to human error from manual data entry. In five of these cases this would have resulted in EICRs becoming overdue (against the internal 5-year target).

7.4 PAT Testing Programme

- We were provided with the PAT testing programme and found one property where no PAT testing data had been recorded. We confirmed PAT testing had been completed at this property in June 2020, however the programme had not been updated.

7.5 Legionella Risk Assessment Programme

- We selected a sample of 30 properties and requested Legionella risk assessments for each. From our testing, we found one property where the LRA date did not match the date recorded on the programme. We were advised the programme had not been updated with the most recent LRA, and was incorrect by 405 days. Management provided the most recent LRA, completed on 10/06/2020.

8. Definitions of Assurance

8.1 Assurance Gradings

We use categories to classify internal audit assurance over the processes we examine, as follows:

Assurance level	Definition
Limited	Findings indicate serious weaknesses in the control framework which could threaten the ability of LBH to achieve its objectives; or, there is evidence that despite any corrective action already taken, key risks are crystallising in the area under review or have already crystallised. This assurance opinion may also cover the scenario where our audit work was obstructed such that we cannot conclude on the effectiveness of internal controls.
Needs Improvement	Control weaknesses have been noted that require corrective action if the control framework is to be considered as operating effectively. Where such remedial action has already been identified by management, this is not currently considered to be sufficient, or sufficiently progressing to address the severity of the control weaknesses identified.
Reasonable	While the control framework has been found to be generally well designed, control issues and / or areas for improvement have been identified. Where action is in progress to address these findings and any other issues known to management, these actions will be at too early a stage to allow a 'substantial' assurance audit opinion to be given.
Substantial	Findings indicate that on the whole, controls are satisfactory, although some good practice enhancements may have been recommended

8.2 Recommendation Gradings

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority, as follows:

	Definition
Critical	Critical recommendations represent fundamental control weaknesses, which expose LBH to a high degree of unnecessary risk.
Significant	Significant recommendations represent significant control weaknesses which expose LBH to a moderate degree of unnecessary risk.
Minor	Minor recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

9. Audit Timetable

Audit Area	Landlord Health & Safety Review
Associate Director	Rob Hanley
Engagement Manager	Jon Bennett
Senior Auditor	Mahedur Chowdhury
Client Contacts	Patrick Odling-Smee, Ranie Goolcharan, Gary Mitchell

Milestone	Planned	Actual
Audit days	30	30
Start on site	06.04.21	06.04.21
Fieldwork end date	03.05.21	03.05.21
Draft report issued	24.05.21	24.05.21
Management responses provided	07.06.21	15.11.21
Final report issued	14.06.21	18.11.21

10. Statement of Responsibility

We take responsibility to the London Borough of Havering for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in the development.

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Appendix A Examples of Forward Looking KPIs

The tables below are not reflective of current performance, these figures are for illustrative purposes only.

Summary of imminent fire risks

The table below shows how many recommendations were raised with current FRA by priority and then summarised by when these recommendations are due. This helps organisations to ensure works are planned for completion in line with their due date.

Priority	Total	Overdue	Due this week	Due in 1-2 weeks	Due this month	Due in 60 days	Future
Long term	985		2	6	28	150	799
Medium term	400			3	15	97	285
Short term	201				8		193
Immediate	0		1				
Totals	**1586**	**0**	**3**	**9**	**51**	**247**	**1277**

Summary of gas servicing

This type of forward-looking performance monitoring can help assess the number of appointments which require booking to ensure the services do not become overdue.

	In one month	In two months
Gas services due	**176**	**189**
Gas services booked	**154**	**101**
Services requiring appointments	**22**	**88**

LONDON BOROUGH OF HAVERING - HOUSING COMPLIANCE

DATE: 1st December 2021

	NUMBER	Sep	Oct	Nov	TREND	TARGET	COMMENTS
FIRE SAFETY COMPLIANCE							
New NODs received		0	1	0	↓	0	
Outstanding NOD's		3	4	4	→	0	all works in progress
PROPERTIES WITH FRA OR RE-ASSESSED FRA		0.00%	0.00%	100.00%	↑	100%	
Cumulative total	920			920	↑		
Overdue actions -					→		
A – to be completed within 14 days		0	0	0	→	0	
B – to be completed within 6 months		1	1	0	↓	0	
C – to be completed within 24 months		0	0	0	→	0	
D – to be completed within 5 years		0	0	0	→	0	
Dry Riser Testing		100.00%	100.00%	100.00%	→	100%	
	11	11	11	11			
Fire Alarm Testing		100.00%	100.00%	100.00%	→	100%	
	22	22	22	22			
FRA - PSL							
GAS COMPLIANCE							
Domestic Gas - General Needs		99.99%	99.99%	99.99%	→	100%	
	8574	8573	8566	8567			7 overdue as of the end of November. 5 have since been completed. 1 ongoing legal issue.
Domestic Gas - PSL		100.00%	100.00%	100.00%	→	100%	
	658	658	658	658			

Gas Carcassing		100.00%	100.00%	100.00%	→	100%	
	87	87	87	87			
Communal Gas servicing		100.00%	100.00%	100.00%	→	100%	
	67	67	67	67			
ELECTRICAL COMPLIANCE							
EICRs domestic		83.04%	86.49%	86.75%	↑	100%	
	9700	8055	8390	8415			
EICRs domestic – PSL		82.36%	87.73%	87.73%	→	100%	
	701	607	615	615			
EICRs Communal		100.00%	100.00%	100.00%	→	100%	
	861	861	861	861			
Emergency Lighting testing - monthly		100.00%	100.00%	100.00%	→	100%	
	676	676	676	676			
Lightning Protection testing		100.00%	95.35%	95.35%	→	100%	
	43	43	41	41			Kipling and Dryden cannot be completed until external works are completed. Due to be completed December.
PAT Testing		100.00%	100.00%	100.00%		100%	
	49	51	49	49			
LIFT COMPLIANCE							
Monthly maintenance		100.00%	100.00%	100.00%	→	100%	
	19	19	19	19			
Annual servicing		100.00%	100.00%	100.00%	→	100.00%	
	19	19	19	19			
Bi-Annual insurance certificate		100.00%	100.00%	100.00%	→	100%	
	19	19	19	19			
Lift Compliance - PSL					→	100%	

LEGIONELLA COMPLIANCE							
L8 Legionella Reports - High Risk		100.00%	100.00%	100.00%	→	100%	
	34	34	34	34			
High Risk Properties on monthly testing programme	21	21	21	21			
High Risk Properties on six monthly testing programme	13	13	13	13			
L8 Legionella Reports - Low Risk		100.00%	100.00%	100.00%	→	100%	
	1430	1430	1430	1430			
Overdue actions from L8 reports							
High - to be completed within 3 months	0	0	0	0	→	0	
Medium – to be completed within 6 months	0	0	0	0	→	0	
Low – to be completed within 12 months	25	12	12	12	→	0	12 outstanding on remedial due to ongoing access issues
L8 Legionella Reports - PSL					→	100%	
L8 Legionella Reports - 2 Year Review Programme		0.00%	98.67%	96.87%	↓	100%	
	830		819	804			26 over two year review due to access issues, reviewing our approach
ASBESTOS COMPLIANCE							
Asbestos Surveys - Domestic		38.14%	42.23%	45.57%	↑	100%	
	9700	3700	4096	4420			
Asbestos Surveys - Communal		100.00%	100.00%	100.00%	→	100%	
	1138	1138	1138	1138			
Asbestos Surveys - Garages		100.00%	100.00%	100.00%	→	100%	
	143	143	143	143			
Asbestos Surveys - PSL					→	100%	

Housing Compliance Action Plan

(Completion of all actions will take us to a BAU state)

Ref	Action Source	Code	Action	Lead	Due Date
CAP1	Risk - Asbestos	**C1**	**Ensure the full surveying programme is in place as per the asbestos regulations**	**Gary Mitchell**	**Oct 2020**
			Comments		
			Program complete and Keystone fully updated		
			Milestones		*Progress*
			Communal programme completion	Ranie Goolcharan	Oct 2020
			Garage Programme completion	Ranie Goolcharan	Aug 2020
CAP2	Risk - Asbestos	**C1**	**Policies to be written and go through governance**	**Garry Knights**	**Oct 2020**
			Comments		
			Provide clear policies which can be published to all stakeholders		
			Milestones		*Progress*
			Take to SMT	Garry Knights	August 2020
			Take to SLT	Garry Knights	Sep 2020
			Take to Themedboard	Garry Knights	Sep 2020
			Publish policies (see below)	Garry Knights	Sep 2021
			Develop an overall comms strategy to include publishing of polices, FRAs, compliance information and guidance	Garry Knights	Jan 2021
			Deliver comms approach as approved by Compliance board – note this is now forming part of the website review process	Garry Knights	Feb 2022
CAP3	Risk - Asbestos	**C1**	**Asbestos register to be fully populated and maintained in Keystone**	**Gary Mitchell**	**Dec 2020**
			Comments		
			Database fully updated		
			Milestones		*Progress*
			All communal surveys on asbestos register	David Moosapoor	Dec 2020

			Garage surveys on asbestos register	David Moosapoor	Oct 2020
CAP4	Risk - IT	**C2**	**CADI project implementing keystone modules fully operational**	**Gary Mitchell**	**Mar 2021**
			Comments		
			Successfully move from the current use of individual spreadsheets to a fully integrated system Delays to project (Data matching, Procurement and IT processes)		
			Milestones		*Progress*
			Full keystone system review undertaken	John Mitchell	Sep 2020
			To-be processed mapped and ready	John Sanders	Oct 2020
			System design work and data update	John Mitchell	Sept 2021
			Go live	John Mitchell	Dec 2021
CAP5	Risk - IT	**C2**	**Relevant staff being trained on keystone**	**Gary Mitchell**	**Mar 2021**
			Comments		
			Delays in training due to delays in finalising the work flows		
			Training programme delivered to all new starters		
			Milestones		*Progress*
			All officer suitably trained for go live	John Mitchell	Nov 2021
CAP6	Risk - IT	**C2**	**Swordfish to be fully populated with compliance data**	**Gary Mitchell**	**Mar 2021**
			Comments		
			Swordfish is currently being used as primary storage repository for new certificates and significant older data populated into the system		
			Milestones		*Progress*
			All historic documents on swordfish	Ranie Goolcharan	Mar 2021
			Swordfish process for all new documents to be stored	Ranie Goolcharan	Sep 2020
CAP7	Risk – Staff/team	**C3**	**Review JDs ahead of all permanent recruitment to ensure relevance and market salary**	**Gary Mitchell**	**Dec 2020**
			Comments		
			JDs submitted for evaluation. Now to become part of a larger reorganisation within Property Services		
			Milestones		*Progress*
			New JDs to be completed for all Property Services	Gary Mitchell	Mar 2021

CAP8	Risk – Staff/team	**C3**	**Training programme to be developed for growing our own compliance officers**	**Garry Knights**	**Mar 2021**
			Comments		
			Training identified in policies and will work with Occupational Development and apprenticeship team		
			Milestones		*Progress*
			All staff trained following reorganisation		Mar 2022
CAP9	Risk – Staff/team	**C3**	**Develop additional team capacity, take through relevant governance and recruit**	**Gary Mitchell**	**May 2021**
			Comments		
			Will begin recruitment in October.		
			Milestones		*Progress*
			New reorganisation underway to include all of Property Services	Gary Mitchell	Nov 2021
			Permanent recruitment to be completed	Gary Mitchell	Feb 2022
CAP10	Risk – Fire Safety	**C5**	**Deliver Type 4 FRA programme for high, medium and low risk buildings**	**Gary Mitchell**	**Oct 2021**
			Comments		
			This is an ongoing programme of FRAs and reassessments, this action reflects the completion of the first type 4 for each property		
			Milestones		*Progress*
			Completion of full programme in high risk buildings	Ranie Goolcharan	Jan 2020
			Completion of full programme in medium and low risk buildings	Ranie Goolcharan	Oct 2021
CAP11	Risk – Fire Safety	**C5**	**Develop asset sustainability model**	**Garry Knights**	**Dec 2020**
			Comments		
			Saville's working with Housing asset management team to deliver a model		
			Milestones		*Progress*
			Completion and application of model		Nov 2020
CAP12	**Risk – Fire Safety**	**C5**	**Long terms works programmes to deliver FRA works to be developed and procured**	**Gary Mitchell**	**Nov 2021**
	Risk – Compliance Management	**C6**	*Comments*		
			14 individual packages identified		

			Delays to procurement due to the removal of consultant. New consultant being sought via Bloom Looking to extend contracts for a further year		
			Milestones		*Progress*
			Appoint consultant to support	Gary Mitchell	Aug 2020
			Scope and strategy to be agreed	Gary Mitchell	Nov 2020
			All packages procured, all contracts to be in place to replace existing arrangement mobilised by April 2022	Gary Mitchell	April 2023
CAP13	Risk- Compliance Management	**C6**	**Stock data to be validated to create single point of truth in the compliance system**	**Garry Knights**	**Dec 2020**
			Comments		
			working with land registry to match land titles and identify core property list to reconcile to systems		
			Milestones		*Progress*
			Land registry data matching exercise	Garry Knights	May 2021
			Data matching and error correction to Keystone and Open Housing	Garry Knights	Dec 2021
CAP14	Risk- Compliance Management	**C6**	**KPIS reporting being reviewed by external expert and honed where necessary**	**Garry Knights**	**Dec 2020**
			Comments		
			KPI reports currently presented to Compliance Board, SLT, and Cabinet		
			Milestones		*Progress*
			Appoint Savills to undertake as part of their critical friend work	Garry Knights	11 Sep 2020
			Review and implement changes once feedback received	Garry Knights	Dec 2020
CAP15	Risk – Building Safety Bill	**C11**	**Continue to monitor changing legislation and make relevant changes as required**	**Gary Mitchell**	**Mar 2022**
			Comments		
			Principally review the new Building safety Bill and Fire Reform Orders. Unsure as to exact date these will be enacted		
			Milestones	*Date*	*Progress*
			Ongoing		

CAP16	Risk - Governance	**C12**	**Undertake External Audit**	**Patrick Odling-Smee**	**May 2021**
			Comments		
			This review will now be done by external auditor Mazaars		
			Ongoing. Final draft sent to Mazars 30/9/21		
			Milestones	*Date*	*Progress*
			Agree Terms of reference and appoint auditor	Patrick Odling-Smee	Feb 2021
			Complete assessment and provide report	Patrick Odling-Smee	Nov 2021
CAP17	Risk - Governance	**C12**	**Appoint critical friend to cabinet**	**Garry Knights**	**Oct 2020**
			Comments		
			Milestones		*Progress*
			Appoint Savills to undertake as part of their critical friend work	Garry Knights	Sep 2020
			Hold initial workshop with Cllr White and Cllr Chapman	Garry Knights	Sep 2020
			Provide all feedback to Cabinet including standard questions	Garry Knights	Dec 2020
CAP18	Risk - Finance	**C13**	**Ensure budgets include all compliance programmes and likely programmes flowing from the BSB**	**Garry Knights**	**Nov 2020**
			Comments		
			Milestones		*Progress*
			Budget setting process	Garry Knights	Nov 2020
CAP19	Action Plan	**5**	**Develop and deliver a training plan for staff on compliance**	**Gary Mitchell**	**Mar 2021**
			Comments		
			Milestones		*Progress*
			Training plan identified in compliance polices	Gary Mitchell	Sep 2020
			Identify how/who these can be deliver by	Gary Mitchell	Dec 2020
			Work with HR and H&S as how best to deliver and record	Gary Mitchell	Mar 2021

CAP20	Action Plan	**11**	**Develop a communication strategy for publishing compliance information**	**Gary Mitchell**	**Mar 2021**
			Comments		
			Milestones		*Progress*
			Basic compliance information shown on website	Ranie Goolcharan	Dec 2020
			Information included in tenancy handbooks	Ranie Goolcharan	Jan 2021
			Communication strategy to be developed for compliance board to approve	Ranie Goolcharan	Mar 2021
CAP21	Action Plan	**12**	**Ensure internal audit is arranged to review progress**	**Garry Knights**	**Mar 2021**
			Comments		
			Milestones		*Progress*
			Provisional date of Q4 2020/21 agreed	Garry Knights	Sept 2020
			Complete audit	Internal audit team	Mar 2021
			Note – see CAP16 - A full audit will now be undertaken by Mazaars and internal audit will therefore not conduct an additional one at this time. Internal audit will add to forward plan		
CAP22	Action Plan	**15**	**Notice of deficiencies resolved**	**Ranie Goolcharan**	**Oct 2020**
			Comments		
			All NoDs have been signed off		
			Milestones		*Progress*
			Formal sign off of NODs	Ranie Goolcharan	July 2020
			Note – all old NODs have been completed and signed off, however the process of ongoing review by the LFB will likely result in new NODs, we have clear processes in place for working with the LFB to minimise where possible and dealing with new NODs as they arise		Jan 2021

								Current Risk Score									Projected Risk Score		
Risk Number	Risk Title	Risk Description	Risk Cause	Risk Effect	Mitigating Controls	Governing Body	External Audit	Impact	Likelihood	Risk Rating	Risk Owner	Date Risk Reviewed	Date Next Review Due	Direction of Travel (since last review)	Proposed Mitigating Controls	Officer Responsible for Proposed Control	Impact	Likelihood	Risk Rating
C1	**Asbestos Register is incomplete**	safety risk to residents and operatives/staff due to poor management of material	All assets have not got up to data asbestos survey	Financial - High Reputation - Medium	Surveying programme complete. Register fully updated Policies and management plans in place Clear process to deal with action which flow from surveys in place	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives. Processes and systems were interrogated by the appointment of a critical friend, Savilles, and measures suggested have been implimented. An external audit by has been ordered and we will act on the findings.	4	1	4	Garry Knights	Feb-21	Jul-21		Full surveying programme is complete for communal areas and garages. We have a full, informed asbestos register. Cyclical program to ensure we rmain fully compliant	Resident Safety and Compliance Manager	4	1	4
C2	**IT**	Lack of IT Interface & Information management system for compliance	Poor IT infrastructure of officers incorrectly or not using databases and systems	Financial - Medium Continuity of Service - Medium Health & Safety - High	Some compliance data on database (keystone), some held on spreadsheets and other systems Some officers trained and using and updating keystone Some contractors providing information in a way which can be uploaded to keystone all certificates stored on swordfish and link to keystone	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives	3	4	12	Garry Knights	Feb-21	Jul-21		CADi project working on getting keystone module fully operational Staff being trained on keystone Swordfish being populated	Resident Safety and Compliance Manager	3	1	3
C3	**Staff/team**	Lack of suitably trained / qualified staff to manage service - All H&S Team are temp staff	Difficult to recruit staff on currently salary bands, given knowledge and experience required and london market	Potential threat to delivery of daily operational needs as a result of a lack of specialist staff who can respond to issues or emergency events that require immediate attention	Team using Interims where required. All support staff roles filled with permanent and fully trained officers.	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives	4	3	12	Garry Knights	Feb-21	Jul-21	↑	Restructure approvedrecruitment in train	Resident Safety and Compliance Manager	4	1	4
C4	**Brexit**	Material & Labour Shortages or delays to Supply Chain	Operational	Delivery of core services can be negatively affected and reduction to emergency operational responses if building materials, fuel or labour were unavailable or import shortages, market forces, delays due to	We have engaged within supply chain who have confirmed they sufficient future capacity	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency		4	1	4	Garry Knights	Feb-21	Jul-21			Resident Safety and Compliance Manager	4	1	4

COMPLIANCE

C5	**Fire Safety**	Regulatory FRA surveys and works not being managed & remedial works not being delivered	Regulation Health & Safety	FIRE Risk management has been intensified by government over the last 2 years and upcoming legislation is due to enforce compliance and stricter overviews of housing providers;	Type 1 FRAs held for all relevant properties Most actions from TYPE 1 FRAs have been completed within timescales Ongoing programme of TYPE 4 FRAs in place Day to day actions go to term contractor and 2 supporting contractors Housing management deal with clutter and clearance from common areas	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives. Processes and systems were interrogated by the appointment of a critical friend, Savilles, and measures suggested have been implimented. An external audit by has been ordered and we will act on the findings. Close working relationship built up with the LFB who regularly audit our blocks and processes	**4**	**1**	**4**	Garry Knights	Feb-21	Jul-21		All relevant buildings now have a valid FRA and works being managed	Resident Safety and Compliance Manager	**4**	**1**	**4**
C6	**Compliance Management**	Poorly developed delivery programmes, lack of data control, lack of understanding of our stock lack of clarity over reporting information and KPIs	poor delivery methods, lack of data management and control	Regulatory breaches, possible notices / fines or investigations from HSE. Possibility of Prosecution under Corporate Manslaughter Act for Senior Managers; Housing Rating System breaches and risk of harm or injury to staff or other personnel due to poor management of essential safety systems	Delivery programmes in place Stock data is held across two systems KPIs and programme reporting developed and going through governance routes. Protocols now in place to store data on shared systems rather than spread sheets. Instant uploads by the team ensure data is captured in real time and allows accurate reporting	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives. Processes and systems were interrogated by the appointment of a critical friend, Savilles, and measures suggested have been implimented. An external audit by has been ordered and we will act on the findings. We also employ PCM to audit gas	**4**	**2**	**8**	Garry Knights	Feb-21	Jul-21	↑	Stock data is being validated to create single point of truth KPIS reporting continues to be honed and is being reviewed by external expert New long term procurement of contracts	Resident Safety and Compliance Manager	**4**	**1**	**4**
C7	**Corona virus**	Labour shortages due to possible pandemic. Both internally and Contractors/supply chain	lockdowns, operative infected	Delivery of core services could be negatively affected and a possible reduction to emergency operational responses if labour were unavailable or there was an impact on import or supply of	Robust contingency plan provided by contractors include future lockdowns and office closures	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency		**3**	**2**	**6**	Garry Knights	Feb-21	Jul-21		constant review of RAMS and working practices. Unknown risk at the moment	Resident Safety and Compliance Manager	**3**	**2**	**6**
C8	**Covid 19 effect on compliance staff**	impact of virus affecting staff and the day to day delivery of the service	spread of the virus	Loss of staff leading to being unable to deliver core compliance and health and safety functions from the client side	Home working, Hand Washing. Reminders to staff about hand washing social distancing. Respect the 2m distancing advice. PPE. When on site wear mask and gloves and sanitise before and after being on site. Symptoms,	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency		**3**	**2**	**6**	Garry Knights	Feb-21	Jul-21		Staff now banned from the office unless agreed by Director. New equipment supplied to aid working from home	Resident Safety and Compliance Manager	**3**	**2**	**6**
C9	**Challenges to Procurement**	Procurement of long-term contractors are the procurement and approvals process	Lengthy & complex procurement processes & timeframes involved in engaging contractors within Compliance field	The compliance team are presently using interim contractors that have been set-up under temporary agreements and 14 contracts need to be procurement under revised 5-7 year agreements;	Access to Corporate Procurement team Support from Programme Office and Democratic Services. Using consultants portal to reduce the risk. Notice has been published and procurement moving forward,	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives.	**5**	**4**	**20**	Garry Knights	Feb-21	Jul-21		External consultants used to support procurement of 14 new compliance packages	Resident Safety and Compliance Manager	**2**	**2**	**4**

C10	**Home & Remote Working Impact**	Remote working for surveying staff has been challenging to monitor & manage lone working. And home working for admin staff has also had issues with equipment failure and IT issues. Inevitably, this also affects performance.	Remote & Home working, initially due to Covid19, has now become the new way for Council staff;	Arduous to track lone working team members who use a check-in & diary update system due to lack of ID's; Tasks require more time resources as it takes longer than it previously did due to delayed feedback & technology rather than face-to-face.	Smart Working equipment provided. New methods of work being introduced. Strict lone-working checks are done by keeping track of remote workers; Mental health & Wellbeing support is available from Corporate services; Staff coming in into the office on a rota basis DSE assessments undertaken	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency		2	2	4	Garry Knights	Feb-21	Jul-21			Resident Safety and Compliance Manager	2	2	4
C11	**Building Safety Bill**	Bills brings additional duties and requirements	Bill is in draft form and we are unsure as to the exact impact	additional compliance programmes will be required or additional restrictions which may required significant additional spend and mean we are initially non-compliant	Policies have been written to reflect known changes Type 4 FRAs take and enhanced approach	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives	3	2	6	Garry Knights	Feb-21	Jul-21		Continue to monitor changing legislation	Resident Safety and Compliance Manager	3	1	3
C12	**Governance**	Insufficient governance is in place to oversee all areas of compliance	Poor governance could lead to slippages of programmes and non compliance	Non compliance, sanction from Social Housing Regulator, HSE and Building Safety Regulator	Compliance Board Clear reporting overview by SLT and ThemedBoards external reviews	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives	4	1	4	Garry Knights	Feb-21	Jul-21		Internal audit completed and actions being managed	Resident Safety and Compliance Manager	4	1	4
C13	**Finance**	Insufficient budget provision is made to adequately deliver all compliance and associated programmes	Insufficient monies available and with change legislation difficult to ascertain actual required budgets	non compliance, sanction from Social Housing Regulator, HSE and Building Safety Regulator	Annual budget setting provide opportunity to ensure adequate funding is in place	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	periodic external audits to ensure independant and objective assurance and advice on all matters related to the acheivement of objectives.	4	1	4	Garry Knights	Feb-21	Jul-21		Budget setting must include all current programme plus likely future programme flowing from the building safety bill	Resident Safety and Compliance Manager	4	1	4
C14	**Delays/slow delivery of programmes**	programmes of compliance work are not undertaken quickly enough to manage the risk	poor planning, insufficient resource,	non compliance, sanction from Social Housing Regulator, HSE and Building Safety Regulator, incident in one of our properties	sensible, deliverable programmes are developed, contractors are chosed on ability to deliver the programme, sufficient back office resourced available to manage the programmes and data which flow	Risk register available monthly to SLT and Cabinet via themed boards to monitor and challenge management of the risks. And provide intergrity, leadership and transarency	External legal advise form Devonshires confirmed current approaches are sensible - *Havering must comply with its obligations within a framework that is both practicable and realistic.*	4	1	4	Garry Knights	Mar-21	Jul-21		Appropriate programmes are in place to deliver with reasonable and practicable timescales	Resident Safety and Compliance Manager	4	1	4

HAVERING LONDON BOROUGH

Audit Committee	22 February 2022
Subject Heading:	**2021/22 Treasury Management Mid Year Report.**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **(Chief Operating Officer)**
Report Author and contact details:	**Tony Piggott / Stephen Wild** **Tony.Piggott@onesource.co.uk** **Stephen.Wild@onesource.co.uk** **01708 434 368 / 0203 373 3881**
Policy context:	**The code of practice on treasury management 2017 requires that the Authority be provided with a Mid-year report on treasury activities**
Financial summary:	**There are no direct Financial implications from the report**
Is this a Key Decision?	**NO**
When should this matter be reviewed?	**Bi-Annually**
Reviewing OSC:	**Overview and Scrutiny Board**

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[]

Connections making Havering []

SUMMARY

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code") require authorities to produce a mid-year report on their treasury management activities.

The Authority's Treasury Management Strategy Statement (TMSS) for 2021/22 was approved at the Cabinet meeting on 26th February 2021 and at Full Council on the 3rd March 2021.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the Mid-Year report are as follows:

- At the end of November 2021 the investment portfolio return was **0.24%** compared to the bank rate at **0.10%.**
- Net interest outturn is expected to be within budget.
- There was no breach of the Authority's prudential indicators and treasury indicators.
- The authority borrowed £50m fixed rate (av. 1.5%) long term debt close to the year low to fund the capital programme and reduce reliance on short term interest rates.

RECOMMENDATIONS

- To note the treasury management activities to November 2021 are detailed in the report.
- To note LIBOR ceased to be supported and published by the banks from the 31st December 2021, being replaced by SONIA - this will be Treasury's benchmark reference rate from the 1st January 2022.

REPORT DETAIL

Background

1.0 Treasury management

1.1 The authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The other main function of authority's treasury management operation is to help fund its capital plans. These capital plans provide a guide to the borrowing need of the authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives.

2.0 Introduction

2.1 This report has been written in accordance with the requirements of the CIPFA TM Code.

2.2 This is the Mid-Year Review Report required by the TM Code and covers the following:

- Economic update for the first part of the 2021/22 financial year.
- Treasury Management Summary to November 2021.
- Review of the authority's borrowing strategy for 2021/22
- Review of the authority's investment portfolio for 2021/22
- Review of compliance with Treasury and Prudential Limits for 2021/22.

3.0 Economics and interest rates

3.1 Economics update

The Monetary Policy Committee (MPC) at its meeting on the 16th December 2021 voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
A disappointing 0.1% month on month rise in GDP in October suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government restrictions across the UK could further limit economic expansion and potentially lead to a contraction in December.

The latest CPI inflation figure at 5.1% confirmed how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies). Other elements of inflation are considered transitory e.g. prices of goods being forced up by supply chain shortages and increased shipping costs. Economists remain divided on whether increased inflation is transitory or sustained. Presently the markets seem to agree with the MPC's view that inflation will return to its target rate of 2% in the medium term.

3.2 Interest rate forecasts

The authority's treasury advisor, Link Asset Services (LAS), has provided the following updated interest rate forecast for base rate and medium term PWLB issuance in **Appendix A**:

4.0 Treasury Management Summary

4.1 The mid year treasury management position is shown in table 1 below.

Table 1: Treasury Management Summary as at 30th November 2021

Investments	01.04.21 £m	Movement £m	30.11.21 £m	Weighted Average Rate %
Fixed Deposit	90.0	-6.0	84.0	**0.30**
Money Market Funds	11.1	26.9	38.0	**0.01**
Call Account	20.0	0	20.0	**0.40**
Total investments	**121.1**	**20.9**	**142.0**	**0.24**
Loans				
PWLB	258.2	25.0	283.2	**3.02**
Banks (LOBO)	7.0	0	7.0	**3.60**
Temporary Borrowing	10.0	-10.0	0	**0.10**
Other L/T borrowings	0.5	0.4	0.9	**0.38**
Total Loans	**275.7**	**15.4**	**291.1**	**3.03**

4.2 The Authority's treasury investments as at 30th November 2021 totalled **£142m** and comprised of **£34m** deposited with local authorities, **£45m** with banks, **£25m** with the Government's Debt Management Office (DMO) and **£38m** in Money Market Funds (MMF).

4.3 Appendix B shows the breakdown of the authority's investments.

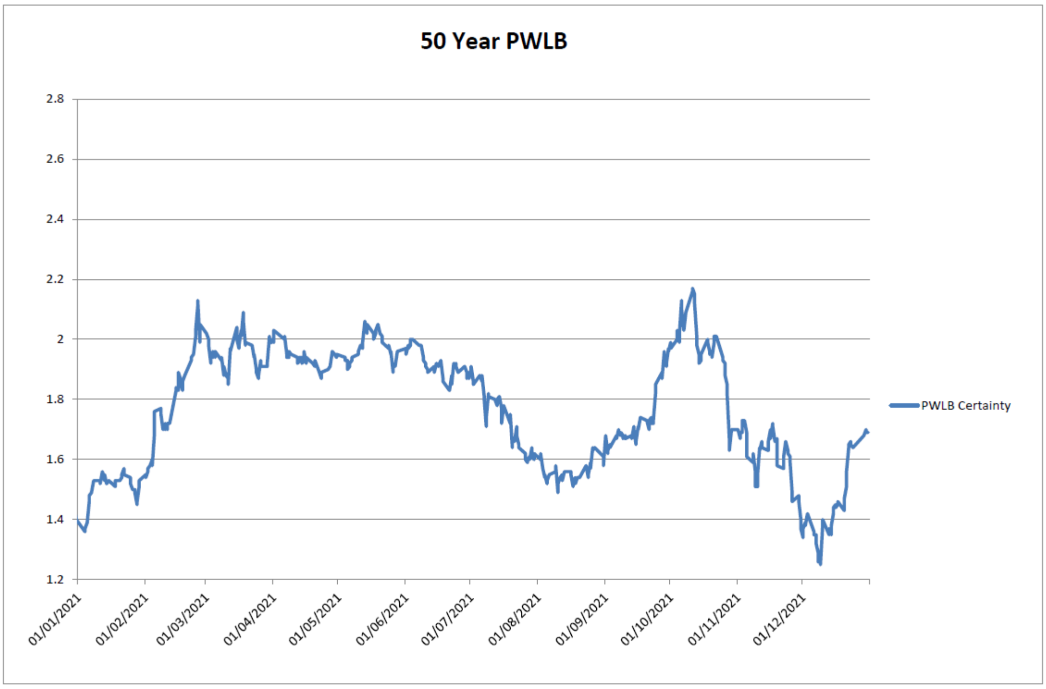
5.0 Borrowing Strategy

5.1 Detail

The short term strategy involves using the Authority's cash balances to fund the 2021/22 borrowing requirement in the capital programme. The Theme Board in July 2021 recognised that it was appropriate to start considering taking long term PWLB borrowing up to £121m to fund historic capital expenditure. This was partially utilised with the issuance of two £25m 50 year Fixed PWLB trades one in November and one in December at **1.70%** and **1.43%** respectively, bringing the overall funding cost of the debt portfolio to **2.90%**. Cash balances were higher than planned due to capital slippage which limited the need for further long term debt. PWLB debt remained the most economical source of capital finance.

During 2021 50 year PWLB rate peaked at 2.16%. The Authority borrowed close to the PWLB rate low in 2021.

Graph 1: 50 Year PWLB borrowing rate 2021



5.2 *Debt Rescheduling*

The possibility of debt rescheduling is regularly discussed with our treasury adviser. However opportunities have been almost non-existent in the current economic climate. The current PWLB rules on redemption are prohibitive and costly.

5.3 *LOBO's*

The Authority holds a £7m LOBO loan with Danske Bank that has the option to propose an increase in the interest rate at set dates, while the Authority has the option to either accept the new rate or to repay the loan at no additional cost. LAS stated there is a low probability that the lender will propose an increased rate in the foreseeable future. Officers will continue to monitor and discuss with Danske Bank going forward.

6.0 Budgeted Income and Return

6.1 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 2 below:

Table 2: 2021-22 Treasury Investment Performance to 30th November 2021

Period	Benchmark Average 3 month LIBOR	Budget Rate %	Actual Rate %
1/4/21 to 30/11/21	0.08	0.42	0.24

6.2 The authority outperformed its benchmark during the period. This was achieved by locking into longer term deposits to mitigate the impact of lower short term interest rates. This strategy has achieved a better return for 2021-22 investment income.

6.3 It is expected that the average 3 month LIBOR will rise slightly by year end as liquidity remains abundant in the markets even after the recent base rate increase. Investments are being kept in shorter maturities so funds are available to finance the forecasted CFR spend during the remainder of the financial year.

6.4 The deferral of long term borrowing and the delays to capital expenditure due to the ongoing pandemic has meant investment balances are running higher than planned earlier in the year, this has offset the lower short term interest rates available. This has also contributed to savings in the interest payable budget.

6.5 From the 1st January 2022 LIBOR will cease to be supported and published by the banks being replaced by SONIA, see explanation in appendix D. Accordingly treasury will use SONIA going forward to benchmark activities and performance.

7.0 Current Investment Opportunities

7.1 The Authority is occasionally made aware of long term investment opportunities within oneSource, brokers or investment advisers. By extending the number of regulated brokerage firms it provided more competition and resulted in deals being agreed that best meets the authority’s requirements.

7.2 Cabinet on the 26th February 2021 approved changes to the Treasury Management Strategy Statement (TMSS) which facilitate investment in a wider range of products.

8.0 Changes in risk appetite

8.1 The 2017 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to members' attention in treasury management update reports.

9.0 Compliance with Prudential and Treasury Indicators

9.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. The Authority's approved 2021/22 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the TMSS 26th February 2021.

9.2 During the period, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority TMSS and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in **Appendix C** of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

Year to date treasury activity is in accordance with the Authority's approved TMSS. There have been no breach in the Authority's treasury indicators and prudential indicators set out in the TMSS.

It is expected that the authority's net interest costs will be within budget in 2021/22 and any new borrowing undertaken for the capital programme for remainder of 2021/22 will be in accordance with the Authority's treasury limits and prudential indicators.

Legal implications and risks:

The Committee is required to have a full understanding of all financial risks and be satisfied that they are commensurate to its overall budget and that the Council is not exposed to any unacceptable, unnecessary or disproportionate risk in the management of its financial affairs.

Members also need to feel assured that there has been no breach of the Authority's prudential indicators and treasury indicators.

Human Resources implications and risks:

There are no HR implications from this report

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.

Health and Wellbeing Implications and Risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Council's workforce and resident's health and wellbeing as a result of this report.

BACKGROUND PAPERS

Appendix A

Interest Rate Forecast

Provided by Link asset services

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Appendix B

Table 1 breakdown of Investments as at 30th November 2021

Start Date	Maturity Date	Counterparty	Broker	Rate	Principal (£)
02/12/20	01/12/21	Wrexham County Borough Council	Tradition	0.2500%	5,000,000.
18/11/21	01/12/21	Uttlesford District Council	Tullett Prebon	0.0200%	4,000,000.
10/12/20	09/12/21	London Borough of Haringey	BGC	0.2000%	5,000,000.
18/12/20	17/12/21	Slough Borough Council	BGC	0.2500%	5,000,000.
15/07/21	31/12/21	Goldman Sachs International	Tullett Prebon	0.1650%	5,000,000.
05/01/21	04/01/22	Wokingham Borough Council	Tradition	0.2000%	5,000,000.
19/11/21	19/01/22	DMO (Debt Management Account Deposit Facility)	direct	0.0300%	10,000,000.
02/08/21	01/02/22	Goldman Sachs International	Tradition	0.1750%	5,000,000.
18/11/21	18/02/22	DMO (Debt Management Account Deposit Facility)	direct	0.0500%	15,000,000.
24/11/21	24/02/22	Nationwide Building Society	BGC	0.0500%	5,000,000.
22/06/21	21/06/22	London Borough of Southwark	BGC	0.1000%	5,000,000.
29/09/21	29/06/22	Australia and New Zealand Banking Group Limited	Tullett Prebon	0.2800%	5,000,000.
05/07/21	01/07/22	Mid Suffolk District Council	Tradition	0.1000%	5,000,000.
15/10/21	15/07/22	Goldman Sachs International	Tradition	0.5100%	5,000,000.
Deposit Total				**0.1492%**	**84,000,000.**
Call - 95 day notice		Santander UK plc		0.4000%	20,000,000.
Call Account Total				**0.4000%**	**20,000,000.**
MMF		Federated Prime Rate Sterling Liquidity 3	ICD Ltd	0.0100%	20,000,000.
MMF		BlackRock ICS	ICD Ltd	0.0100%	18,000,000.
MMF Total				**0.0100%**	**38,000,000.**
					142,000,000.

Appendix C

Compliance Report

All treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Interest Rate Exposure

1.1.1 This indicator is set to limit and control the Authority's exposure to adverse movements in short term interest rates during the current financial year and over the forecasted period. The upper limit on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed are as follows:

Table1: Interest rate exposure activity

	2021/22 Limit %	2021/22 Actual 30/11/21 %	2022/23 Limit %	2023/24 Limit %
Upper limit on fixed interest rate exposure	100	99.6	100	100
Upper limit on variable interest rate exposure	25	0.4	30	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

1.2 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are as follows:

Table 2: Loan maturity structure as at 30th November 2021

	Upper %	Lower %	Actual %
Under 12 months	40	0	0.38
12 months and within 24 months	60	0	0.00
24 months and within 5 years	80	0	1.38
5 years and within 10 years	100	0	29.39
10 years and above	100	0	68.85

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.3 Principal Sums Invested for Periods Longer than 365 days

1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.3.2 The limits set in the 2021/22 treasury management strategy in comparison to the half year are set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 365 days

	2021/22 Limit £m	2021/22 Actual 30.11.21 £m	2022/23 Limit £m
Limit on principal invested beyond year end	75	0	75

1.4 Gross Debt and the Capital Financing Requirement (CFR)

1.4.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 4: Gross debt and the CFR

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m
Long Term External Debt	275.7	291.1	291.1	291.1
CFR	401.5	587.8	874.8	1,039.8
Internal Borrowing	125.8	296.7	583.7	748.7

1.4.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below. Officers will replace internal borrowing with external borrowing when it is favourable to do so.

1.5 Operational Boundary for External Debt

1.5.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The Authority long term debt as at 30.11.2021 is £291.1m and no limit has been exceeded.

Table 5: Operational Boundary

Operational Boundary	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	465.0	558.0	631.0
Other long-term liabilities	10.0	10.0	10.0
Total	475.0	568.0	641.0

1.6 Authorised Limit for External Debt

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

Table 6: Authorised limit for external debt

Authorised Limit	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	698.0	837.0	946.0
Other long-term liabilities	10.0	10.0	10.0
Total Debt	708.0	847.0	956.0
Long Term Debt	291.1	291.1	291.1
Headroom	**416.9**	**555.9**	**664.9**

Appendix D

Glossary of Terms

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A bail-in is the opposite of a bail-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation.

There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

GDP the monetary value of all finished goods and services made within a country during a specific period.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.
Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.
Monetary Policy Committee (**MPC**) is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

LIBOR London interbank offer rate, the average of a daily submission by various banks for where they offer funds in different maturities.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

Havering LONDON BOROUGH

Audit Committee	**22nd February 2022**
Subject Heading:	**Treasury Management Strategy Statement 2022/23 and Annual Investment Strategy 2022/23 ("TMSS"), Treasury Indicators**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **Chief Financial Officer**
Report Author and contact details:	**Tony Piggott / Stephen Wild** **Tony.Piggott@onesource.co.uk** **Stephen.Wild@onesource.co.uk** **01708 434 368 / 0203 373 3881**
Policy context:	**The CIPFA Code of Practice ("CIPFA TM Code") on treasury management 2017 recommends that the TMSS is reported to a scrutiny committee for effective scrutiny- this role is undertaken by the Audit Committee and this report will be reviewed at its re scheduled meeting on the 22nd February 2022 and final version of the report will be presented to Full Council on 2nd March 2022.**
Financial summary:	**The TMSS forms part of the Authority's overall budget strategy and financial management framework.**
Is this a Key Decision?	**No**

When should this matter be reviewed? **Annually**

Reviewing OSC: **Overview and Scrutiny Committee**

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

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

SUMMARY

The TMSS is part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) TM Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The Local Government Act 2003 requires authorities to comply with both codes. The TMSS also sets out recently introduced changes to the legislative framework, which are generally designed to place restrictions on authorities' commercial activity.

This report fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Government Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators - there is a change to them from the revised CIPFA TM published in December 2021 and is discussed later in this report and will be reported upon in the 2023-24 TMSS.

RECOMMENDATIONS

Audit committee is asked to consider and comment on this report

REPORT DETAIL

1. Introduction

1.1 The Authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments in accordance with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.2 The other main function of treasury management is to help fund the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives

1.3 CIPFA define treasury management as "The management of the local Authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 Whilst any regeneration initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the "regeneration programme".

1.5 The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy, TMSS (this report) - The first, and most important report is forward looking and covers:

- The capital plans, (including prudential indicators)
- The treasury management strategy statement, (how the investments and borrowings are to be organised), including treasury indicators
- An investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.

c. An annual treasury report – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

1.6 The minimum revenue provision policy is now included in the 5 Year Capital Programme and Strategy Report which is presented to Cabinet alongside the Budget report.

1.7 The above reports are required to be adequately reviewed before being adopted by the Authority. This role is undertaken by the Audit Committee.

2. Key Considerations and Sustainability

2.1 TMSS 2022/23

2.1.1 The strategy for 2022/23 covers two main areas:

a) Treasury Management Issues

- The borrowing strategy
- Debt rescheduling
- The investment strategy
- TM regulation – newly agreed changes and consultations
- The policy on use of external service providers
- The current treasury position as shown in **appendix 1**
- The treasury indicators which limits the treasury risk and activities of the Authority; **appendix 3** these indicators are unchanged from the approved 2021/22 TMSS
- The prospects for interest rates; **appendix 4**
- The policy on borrowing in advance of need; **appendix 5** This policy is unchanged from the approved 2021/22 TMSS
- The Counterparty & Investment policy; **appendix 6 & 7** This policy is unchanged from the approved 2021/22 TMSS

b) Capital issues

- the capital expenditure plans and the associated prudential indicators are set out in **appendix 2**

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA TM Code and the Department for Levelling-Up Housing and Communities or DLUHC (formerly MHCLG) Investment Guidance.

2.2 Training

2.2.1 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters and the new Knowledge and Skills framework set out in the revised CIPFA TM Code published in December 2021. The Authority addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.

- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

2.3 **Treasury Management Consultants**

2.2.1 The Authority uses **Link Asset Services ("Link")** as its external treasury management adviser. The Authority recognises that responsibility for treasury management decisions remains with itself at all times and ensures that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are agreed and subjected to regular review.

3. Service Delivery and Performance Issues

3.1 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, shown in **appendix 2**, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 Borrowing Strategy

3.2.1 The Authority continues to utilise internal borrowing, (£125.8m at 31/3/21). This means that the capital borrowing needed as measured by the Capital Financing Requirement (CFR), has not been fully funded with external loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary expedient to fund capital spend and generate revenue savings. This strategy has been prudent as investment returns have approached zero while counterparty risk has remained an issue. As the Authority's CFR continues to grow, external cash balances will be maintained to provide a liquidity buffer of £50m (or at a level the CFO determines to be appropriate) and which is consistent with the liquidity benchmark approach advocated by CIPFA. Going forward the growth in CFR increases the Authority's exposure to short term interest rates and refinancing risk in its debt portfolio and as such is not a sustainable approach over the long term. Those risks need to be carefully managed through the judicious introduction of new long term external borrowing into the debt portfolio.

3.2.2 The CFO in conjunction with treasury will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where there is a significant risk of a much sharper rise in long and short term rates than that currently forecast, facilitated by an increase in global demand, rises in central bank rates and further increases in inflation risks, then the portfolio position will be re-appraised. Long term fixed rate funding will be drawn whilst interest rates are lower than they are projected to be over the medium to long term.

New Borrowing

3.2.3 The Authority's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

- Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the Authority's accounts and cash flow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable and protect the budget strategy from volatility in short term and long term interest rates;
- Temporary Borrowing: from the money market or other local authorities;
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources;
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio;
- PWLB: borrowing for periods across all durations where rates offer best value.
- Other borrowing arrangements: such as the use of leasing, specialist 'green' funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.2.4 The Authority will continue to borrow in respect of the following

- Maturing debt
- Approved (prudential) capital expenditure / capital investment
- To finance short-term cash flow fluctuations.

3.2.5 The type, period, rate and timing of new borrowing will be determined by the CFO under delegated powers, taking into account the following factors

- Expected movements in interest rates as outlined above
- Maturity profile of the debt portfolio set out in graph 1 and table 1 below very little new borrowing will be required to replace maturing long term debt until 2026/27 when £85m will be required over the next five years
- The impact on the medium term financial strategy, MTFS
- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Graph 1: Debt Maturity Profile

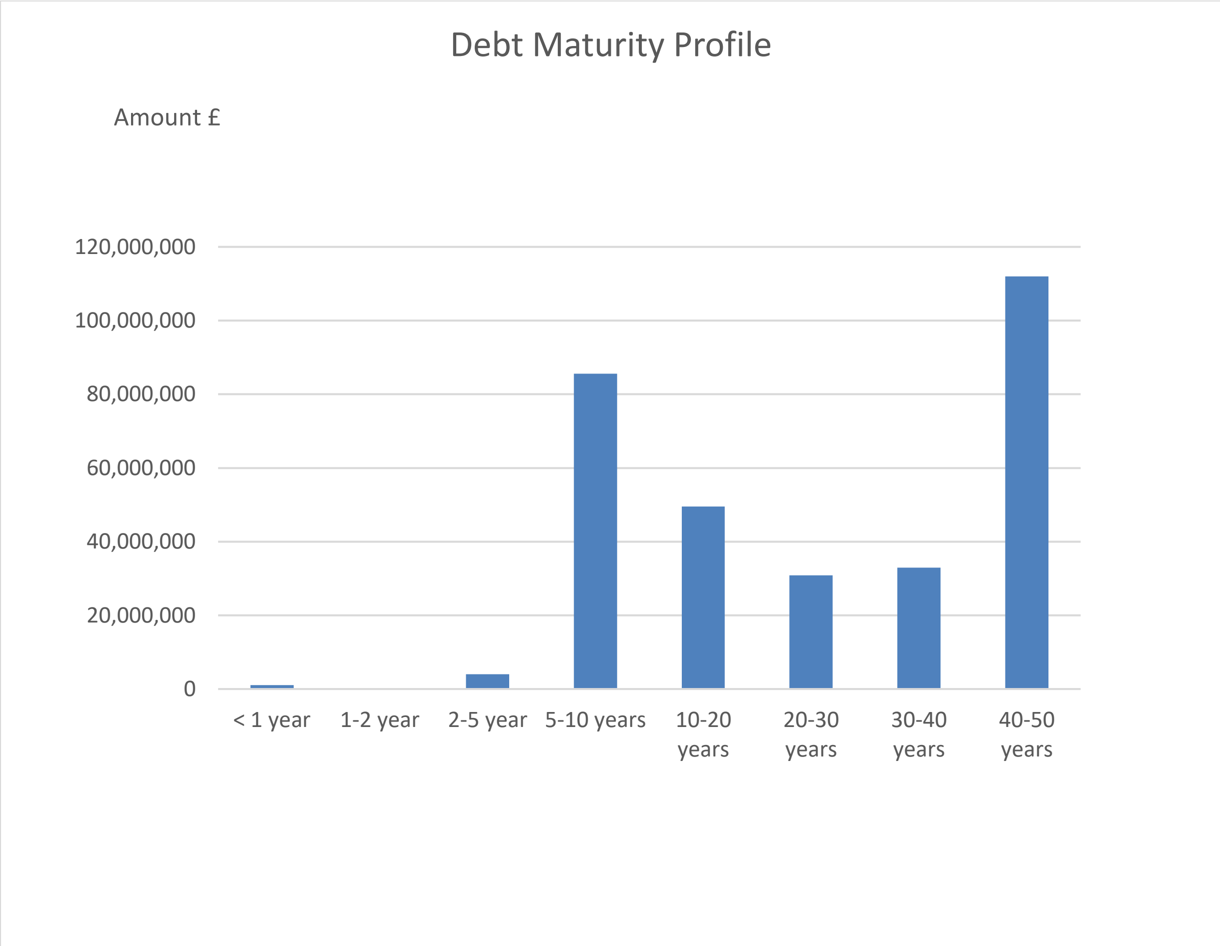


Table 1: Debt Maturity profile and cost

Tenor by time Bucket	Total £,000	Average rate %
< 1 Year	1,109	4.88
1 - 2 Years	0	N/A
2 - 5 years	4,028	3.40
5 - 10 years	85,561	3.21
10 - 20 years	49,574	3.34
20 - 30 years	30,853	3.41
30 - 40 years	32,959	5.03
40 - 50 years	112,000	1.66
> 50 Years	0	N/A
Total	316,087	2.90%

3.2.6 Appendix 2 table 2 shows estimated new borrowing of £605.1m required to fund capital expenditure between financial year end 2020/21 and 2024/25 at of which £50m PWLB borrowing has already been drawn down in 2021/22. However it should be noted that this increase in debt is unlikely to be that high due to external factors, for example, if new government grants are announced, new decisions that the Authority may take such as if new items are added/removed from the capital programme or disposals of surplus assets were to be agreed. Moreover, it also depends on the amount of slippage in the capital programme and to what extent the Authority may borrow in advance. This growth in debt will be reviewed annually against the available budget and will be adjusted to what the Authority can afford.

Treasury Management Limits on borrowing activity

3.2.7 There are three debt related treasury activity limits. The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments
- Upper limits on fixed interest rate exposure
- Maturity structure of borrowing to manage refinancing risk.

3.2.8 The indicators cover 2020/21 - 2024/25. The CIPFA Prudential Code and the CIPFA TM Code requires authorities to set treasury indicators and these are set out in **Appendix 3**. No breaches in the indicators are expected in the period covered in this report.

Policy on borrowing in advance of need

3.2.9 This is set out in **appendix 5** of this report.

Debt Rescheduling

3.2.10 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

Where short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings
- To fulfil the treasury strategy
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.3 **<u>Annual Investment Strategy</u>**

3.3.1 The DLUHC and CIPFA have extended the meaning of ‘investments’ to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team).

3.3.2 The Authority’s investment policy has regard to the following

- DLUCH’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice 2017 (“the TM Code”).

- CIPFA Treasury Management Guidance Notes 2018 and have regard to the TM Code and Guidance Notes from 2021 once the guidance notes are published.

3.3.3 The key intention of the Guidance is to maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield. The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity. Within the prudent management of its financial affairs, the Authority may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and this Authority does not engage in such activity.

3.3.4 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk, its minimum credit criteria is set out in Appendix **6**. This policy is unchanged from the approved 2021/22 TMSS.

3.3.5 The Authority will consider placing longer term treasury deals while investment rates are at historically low levels and where attractive interest rates with high quality counterparties become available.

3.3.6 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.3.7 Credit ratings should not be the sole determinant of the quality of an institution, this Authority is not bound by the agency with the lowest rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.3.8 Treasury investment instruments identified for use in the financial year are listed in **Appendix 7** This policy is unchanged from the approved 2021/22 TMSS. The 'specified' and 'non-specified' investment categories are in accordance with the DLUHC Investment Guidance.

3.3.9 The CFO will, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.3.10 All investments will be denominated in sterling.

3.3.11 The Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

3.4 Loans to Third Parties or Non Treasury investments

3.4.1 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Authority's internal cash balances as external borrowing is not permitted in such circumstances.

3.4.2 Pension Fund Cash - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Authority. These balances are invested in accordance with the Authority's Treasury Management Strategy.

The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.4.3 Pension Fund Prefunding – The Authority can choose to enter into an agreement to made advance payment to fund the employee pension contribution for up to 3 years. The benefit of this is to take advantage of discount rate provided by the Pension Fund Actuary which may result in cash saving for the Authority. The Authority has not previously adopted such advance payments.

3.5 TM regulation – newly agreed changes and consultations

3.5.1 CIPFA published revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Authority has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year..

3.5.2 The revised codes will have the following implications

A requirement for the Authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

Clarify what CIPFA expects a Local Authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment

Address Environment Social and Governance (ESG) issues within the Capital Strategy

- Require implementation of a policy to review commercial property, with a view to divest where appropriate and a requirement to have an annual strategy/policy on reviewing commercial portfolios.

Create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

Ensure that any long term treasury investment is supported by a business model

A requirement to effectively manage liquidity and longer term cash flow requirements

Amendment to Treasury Management Practices (TMP) 1 to address ESG policy within the treasury management risk framework (TMPs are detailed operational practice notes that support the treasury strategy)

Amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council

A new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

3.5.3 In addition, all investments and investment income must be attributed to one of the following three purposes

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A Council must not borrow to invest primarily for financial return.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Authority ought to approve a Treasury Management Strategy Statement, the MRP Policy Statement and the Prudential Indicators.

Other options considered:

The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The CFO, having consulted the Cabinet Member for Finance and Property, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Authority’s financial risks associated with cash management via borrowing and investments.

For the financial year 2022/23, the budget for investment income has been set at £0.25m, based on known maturities in 2022/23 and a forecasted future investment yield at 0.25%. However this may need to be revised down during the year depending on the balance between internal and external borrowing and the level of liquidity buffer kept, with any corresponding offset made to the interest payable budget.

The budget for long term debt interest payable in 2022/23 based on the current debt portfolio and future anticipated borrowing is forecasted to be £11.5m. The budget was increased in 2021/22 in anticipation of borrowing for the capital programme, Theme Board agreed borrowing increase of £121m. The ongoing COVID pandemic has led to both delays in the programme and accordingly only £50m of new long term debt being taken at historically low levels.

Based on existing and planned long term borrowing the 2022-23 budget for HRA debt interest payable has been set at £8m and General Fund interest payable at £3.5m.

Progress made on the TMSS will be reported in an half year report to Audit Committee.

Legal implications and risks:

Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 as amended to have regard to the "Prudential Code for Capital Finance in Local Authorities" and Treasury Management in the Public Services Code of Practice published by CIPFA when considering their duties under Part 1 of the Local Government Act 2003.

The Authority must comply with section 3 of the Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow.
The Authority has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at its disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent manner.

There are no other apparent legal implications arising as a result of this Report.

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks:

The Authority is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Authority's workforce and resident's health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

Appendix 1

Current Treasury Position and Capital Financing Requirement (CFR)

As at 31 March 2021 and 31st December 2021, Investments and borrowings set in table 1 below includes new borrowing of £50m from PWLB, pending capital spend.

Table1: Treasury Portfolio Position

TREASURY PORTFOLIO				
Treasury Investments	**Actual 31/3/21 £m**	**Actual 31/3/21 %**	**Actual 31/12/21 £m**	**Actual 31/12/21 %**
Banks & Building Societies	35.0	68.2	89.9	58.0
Government (including Local Authorities)	75.0	31.8	45.0	29.1
Money Market funds	0	0	20.0	12.9
Total Treasury Investments	**110.0**	**100**	**154.9**	**100**
Treasury Borrowing				
PWLB	258.2	93.7	308.3	97.5
LOBO loan from bank	7.0	2.5	7.0	2.2
Temporary loan (LA)	10.0	3.6	0	0
Other loans	0.4	0.2	0.8	0.3
Total External Borrowing	**275.6**	**100**	**316.1**	**100**
Net Treasury Investments/(Borrowing)	**(165.6)**		**(161.2)**	

The Authority’s forward projections for borrowing are summarised below in Table 2. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The expected change in debt will be influenced by changes in the CFR and long term interest rates.

However it should be noted that this change in debt is due to external factors set out in the covering report and capital slippage. Table 2 shows internal borrowing of £230m but this is dependent on the changes to the Authority’s cash backed reserves and changes in net working capital. External cash balances of £50m are maintained over the medium term to mitigate liquidity risk.

Table 2: Capital Financing Requirement (CFR) and Borrowing

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt at 1 April	**265.6**	**275.7**	**354.3**	**574.7**	**751.5**
Expected change in Debt	**10.1**	**78.6**	**220.4**	**176.8**	**111.5**
Actual gross debt at 31 March	**275.7**	**354.3**	**574.7**	**751.5**	**863.0**
The Capital Financing Requirement	**401.5**	**584.3**	**804.7**	**981.5**	**1,093.0**
Under / (over) borrowing	**125.8**	**230.0**	**230.0**	**230.0**	**230.0**

Within the above figures the level of debt relating to regeneration activities is detailed in table 3 below.

Table 3: Regeneration Programme debt

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
CFR at 31 March £m	63.4	81.6	168.7	259.3	269.4
Percentage of total CFR %	15.80	13.97	20.96	26.42	24.65

PRUDENTIAL INDICATORS **Appendix 2**

Capital expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1: Capital expenditure forecast 2020/21 - 2024/25

Capital expenditure £m	2020/21 Actual	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Non-HRA	**41.3**	**79.9**	**60.1**	**24.9**	**31.2**
HRA	**59.2**	**207.8**	**170.6**	**181.0**	**195.3**
Regeneration Program *	**17.2**	**28.6**	**168.0**	**198.1**	**23.6**
Total **	**117.7**	**316.3**	**398.7**	**404.0**	**250.1**

* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Financing of Capital expenditure forecast 2020/21 - 2024/25

Financing of capital expenditure £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	20.6	57.0	119.4	120.2	14.6
Capital grants	21.1	34.7	29.9	83.7	61.9
Revenue and Reserves	21.1	33.3	16.4	12.6	14.4
Net financing need for the year ***	**54.9**	**191.2**	**233.1**	**187.5**	**159.2**

***** Net financing need, example (**117.7- 20.6-21.1-21.1) = 54.9m)**

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Table 3: Regeneration Programme forecast 2020/21 - 2024/25

Regeneration Programme £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	17.2	28.6	168.0	198.1	23.6
Other Sources of Financing	0	0	78.0	103.5	0
Net financing need for the year	**17.2**	**28.6**	**90.0**	**94.6**	**23.6**
Percentage of total net financing need	**31.3%**	**14.9%**	**38.6%**	**50.5%**	**14.8%**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (OLTL) which relates to PFI schemes and finance leases. The Authority currently has no such liabilities within the CFR.

The Authority is asked to approve the CFR projections below:

Table 4: Capital financing requirement forecast 2020/21 - 2024/25

Capital Financing Requirement £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non Housing	125.3	153.3	167.5	176.3	177.6
Housing	212.8	349.4	468.5	546.0	645.9
Regeneration	63.4	81.6	168.7	259.3	269.5
Total CFR	**401.5**	**584.3**	**804.7**	**981.5**	**1,093.0**
Movement in CFR		**182.8**	**220.4**	**176.8**	**111.5**
Movement in CFR represented by					
Net financing need for the year	-	191.2	233.1	187.5	159.3
Less MRP	-	4.7	7.0	9.5	13.4
Less receipts set aside	-	3.7	5.6	1.2	34.4
Movement in CFR	**-**	**182.8**	**220.5**	**176.8**	**111.5**

A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial/regeneration activity in relation to the Authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

Within the range of prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are affordable, prudent and sustainable.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

Table 5 identifies the trend in the cost of capital, (borrowing and other long term obligation costs), against HRA rents. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 5: Ratio of financing costs to HRA rents 2020/21 - 2024/25

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA	10.48	14.37	20.90	25.93	30.46

Table 6 shows the trend in the Non-HRA cost of capital (borrowing and other long term obligation costs), regeneration finance costs are shown both gross and net of Mercury Land Holding (MLH) investment income, against net revenue stream.

Table 6: Ratio of Non HRA net financing costs to net revenue stream 2020/21 – 2024/25.

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Main services	3.74	4.49	5.65	6.04	7.31
Regeneration - gross	1.67	2.08	3.35	5.76	7.18
- net	1.20	1.24	1.90	3.67	4.81

Regeneration investment income from MLH is forecast at £45m in the nine year period 2025/26 to 2033/34 (approx. £5m per year). It is expected that MLH will make loan repayments of £14m over the same period (of which £8m will be repaid in 2025/26) and the balance thereafter. Equity repayments of £7.2m are expected in 2024/25.

The Operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 7: Operational boundary 2020/21 - 2024/25

Operational boundary £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Debt	328.1	496.4	696.3	770.7	852.5
Other long term liabilities	10	10	10	10	10
Regeneration Programme	63.4	81.6	168.7	259.3	277.5
Total	401.5	588	875	1,040	1,140

The authorised limit for external debt TM code

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Table 8: Authorised limit 2020/21 - 2024/25

Authorised limit £m	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Debt	468	642	805	853	903
Other long term liabilities	10	10	10	10	10
Regeneration Programme	88	162	248	300	350
Total	566	814	1,063	1,163	1,263

Appendix 3

TREASURY LIMITS

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair opportunities to reduce costs/improve performance.

The Code requires that for LOBO loans the maturity date is now deemed to be the next call date.

The indicators are

Maturity structure of borrowing

These gross limits are set to reduce the Authority's exposure of large fixed rate sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2022/23		
	Lower	Upper
Under 12 months	0%	90%
12 months to 2 years	0%	90%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit

Upper limit for principal sums invested for longer than 365 days			
£m	**2021/22**	**2022/23**	**2023/24**
Principal sums invested for longer than 365 days	£120m	£120m	£100m

Appendix 4

PROSPECTS FOR INTEREST RATES

The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following commentary and table gives their central view.

Bank Rate

The forecast on interest rates hinges on inflation. The Bank of England MPC expect inflation to fall back to its 2% target rate in late 2023 after the peaking at 7.2% in April 2022. Link are forecasting four increases in Bank Rate over the forecast period to March 2025, ending at 1.25%. – at the time of writing officers expect that the 1.25% rate will be reached by the end of 2022.

PWLB rates and gilt yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, rise in both Bank Rate and gilt yields during the forecast period to March 2025.

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Appendix 5

POLICY ON BORROWING IN ADVANCE OF NEED

The Authority must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2021/22, plus the estimates of any additional CFR for the year 2022/23 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the Authority can ensure the security of such funds.
In determining whether borrowing will be undertaken in advance of need the Authority will

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered

- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow

- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles

- Consider the positive and negative impacts of borrowing in advance of need on the Authority's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 6

The Authority's Counterparty Credit policy, minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the Authority works together with Link Asset Services (the treasury management advisor) to establish an operational lending list using Link's creditworthiness methodology. The CFO will agree an operational lending list within these parameters.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.

   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The Authority's credit rating criteria for UK Building Societies in 2021/22 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.

4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

7. **Residential Mortgage Based Schemes** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.

8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

9. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

10. **Ring Fenced Banks, (RFB**) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, in response to the global financial crisis to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank **(NRFB).** The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Table 1: Approved investment counterparties and limits

These limits are unchanged from last years approved TMSS report.

Credit rating	**Banks unsecured***	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	n/a	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	n/a	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	n/a	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	n/a	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m per Authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds, Residential Mortgage Based Schemes (RMBS)				

* Includes Building Societies

Investment Limits

The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Specified and Non Specified Investments

Specified investments:

The DLUHC Guidance defines specified investments as those:

- Denominated in pound sterling, due to be repaid within 12 months of arrangement,
- Not defined as capital expenditure by legislation, and invested with one of
- The UK Government
- A UK local Authority, parish Authority or community Authority, or A body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limit	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	UK Building Societies	per Appendix 6, Table 1	£35m	per Appendix 6, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 6, Table 1	£35m	per Appendix 6, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 6, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 6, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£35m	per Appendix 6, Table 1
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 6, Table 1		per Appendix 6, Table 1
Money Market Fund		AAA [3]	£25m	
Enhanced Cash Funds		AA/Aa[4]	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	

1. £35m Limit per bank / banking group.
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
3. Investments will be made with those MMF's which have a rating of AAA
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating

Table 2 : NON SPECIFIED INVESTMENTS

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 6, Table 1	10 yrs.	£120m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£40m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£160m**

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash Limit £m
Total long-term investments	120
Total Investments without credit ratings or rated below A- (subject to due diligence)	40
Total non-specified investments	**160**