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Havering
LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Tuesday 24 January 2023	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Havering Residents' Group (3)	Labour Group (1)
Judith Holt Keith Prince Michael White	Julie Wilkes (Chairman) David Godwin (Vice-Chair) Sarah Edwards	Jane Keane

For information about the meeting please contact:
Christine Elsasser 01708 433675
christine.elsasser@OneSource.co.uk

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

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

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

Reporting means:-

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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

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

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

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

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

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

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

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

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

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

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

YES ↓

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

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

YES ↓

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

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

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

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

4 MINUTES OF THE MEETING 19 OCTOBER 2022 (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 19 October 2022 and authorise the Chairman to sign them.

5 TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24 AND ANNUAL INVESTMENT STRATEGY 2023/24 (TMSS), TREASURY INDICATORS (Pages 5 - 44)

Report attached.

6 ASSURANCE PROGRESS REPORT (Pages 45 - 74)

Report attached.

7 REPORT ON MERCURY LAND HOLDINGS (Pages 75 - 112)

Report and appendices attached. Appendix B is not available for public inspection as it contains or relates to exempt information within the meaning of paragraph of Schedule 12A to the Local Government Act 1972. They are exempt because they refer to [reason for exemption], and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

8 NEXT MEETING AGENDA ITEMS/WORK PROGRAMME (Pages 113 - 114)

Work programme attached – to discuss what is to go on agenda for next meeting.

Zena Smith
Democratic and Election Services Manager

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
19 October 2022 (7.00 - 7.30 pm)

Present:

COUNCILLORS:

Conservative Group	Judith Holt and Keith Prince
Residents' Group	Julie Wilkes, David Godwin (Vice-Chair)
Labour Group	Jane Keane
East Havering Residents Group	

Officers in Attendance:
Trevor Cook
Maria Denton
Dave McNamara
Tony Piggott
Jeremy Welburn

Councillor Michael White was absent.

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

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

92 **MINUTES OF THE MEETING 28 JULY 2022**

The meeting minutes of the Committee held on 28 July 2022 were agreed as a correct record and would be signed by the Chairman.

Questions were raised concerning the progress of auditing accounts. The Section 151 Officer explained that in the meeting with the external auditors, Ernst & Young (EY), there were two issues remaining:

1) The local issue of group accounts around the Bridge Close Venture. Due to an ownership change the presentation and disclosures were being looked into.
2) There was a national concern about the way local authorities had been accounting the value of the highway's assets specifically related to de-componentisation.

Other concerns raised were regarding the audit company and the knock on effect on clients. The schedule for the 2021-22 audit may not start until October 2023 and the 2021 accounts were still awaiting sign off. **Action Point: The Committee**

requested a written letter be sent in advance of the next Audit meeting of points made above.

93 **ASSURANCE PROGRESS REPORT**

The Committee were presented with a report that detailed the work undertaken by the Assurance Service during the period from 1 April to 30 September 2022 and included the work done around the Council's standards progress, internal audit measures, counter fraud and risk functions.

Questions were raised around council transportation and the safety of children. It was explained that a meeting was held with One Source and with the Joint Commissioning Unit within the local authority to identify the issues. It was discovered that there had been some miscommunication with Transport for London (TFL); however, the relevant certificates had now been provided and acknowledged and safeguarding was now in place.

The Committee **noted** the report and **agreed** the recommendations.

94 **TREASURY MANAGEMENT MID-YEAR REPORT**

The Committee was provided with an update on the mid-year report on the treasury management activities as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code").

It was to be noted that the Authority's Treasury Management Strategy Statement (TMSS) for 2022/23 was approved at the Cabinet meeting on 16 February 2022 and at Full Council on the 2 March 2022.

The report covered activity on treasury managed investments and borrowings and the associated monitoring and control of risk. It was explained that the Authority had borrowed and invested substantial sums of money and was therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

The key highlights of the mid-year report were as follows:

- At the end of August 2022 the investment portfolio return was 1.00%.
- Net interest outturn was expected to be within budget.
- There was no breach of the Authority's prudential indicators and treasury.

The Committee **noted** and **accepted** the recommendations.

95 **WORK PROGRAMME 2022/23**

The Committee provided suggestions and recommendations for the work programme and it was agreed that these would be compiled into a working document that would be included in future meetings. The following were suggested:

- Scrutiny of Council Grants with further examination into who they are awarded to and with specific focus on assurance grants for families in need. Was there a central record of all grants?

- Invoice payments to companies and were there issues around raising pre-orders for things outside of budget
- Children's Services

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Chairman

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Havering
LONDON BOROUGH

Audit Committee	**24th January 2023**
Subject Heading:	**Treasury Management Strategy Statement 2023/24 and Annual Investment Strategy 2023/24 ("TMSS"), Treasury Indicators**
Cabinet Member:	**Councillor Christopher Wilkins** **Cabinet Member for finance and transformation**
SLT Lead:	**Dave McNamara** **Chief Financial Officer, s151 officer**
Report Author and contact details:	**Tony Piggott** **Stephen Wild** **Tony.Piggott@onesource.co.uk 01708 434 368**
Policy context:	**The CIPFA Code of Practice ("CIPFA TM Code") on treasury management 2021 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 meeting on the 24th January 2023 and final version of the report will be presented to Cabinet on 22 February and then Full Council on 1st March 2023.**
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 Treasury Management Strategy Statement ("TMSS") is part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management ("TM") Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. 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/Prudential 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 Code and Prudential Code (2021) and is discussed later in this report and will be reported upon in the 2023-24 TMSS. At the time of writing this report the capital programme had not been finalised and so the figures in this report may well change before they are presented to Cabinet.

RECOMMENDATIONS

Audit committee is asked to consider and comment on this report

REPORT DETAIL

1. Introduction

1.1 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.”

1.2 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.

1.3 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

1.4 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 which has its own governance process), 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 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 above reports are required to be adequately reviewed before being adopted by the Authority. This role is undertaken by the Audit Committee.

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

2. Key considerations and sustainability

2.1 TMSS 2023/24

2.1.1 The strategy for 2023/24 covers two main areas:

a) Treasury Management Issues

- The outlook for interest rates
- 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**
- The policy on borrowing in advance of need; **appendix 4** This policy is unchanged from the approved 2022/23 TMSS
- The Counterparty & Investment policy; **appendix 5 & 6** The limits have been reduced from the approved 2022/23 TMSS

b) Prudential indicators & Capital issues

- The liability benchmark for the General Fund (GF) and the Housing Revenue Account (HRA)
- 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 <u>Training</u>

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 **The policy on use of external service providers**

2.3.1 The Authority uses **Link Group (“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. Outlook for interest rates

3.2.1 Link assist the Authority with determining its view on interest rates. Link provided their latest outlook (19 December 2022) on Bank Rate and PWLB Certainty rates and this is summarised in the table below.

Table 1: Interest rate Outlook

%	Mar-23	Dec-23	Mar-24	Dec-24	Mar-25	Dec-25
Bank Rate	4.25	4.50	4.00	3.25	3.00	2.50
5yr PWLB	4.20	4.00	3.90	3.50	3.40	3.10
10yr PWLB	4.40	4.10	4.00	3.60	3.50	3.30
25yr PWLB	4.60	4.40	4.20	3.90	3.70	3.50
50yr PWLB	4.30	4.10	3.90	3.60	3.50	3.20

3.2.2 This central forecast is broadly in line with the consensus opinion of the main economic forecasters and moreover, the Bank of England: that interest rates will peak this year and start to tail off in 2024 onwards. Interest rates tend to track the rate of inflation and the Bank of England is committed to using monetary policy to curb inflation back toward its target rate of 2%. The Government has also pledged to halve inflation from its current level of 10.7% during 2023.

3.2.3 The long-term forecast for bank rate stands at 2.5%. As all PWLB certainty rates are now above this level, better value can generally be obtained by using shorter dated fixed rate debt. This can be sourced from other local authorities and Banks which generally have a lower interest rate than equivalent PWLB debt and refinancing from longer term PWLB debt once rates have eased.

3.2.4 The above central outlook is subject to considerable uncertainty; on-going and emerging geopolitical threats have the potential to create further external shocks that could have an adverse impact. Also influenced by the effectiveness of Government policies to control domestic driven inflation and its ability to manage its own borrowing. It is important that this strategy is flexible enough to respond to changing market circumstances.

3.3 Borrowing Strategy

3.3.1 The revenue budget is, by law, balanced such that income is expected to equal expenditure. However, the timing of government grants and other large items can lead to large variations in the actual daily cash position, for example the average monthly payroll alone is in the region of £8.5m.

3.3.2 As at 31 March 2022 the Authority had cash balances of £137m, this had reduced to £81.6m at 31 December 2022. In addition to the variability of cash flow, Capital expenditure, to the extent that it is not financed by government grants, capital receipts or other external funding, has reduced the cash balance. Over time this will be matched by borrowing but it should be noted that the exact timing of the borrowing and expenditure will not match.

3.3.3 The Capital programme spend 2023/26 is £820m of which £384m is to be funded through prudential borrowing. This will change if new government grants are announced, new decisions that Havering may take such as if new items were added to the capital programme or disposals of surplus assets were to be agreed.

3.3.4 For the reasons set out above the authority needs to maintain a prudent cash balance to allow it to cover the variability of expenditure. The extent to which borrowing would be required will depend on the movement in cash reserves, working capital, strength of the capital forecast and how much slippage might occur during each financial year.

3.3.5 It is sensible to plan on the basis of covering the inevitable month on month fluctuations in cash balances to avoid what would in effect be an unplanned, and therefore expensive, short-term overdraft. Based on analysis of the monthly cash variations then £40m has been established has an appropriate cash balance or liquidity allowance.

3.3.6 The underlying need to borrow for the capital programme is measured by the Capital Financing Requirement (CFR). Havering like most Authorities have set their external borrowing below their CFR level thus using cheaper internal cash reserves' balances to minimise interest payable costs, this is known as "internal borrowing". This strategy has helped the Authority make considerable savings on its revenue budget while investment returns have been significantly lower than the cost of long term borrowing.

3.3.7 The Authority continues to use internal borrowing to finance its capital plans and as such cash balances are expected to reduce to £40m by 31 March 2023, thereafter the Authority will need external debt. The growth in debt will be reviewed annually against the available budget and will be adjusted to what the Authority can afford.

3.3.8 On top of the £384m future external borrowing to finance future capital plans, there is £154m of historic capital spend that has been met by internal borrowing as at 31 March 2022, financed by £69m from the Authority's cash reserves and £84m from its working capital surplus. The financing plans in this report assume internal borrowing will peak at £259m by the end of this financial year 2022/23. This level of internal borrowing may not be sustainable in the long term, working capital by its very nature is variable and unpredictable while the Authority's cash reserves which are mostly made up of reserves for a specific purpose may come under pressure to be applied, not least from the capital programme itself. As a result the strategy plans to reduce reliance on internal borrowing and replace some of the current internal borrowing with external long term debt once longer term interest rates become lower.

3.3.9 Potential borrowing sources are set out below:

Approved sources/type of borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies		
UK Infrastructure Bank	●	●
Mayor of London Energy Efficiency Fund (MEEF)	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●

3.3.10 The preferred strategy, as agreed with Link at this stage. is to borrow for fixed term loan durations less than 5 years from the either the PWLB, Market (Long term and temporary), Local authorities, Banks depending on whom is offering better terms for a relatively short term duration (up to 5 years), to minimise the immediate interest rate costs. These sources represent the cheapest and most accessible source for shorter duration debt and for borrowing of this size. This will then be refinanced as part of the longer-term borrowing strategy once interest rates start to come off their current elevated levels. The option to use quasi government loans from the UK Infrastructure Bank (UKIB) and MEEF for new long term borrowing may also be used on specific capital projects which typically provide Environmental, Social and Governance (ESG) outputs where they provide value for money over PWLB certainty rates.

3.3.11 Interest rates may not follow the central outlook set out in this report and there is a significant risk that they may remain elevated for longer or actually increase. In this scenario, the S151 officer in consultation with the Cabinet member for Finance and Transformation may decide from a risk management point of view that it would be sensible to secure the capital investment strategy, if longer term borrowing from one of the approved sources set out above was undertaken sooner than later. This may result in a higher cost of borrowing than planned but capital plans will be regularly monitored to ensure they remain affordable and sustainable.

3.3.12 As it stands the PWLB is currently the most cost effective source except possibly on specific ESG related capital plans. This however may change, for example the Government in 2019 arbitrarily increased PWLB rates which it subsequently reversed in 2021. Treasury officers and Link will constantly monitor the capital finance market to identify the most cost effective source of long term borrowing from the above list of approved sources of capital finance.

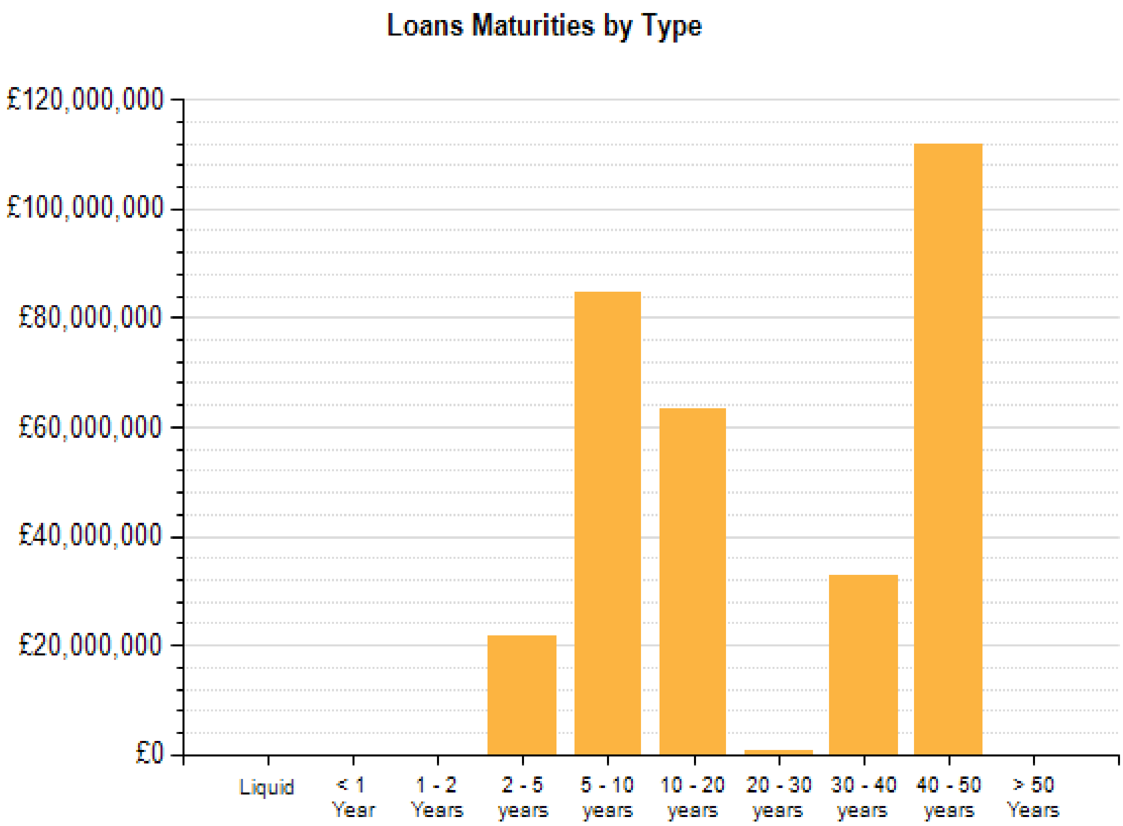
3.3.13 Other borrowing arrangements: such as the use of leasing, specialist 'green' funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.3.14 The type, period, rate and timing of new borrowing will be determined by the S151 officer 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 show little new borrowing will be required to replace maturing long term debt until 2024 when £21m will be repaid over the next 3 years and 2027 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



Treasury Management Limits on borrowing activity

3.3.15 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.

3.3.16 The indicators cover 2021/22 - 2025/26. 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

3.3.17 This is set out in **appendix 4** of this report.

Debt Rescheduling

3.3.18 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.

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

3.4.1 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).

3.4.2 The Authority's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA TM Code and Guidance Notes from 2021.

3.4.3 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.

3.4.4 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 5.**

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

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

3.4.7 Treasury investment instruments identified for use in the financial year are l*i*sted in **Appendix 6**.The 'specified' and 'non-specified' investment categories are in accordance with the DLUHC Investment Guidance.

3.4.8 The S151 Officer, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.4.9 All investments will be denominated in sterling.

3.4.10 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.

3.5 Loans to Third Parties or Non Treasury investments

3.5.1 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.

3.5.2 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.

3.5.3 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 and there are no plans to do so in 2023/24.

3.6 TM regulation – newly agreed changes and consultations

3.6.1 CIPFA published revised codes on 20th December 2021, the Authority has applied these in preparation of the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports for the financial year, 2023-24.

3.6.2 The revised codes 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 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 Authority

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

3.6.3 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 an Authority’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An Authority 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, 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 S151 officer, having consulted the Cabinet Member for Finance and Transformation, 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 TMSS 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.

Members are approving the programme on the basis that the capital programme spend is achieved, which feeds through into the Prudential Indicators set out in the report. The reality is that there is likely to be slippage and this will impact on the MTFS.

The assumption for new borrowing is that interest rates will follow the outlook set out in table 1 above. The expectation is that borrowing will be on fixed rate terms on maturities less than 5 years and that these will be refinanced into longer term loans during 2025/26 onwards once interest rates become lower. The 10 year PWLB rate (closely matches PWLB 50 year rate) in table 1 has been used as a proxy for new long term borrowing.

Table 2: Assumed average annual fixed interest rate on new borrowing 2023/26

	Bank rate	Long term
	%	%
2023/24	4.44	4.30
2024/25	3.63	3.83
2025/26	2.68	3.38

The budgeted cost of the capital programme is set out in table 3 below.

Table 3 Capital Finance Budget 2023 to 2026

£000	BUDGET 2023/24	BUDGET 2024/25	BUDGET 2025/26
Treasury interest payable			
Existing external debt:	9,115	9,115	9,115
New debt:			
- General Fund	680	1,090	1,105
- Regeneration	2,200	5,700	6,630
- HRA	2,730	4,510	5,850
Recharge of HRA external debt cost	(9,135)	(10,920)	(12,250)
Sub total	5,590	9,495	10,450
Treasury interest receivable:			
Interest-External Investment	(1,520)	(1,330)	(1,150)
GF Charge to HRA on net internal debt	(2,500)	(2,260)	(1,400)
Sub total	(4,020)	(3,590)	(2,550)
Net GF Capital finance costs	1,570	5,905	7,900

The above table follows the liquidity benchmark requirement that the CFR will be funded first from maturing excess external investments until they fall to the £40m liquidity allowance level. This is the most efficient and cost effective way of financing the capital programme. It also reduces investment risk and inflation risk. The rate of inflation is currently running significantly higher than expected investment returns and likely to remain so over the medium term, thus eroding the real value of the Authority's investments. On the flip side, as the Authority's much larger debt portfolio is held on fixed rates, the real value of that debt is also being eroded by inflation.

Based on these capital plans the Authority's cash balance will fall to the £40m liquidity allowance during the final quarter 2022/23 and the remaining £30m borrowing requirement (of which £20m is HRA) will be funded from shorter duration external borrowing. The strategy plans to repurpose some of the internal borrowing to external borrowing in 2025/26 once long term interest rates become more affordable and should the level of the Authority's cash reserves/working capital surplus start to contract.

The HRA was a net lender to the GF but has the HRA CFR increases in 2022/23 then it will become a net borrower of available GF external investment cash in excess of the liquidity allowance, thereafter the HRA will need to borrow externally. The HRA overdraft with the GF is charged the same rate as if the HRA had externally borrowed. Equally the GF will receive the same investment return as if it had invested the excess cash externally albeit without the accompanying investment risk. As long term interest rates fall some of that funding that the HRA has borrowed from the GF will be refinanced by external long term debt.

Treasury investment income is expected to increase sharply. During 2022/23 average bank rate was 0.19% while now it is 3.50% and expected to peak at 4.5% during 2023/24. This means that treasury investment income is expected to be much higher during 2023-2026 albeit the Authority's investment balance at £40m is much smaller than in previous years.

Progress made on the TMSS will be reported in a 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 2022 and 31st December 2022, Investments and borrowings are set out in table 1 below.

Table1: Treasury Portfolio Position

TREASURY PORTFOLIO				
	Actual 31/3/22 £m	**Actual 31/3/22 %**	**Actual 31/12/22 £m**	**Actual 31/12/22** %
Treasury Investments				
Banks & Building Societies	75.0	54.8	55.0	67.4
Government (including Local authorities)	62.0	45.2	26.6	32.6
Money Market funds	0	0	0	0
Total Treasury Investments	**137.0**	**100**	**81.6**	**100**
Treasury Borrowing				
PWLB	307.1	97.6	307.2	97.6
LOBO loan from bank	7.0	2.2	7.0	2.2
Temporary loan (LA)	0	0	0	0
Other loans	0.8	0.2	0.6	0.2
Total External Borrowing	**315.0**	**100**	**314.8**	**100**
Net Treasury Investments/(Borrowing)	**(178.0)**		**(233.2)**	

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 £259m but this is dependent on the changes to the Authority's cash backed reserves and net working capital. External cash balances of £40m are maintained over the medium term to mitigate liquidity risk. Internal cash balances are expected to contract by £20m by end of 2025/26 and replaced with external borrowing.

Table 2: Capital Financing Requirement (CFR) and Borrowing

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt at 1 April	**275.7**	**315.0**	**345.0**	**555.7**	**665.4**
Expected change in Debt	**39.3**	**30.0**	**210.7**	**109.7**	**83.6**
Actual gross debt at 31 March	**315.0**	**345.0**	**555.7**	**665.4**	**749.0**
The Capital Financing Requirement	**468.9**	**604.3**	**815.0**	**924.7**	**988.3**
Under / (over) borrowing	**153.9**	**259.3**	**259.3**	**259.3**	**239.3**

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

Table 3: Regeneration Programme debt

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR at 31 March £m	61.6	88.1	190.3	273.7	285.0
Percentage of total CFR %	13.13	14.58	23.34	29.60	28.84

Appendix 2

Prudential indicators & Capital Expenditure

Liability benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

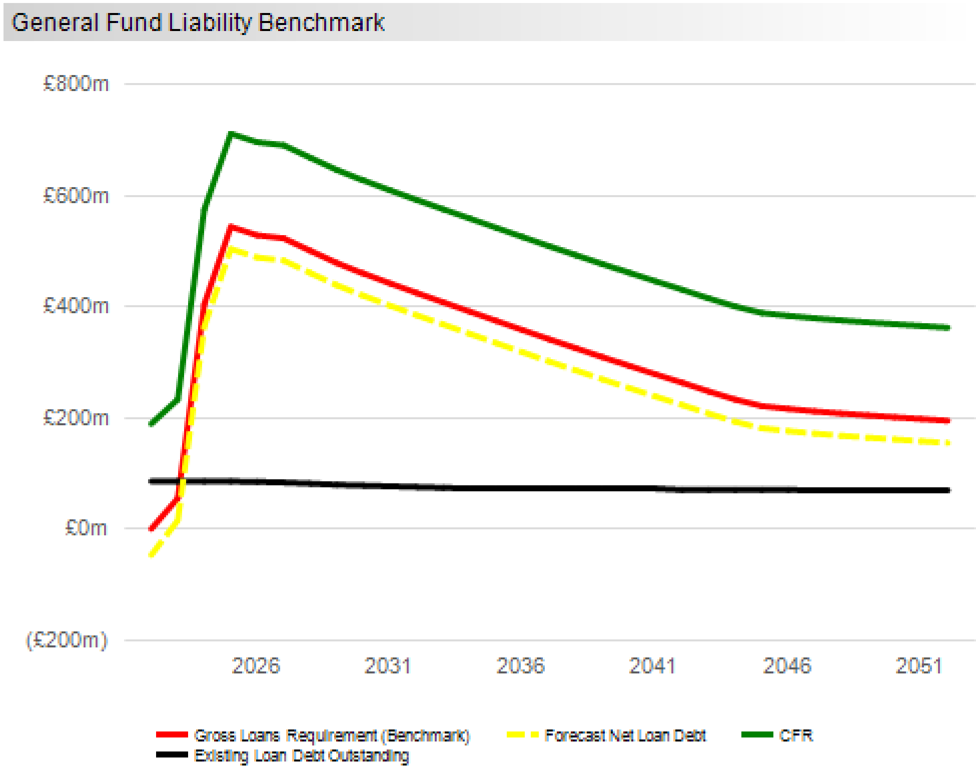
1 **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

2 **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP) for debt repayment.

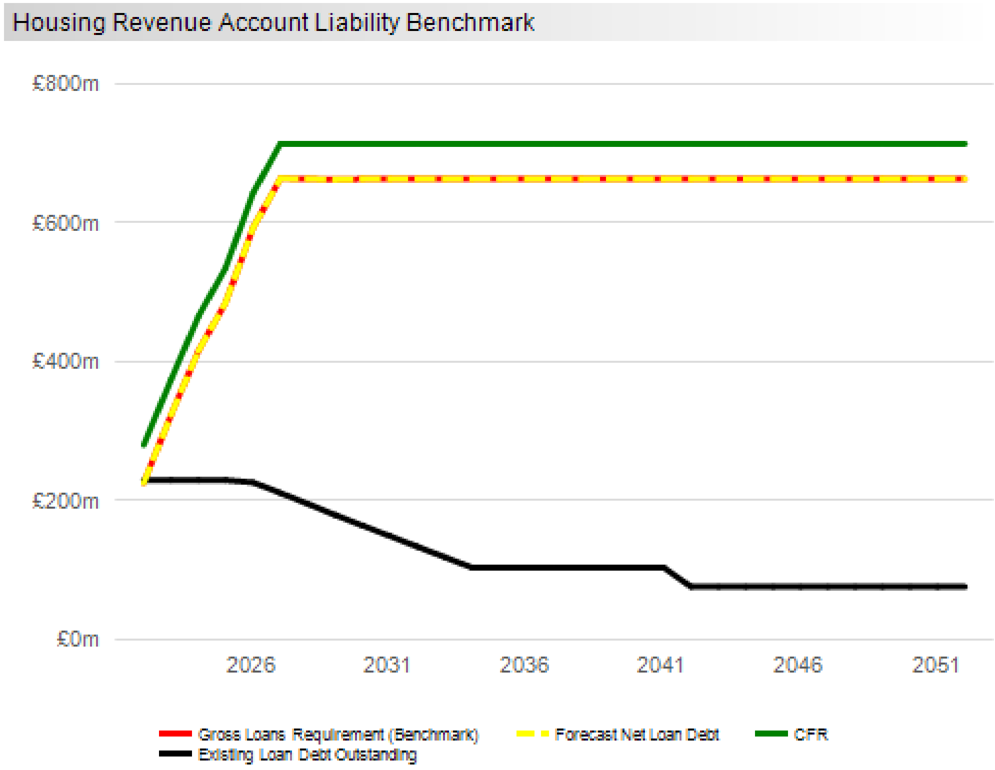
3 **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4 **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus the £40m short-term liquidity allowance.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an over-borrowed position, which will result in excess cash requiring investment. However any currently unknown future borrowing plans will increase the benchmark loan debt requirement. The LB graphs for both the GF (including Regeneration) and the HRA are shown below.



Based on current borrowing plans the above chart suggests LB peaks at c. £550m in 2025/26 before it starts to fall. The LB remains above the existing loan debt up to 2051 and beyond. The gap between the LB and loan outstanding is between now and 2045 suggesting the Authority's focus on loan durations should be between 15 and 25 years when it is appropriate to do long term borrowing. .



The relationship between the General Fund and the HRA is a key factor in determining the external borrowing requirement. At Havering the GF has excess investment balances over its liquidity requirement, and the HRA has a need for external borrowing, the approach ensures the GF's excess liquidity is lent to the HRA before any external borrowing is required. The charts therefore show the impact of this relationship.

The above graph shows that the Authority has capacity to do long term borrowing out to 50 years if necessary. The loan outstanding (black) show the impact of maturing debt over time. There is a significant gap between the LB and the loans outstanding indicating significant new long term debt will be required in future.

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 2021/22 - 2025/26

Capital expenditure £m	2021/22 Actual	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Non HRA	**21.8**	**72.3**	**75.3**	**47.9**	**11.6**
HRA	**121.3**	**150.1**	**143.2**	**94.4**	**100.7**
Regeneration Program *	**3.9**	**36.3**	**170.6**	**131.7**	**45.1**
Total **	**147.1**	**258.8**	**389.1**	**274.0**	**157.4**

* 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 2021/22 - 2025/26

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	10.4	66.0	88.1	55.2	31.6
Capital grants	37.3	20.5	71.0	41.9	28.0
Revenue and Reserves	23.5	25.6	10.4	21.7	14.0
Net financing need for the year ***	**75.9**	**146.7**	**219.6**	**155.2**	**83.8**

***** Net financing need, example (**147.1 - 10.4 – 37.3 – 23.5) = 75.8m)**

Financing of Capital Expenditure

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

Table 3: Regeneration Programme forecast 2021/22 - 2025/26

Regeneration Programme £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	3.9	36.3	170.6	131.7	45.1
Other Sources of Financing	0	8.9	64.4	36.5	28.0
Net financing need for the year	**3.9**	**27.4**	**106.2**	**95.2**	**17.1**
Percentage of total net financing need	**5.2%**	**18.7%**	**48.4%**	**61.3%**	**20.4%**

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
GF Service	127.5	147.5	168.5	172.9	177.1
Regeneration	61.6	88.1	190.3	273.7	285.0
Housing	279.8	368.7	456.2	478.1	526.2
Total CFR	**468.9**	**604.3**	**815.0**	**924.7**	**988.3**
Movement in CFR		**135.4**	**210.7**	**109.7**	**63.6**
Movement in CFR represented by					
Net financing need for the year	-	146.6	219.6	155.2	83.8
Less MRP	-	5.6	7.7	11.1	12.8
Less receipts set aside	-	5.6	1.2	34.4	7.4
Movement in CFR	**-**	**135.4**	**210.7**	**109.7**	**63.6**

A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial or 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 2023/24 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 S151 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 service spending, HRA rents and the regeneration programme. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 5: Ratio of financing costs to HRA rents 2021/22 - 2025/26

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council housing (HRA)	16.78	21.78	27.95	30.92	33.17

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 2021/22 – 2025/26.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Main services	5.05	5.90	6.73	7.54	7.37
Regeneration programme	2.29	2.11	3.04	4.87	5.69

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 2021/22 - 2025/26

Operational boundary £m	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit
Debt	397.3	551.9	699.7	751.3	875.0
Other long term liabilities	10	10	10	10	10
Regeneration Programme	61.6	88.1	190.3	273.7	285.0
Total	468.9	650	900	1,035	1,170

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 2021/22 - 2025/26

Authorised limit £m	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit
Debt	448.4	601.9	749.7	801.3	925
Other long term liabilities	10	10	10	10	10
Regeneration Programme	61.6	88.1	190.3	273.7	285
Total	520	700	950	1,085	1,220

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 maturity date should be considered the most probable maturity date and not the next call date.

The indicators are

Maturity structure of borrowing

These gross limits are set to reduce the Authority's exposure of large 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 borrowing		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
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%

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	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£50m	£25m	£10m

Appendix 4

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. 2022/23, plus the estimates of any additional CFR for the year 2023/24 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 5

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 uses the Link Group (the treasury management advisor) creditworthiness report to establish a lending list. The S151 officer will agree an operational lending list within the parameters set out below.

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. **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.

4. **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.

5. **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.

6. **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.

7. **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.

<u>Table 1: Approved investment counterparties and limits</u>

These limits are lower than last years approved TMSS report as investment balance available have reduced.

Credit rating	**Banks unsecured***	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	n/a	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	n/a	£5m 4 years	£10m 10 years
A+	£15m 2 years	£15m 3 years	n/a	£5m 3 years	£10m 5 years
A	£15m 13 months	£15m 2 years	n/a	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	n/a	£5m 1 year	£5m 5 years
	UK Local Authorities £15m 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,)				

* Includes Building Societies

<u>Investment Limits</u>

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	£15m each
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£15m per manager
Financial instruments held in a broker’s nominee account	£50m per broker
Foreign countries	£15m per country
Registered providers	£15m in total
Unsecured investments with building societies	£25m in total
Money Market Funds	£50m in total

Appendix 6

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.

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 5, Table 1	£25m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£15m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£15m	per Appendix 5, 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 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 5, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£15m	per Appendix 5, 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 5, Table 1		per Appendix 5, Table 1
Money Market Fund		AAA [3]	£15m	
Enhanced Cash Funds		AA/Aa[4]	£15m	
1. £15m 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 5, Table 1	10 yrs.	£100m
	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.	£20m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£120m**

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	100
Total Investments without credit ratings or rated below A- (subject to due diligence)	0
Total non-specified investments	**100**

Agenda Item 6

Havering
LONDON BOROUGH

AUDIT COMMITTEE
24 01 2023

Subject Heading:	Assurance Progress Report
SLT Lead:	Dave McNamara, S151
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 assurance work during 2022/23.
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 2022. This report is presented in three sections:

Section 1: Introduction

Section 2. Executive Summary of work undertaken during quarter three of 2022/23

Section 3. Limited Assurance Report Summaries and Recommendations

Section 4. Status of Internal Audit Plan 2022/23

Section 5. Counter Fraud Audit Work

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 Audit committees are a key source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. Whilst the Council's Section 151 Officer has overarching responsibility for discharging the requirement for sound financial management, to be truly effective, an effective audit committee to provide support and challenge on the governance arrangements the Council has in place.

1.1.3 The Audit Committees provide essential support for the approval of the Annual Governance Statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities. Havering Council's Audit Committee receives regular reports regarding the progress of the action plan to address governance issues identified in the Annual Governance Statement.

1.1.3 Internal audit is a key component of corporate governance within the Council. 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 presented to Audit Committee in July 2022. The plan was developed in line with the four priorities outlined in The Havering Plan, with time allocated under each theme to carry out risk identification and process mapping, where required. Members are reminded that the 2022/23 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. The status of the current 2022/23 Internal Audit Plan can be found in Section 4 of this report.

1.1.6 This report brings together all aspects of internal audit and counter fraud work undertaken during quarter three (the period from 1st October to 31st December 2022), 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 the first half of 2022/23

2.1 Internal Audit

2.1.1 Current, cumulative progress toward delivery of the 2022/23 audit plan, as at the end of December 2022, is summarised in the table below, with further detail provided in Section 2.1.3 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	25
Draft reports issued	5
Underway	9

2.1.2 In giving an overall Audit opinion on the system control environment within the areas reviewed, there are two 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.

2.1.3 The tables below details the results of the work undertaken during quarter three of 2022/23. Summaries of any limited assurance reports are provided in section 3.

Audit Title – LBH Systems Audits	**Assurance**	**Recommendations**			
		H	**M**	**Adv**	**Total**
Full System Reviews:					
Housing – Service Charges	Limited	4	0	0	4
Projects and Programmes	Limited	1	2	0	3
Payroll – Follow Up	Limited	3*	0	0	3
Voids Follow Up	Limited	2*	0	0	2
Contract Management – Environment (Phase one)	Completed – initial data analytic work				
Ongoing Compliance Reviews:					
Supported Families (Q3)	n/a				
DPIA Compliance - CCTV	n/a				
Advisory Reviews:					
Mayor's Appeal Fund	Completed – Grant Review				
	Totals	**7**	**10**	**7**	**24**

*These are the remaining outstanding recommendations from the original report and are not new recommendations.

2.1.3 Internal Audit follows up all high and medium risk audit recommendations with relevant service management. 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.

2.1.4 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.

2.1.5 All high and medium risk recommendations due as at the end of December 2022 have been followed up and confirmed with management as implemented. Any recommendations that remain outstanding and are past agreed implementation dates will be reported to Audit Committee. A full list of all recommendations raised during the year and their status is provided in the Annual Assurance Opinion report.

2.1.6 There were 10 high risk recommendations raised during the quarter three of 2022/23 (this includes five recommendations that relate to original audits that were identified as remaining outstanding during the course of the follow up reviews for both Voids and Payroll). These recommendations are provided with the summary reports to which they relate in section 3.

2.1.7 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.

Section 3. Limited Assurance Report Summaries and Recommendations

3.1 Housing – Service Charges

3.1.1 Scope of Review

Tenants and leaseholders are billed annually for service charges. Service charges relate to cleaning, maintenance and repairs carried out by the Council, but can include charges for other costs such as CCTV security.
The scope of this audit was to review of the management of the risks, as they relate to the Service Charges and focussed on the effectiveness of the financial and operational controls in place. The following key aspects were examined:

- Compliance against policies, procedures, and legislative requirements;
- Review of how service charges are calculated, how these are applied and how they are collected; and
- Adequate debt recovery in place for non-payment of service charges.

3.1.2 Summary of Findings

- There is no current, agreed and signed Service Level Agreement in place for the Grounds Maintenance provision.
- The Schedule of Rates, that determines the cost of Grounds Maintenance services, was found to have been based on historical rates. There was no evidence of recent review of these rates, posing a risk that full costs of the service provision may not be recovered.
- Current Grounds Maintenance calculations are based on a historical square metre basis. A recent mapping exercise has been undertaken to update this information and provide more accurate costing, but this is reliant on further input from the service to confirm changes in estate boundaries and layouts. Once completed and applied, this will improve the accuracy of the service charges.
- The current CCTV equipment and systems in place are reported to be failing on a regular basis, with some estimated to be approaching 20yrs of use. Whilst action is being taken to repair failing equipment from existing parts this does not match the rate of breakdown and poses a risk that there will be areas of the borough without CCTV. Furthermore, service charges cannot be collected for CCTV that is no longer working.

The overall audit opinion on the system reviewed provides **Limited Assurance**. This means that 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. This audit makes **four high** priority recommendations to mitigate the risks identified. A system of exception reporting is operated whereby only risks that are not being adequately managed or controls that are not being performed effectively are reported on.

3.1.3 Housing – Service Charges Recommendations and Management Action Plan

Housing – Service Charges Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
A Service Level Agreement, between Housing and Grounds Maintenance, was written during 2021/ 2022 for the delivery of the Grounds Maintenance service across Havering's housing estates. The SLA details the level of service to be delivered, as well as the agreed annual budget; however the version of the SLA provided appears to be unsigned/ agreed, and related to the period up to 31st March 2022. No further SLA has been provided to audit for the period since 1st April 2022 onwards and so this service provision is currently running without a formally agreed SLA in place. This carries the risk that the amount charged to leaseholders and tenants does not reconcile to actual costs incurred.	**R1 (High)** The Grounds Maintenance Services SLA between Housing and Public Realm should be annually reviewed, updated and formally agreed by both services. **Agreed Action** This is agreed and first formal review will take place in March 2023. **Timescale:** March 2023.
The Grounds Maintenance service determine the cost of providing the service by using a schedule of rates for each of the tasks to be delivered. Internal Audit have been unable to determine when the schedule of rates were last reviewed and discussions with staff determined that they were historical. Without an up to date schedule of rates there is a risk that the service are unable to recover the cost of delivering the service within the current service charges approach.	**R2 (High)** Review of the Schedule of Rates in relation to grounds maintenance services to ensure that the cost of service delivery is an accurate reflection of the costs passed on the tenants/ leaseholders. **Agreed Action** This cost review has taken place and has been reviewed by Finance. **Timescale:** December 2022.

Housing – Service Charges Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
The calculation of the cost of delivering the Grounds Maintenance Service is done so on a square metre basis when passed on to tenants/ leaseholder. The total square metre value that is used to complete the calculation is based on a historic figure that has not been revisited in a number of years. A mapping exercise was undertaken by a member of the Grounds Maintenance team which covered the grass areas for the entire borough. At the time of the audit this information was being input on to Earthlight (Geographical Information System) by ICT staff. In order for this mapping to be useful to calculate accurate costs there is a need for input from housing as to where the estate boundaries are located, and the layout of the grass areas (including information such as whether edges are fenced). The value in relation to Service Charges can only be realised if there is work undertaken to ascertain the level of the grounds maintenance needed, in relation to the Council's Housing Estates. This will improve the level of accuracy in the service charge calculation as they will be made on the most up to date information available.	**R3 (High)** In order to ensure that the charges and calculations in relations to grounds maintenance are correct, work should be undertaken to ensure that the Council has an accurate record of the current grounds maintenance requirements for Housing. **Agreed Action** This cost review has taken place and been reviewed by Finance. **Timescale:** December 2022.

Housing – Service Charges Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
Discussions with staff have indicated that due to the age of the equipment and systems currently in use for CCTV, cameras are failing on a more regular basis. An audit of CCTV for Housing properties, undertaken in April 2022, showed that of the 283 total cameras, 174 were recorded as not working from the Control Room. Staff estimate that some of the camera equipment being used around the borough was approaching 20yrs of use. Action is being taken to repair equipment that is failing, from existing parts; however without investment to replace the equipment as it ages, there is a risk that there will be areas of the borough with no CCTV coverage, where previously there was. If a camera does fail, and remains broken for more than three months, refunds are made to all service charge payers that are affected by that camera no longer working. The service advised that due to the age of the cameras across the borough it is becoming more common for those that fail to be uneconomical to repair. This increase in failing equipment will lead to a further potential loss of cost recovery in relation to service charges for CCTV.	**R4 (High)** Management to consider the risk impacts of this increasingly failing CCTV service. **Agreed Action** The service charges for CCTV will be ended from April 2023/24 and paid from the general rent pool. A report to cabinet is due in Feb 2023. **Timescale:** February 2023.

3.2 Projects and Programmes

3.2.1 Scope of Review

The aim of this review was to determine whether appropriate governance arrangements have been established and are being complied with.

3.2.2 Summary of Findings

The PMO is responsible for developing Council wide project management processes and procedures and as a result, an array of guidance, templates, training and toolkits have been made available to Project Managers, to assist them in their role and help improve compliance.

Each project is nominated a Senior Responsible Officer (SRO), whose role includes ensuring that projects are compliant with both governance and legislative requirements. The project cannot move onto the next gateway without the approval of the SRO.

In order to assist Project Managers in their responsibility for ensuring that projects comply with governance arrangements, the PMO have established a series of controls in the form of embedding various questionnaires at each gateway, which must be answered by the Project Manager. These questions are intended to ensure that all governance arrangements, applicable at that stage, have been complied with. However, this is only a fully effective control if the SRO challenges any non-compliance identified by the PMO.

Despite the controls in place and the placement of the SRO role, this review has identified widespread non-compliance with arrangements, including, but not limited to:

- Lack of project boards and / or project board minutes;
- Absence of key stakeholders on project boards, able to provide suitable levels of scrutiny;
- Incomplete information on both Verto and Fusion; and
- Lack of access to project documentation.

Whilst this review has identified the need for minor amendments to be made to guidance written by the PMO, these amendments alone will not address the wider issue of non-compliance. Given the risks posed by non-compliance (including financial loss, reputational damage and non-delivery of Council priorities), there is a need to ensure that adequate independent oversight and scrutiny of projects and programmes against legislative and local governance arrangements is established.

The findings of this review are not a reflection on the performance of the PMO but instead highlights the need for formal responsibility to be placed on monitoring the non-compliance. It is Internal Audit's opinion that the PMO are ideally situated to provide further effective controls that are independent of the project and service area. As administrators of the Verto system, and with access to project information, the PMO would be able to monitor, identify and report issues of non-compliance.

Overall this review can only provide **limited assurance** that the controls and risks regarding the Council's projects and programmes are being managed appropriately across the entire organisation. 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.

Where more significant issues have been identified in specific projects, these have been raised with the relevant Directors and are being addressed outside of this report. Internal Audit will carry out further work on these areas later in the year.

Whilst the findings from this review are based on work undertaken and information provided towards the end of 2021/2022, Internal Audit are aware that the PMO have been proactive in working to address some of the issues identified during this review and it is expected that management will reflect this in response to the recommendations.

This audit makes one high and two medium priority recommendation to mitigate the risks identified. The findings arising from this review are documented in the Detailed Findings section on pages three to five of this report. A system of exception reporting is operated whereby only risks that are not being adequately managed or controls that are not being performed effectively are reported on.

3.2.3 Projects and Programmes – Recommendations and Management Action Plan

Projects and Programmes - Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
The Council's Project Portfolio Management system, Verto, was rolled out to the organisation in May 2021. A Highlight Dashboard from Verto is presented to Theme Boards of all projects / programmes relevant to that particular theme. Theme Board rely on the highlight report to provide a snapshot on project/programme progress and any emerging risks to delivery. A review of the Verto Dashboard noted projects / programmes that appear not to have produced a highlight report within five months (at the time of the review). Discussions with PM's during the review noted that additional information is being provided to Project Boards and Steering Groups in the form of presentations by Project Managers. It is unclear if this is information drawn only from Verto, or if this is information held elsewhere. However, discussions found that other project management systems such as Azure are being used alongside Verto in some areas. If reporting from Verto, testing has demonstrated that some programmes and projects hold very little information here. This would indicate that in some cases reporting is based on information held outside of the expected corporate system (an example being the use of Azure) and increases the risk that there is no central oversight and governance. It has also not been possible to provide assurance on the accuracy of the information presented. As part of the audit a review of Project Board meeting minutes was undertaken. In one case a request for project board minutes identified that meetings under a newly appointed Project Manager had only recently taken place and that it is believed that minutes of meetings were not taken by their predecessor. As such there is no evidence of any decisions arising from these meetings prior to February 2022.	**R1 (High)** SLT took the decision to adopt the use of Verto as its single PMO monitoring and reporting system. In order to address the non-compliance issues arising from this report, SLT should make the following decisions: • To decide at what point the non-compliance culture will have a consequence / the level of non-compliance SLT are willing to tolerate. • To formally delegate responsibility for monitoring and reporting of non-compliance to an independent team (ideally PMO). • To decide on the future scope of the PMO role and ensure it is adequately resourced to deliver on expectations. **Agreed Action:** The Target Operating Model (TOM) work provides an opportune consideration of future requirements. The November 9th Cabinet Report shows a separate programmes and project office. This may or may not include expert project management delivery capacity. The People Strategy work will look at compliance culture. **Timescale:** July 2023

The SRO (Senior Responsible Officer) has numerous responsibilities in regards to projects and programmes such as approving the completion of each gateway, before the project / programme can be moved on to the next gateway and ensuring that any governance arrangements have been complied with. At the end of each gateway the PM (Project Manager) completes a set of questionnaires that the SRO must approve. It would be expected that the SRO is ideally positioned to challenge both progress and compliance. Whilst there are currently no independent checks to assess the effectiveness of the SRO position, some of the findings arising from this review would suggest that monitoring to determine the level of compliance should be undertaken. Regardless of any action to strengthen the Council's governance arrangements in this area, they must also provide routes for non-compliance to be identified and reported. Whilst the PMO are not in a position to challenge the progress of projects and programmes, they are both the owners of processes and procedures, as well administrators of the Verto system, including responsible for managing the Verto dashboard in order to generate management information. The PMO's access to the system, knowledge and experience make it ideally placed to provide independent assurance over a projects / programmes compliance with governance arrangements and legislative requirements. **Please also see the detailed findings within Recommendation 2 for further evidence to support this recommendation.**	

Projects and Programmes - Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
This review has found projects / programmes within Verto with significant differences in the level of project information being recorded ranging from comprehensive information recorded in all available sections, to the absence of any detailed information. This review also found that no financial / cost information had been included in majority of projects / programmes reviewed. In the absence of any cost information being available within Verto, a review of meeting minutes was undertaken to assess the level of financial oversight. Project board meeting minutes reviewed during this work found projects where there is no financial representative on the board. Further discussions established that Finance have not been invited to attend any of the project boards. The review also look at minutes of a Steering Group which found finance is a separate item on the agenda, at the end of the meeting and is not discussed for each project on the agenda. No evidence was found to confirm that the financial position of each project (spend vs budget) is reviewed during these meetings. There is a high risk that in the event of the meeting overrunning, this item is not covered or that key officers leave the meeting due to other commitments. At the time of testing, significant capital funds had been allocated by the Council to develop areas within the sample, but have not been spent. Discussions established that work was already underway by officers within Finance to address issues with the financial reporting element of the projects. Spend is being recorded within Fusion, however it is largely being coded to revenue cost centres, without further action to capitalise where applicable. For example; in January 2022 only £1k in capital spend had been recorded for an £8m project. Attempts had been made by Finance to manage these risks, however there had been a noted lack of engagement by Project / Programme Managers. This issue is compounded by an extremely high and fast paced level of interim staff turnover within these areas, across all levels of	**R2 (Medium)** Existing guidance, including the Project Board Terms of Reference template should be amended to reflect that Finance should be part of the project board attendees to ensure that the project costs / budget are being regularly reported and finance are there to provide scrutiny and highlight any potential financial risks to the project budget arising from new emerging risks / slippages in project completion etc. Guidance should also clearly set out expectations regarding the alternative arrangements for storing documentation outside of Verto (based on the outcome of Recommendation 1). **Agreed Action** **Timescale:** September 2022

officers and management. There is a risk that the loss of staff also results in a loss of knowledge. Relevant officers involved in the projects have been unable to confirm an accurate, complete and up to date position on financial spend of projects within the sample. Whilst we have been made aware that project staff may have documents and methods of compiling the financial position of projects, these appear to be outside of the corporate systems (Verto and Fusion) and have not been made available to finance staff. Better, more consistent engagement from projects with finance is needed. Given the lack of visible financial information both within the system and presented at the various meetings, there appears to be no opportunity for the financial management of the project to be challenged. There is a risk that in the event of financial mismanagement, given the high turnover of staff, the Council may be unable to hold those responsible to account and manage emerging financial risks. Verto allows documentation to be stored within the system. Depending on the project / circumstances, there are suitable alternative arrangements for storing documentation, such as use of Teams, where key stakeholders may need access to documents such as project board agendas and minutes but do not have a Verto license. There is a question in the each stage of gateway that asks whether specific documentation has been stored on Verto. This review has established that there is no guidance relating to the retention of project documents outside of Verto and has resulted in a reliance on individual project managers to determine their own arrangements. Consequently there is a risk to the completeness, accuracy and accessibility of the Councils project information / documentation and that critical project documents are lost. These issues are further impacted with the high turnover of staff in these areas and lack of controls to assess whether projects and programmes are compliant with governance arrangements and procedures.	

Projects and Programmes - Recommendations & Management Action Plan	
Summary of Findings	**Recommendations, Management Response inc. Planned Actions**
Guidance is available via the PMO intranet pages for Project and Programmes Templates and Toolkit, which include a link to the PMO SharePoint containing a Project Management Life Cycle and includes within the Project Initiation stage, the need to establish a Project Board and approval for the project to go ahead. A Project Board Terms of Reference has also been made available. It is worth noting that the initiation stage also sets out the need for the Project Budget to be agreed with the Finance Business Partner. Whilst the PMO have produced procedures, guidance and templates, there are currently no mechanisms in place to ensure that all new Project Managers joining the organisation are signposted to the PMO or the PMOs online guidance. As not all Project Managers are recognised as managers in respect of LBH establishment hierarchy, new PMs cannot be identified via the Manager Induction process. The quality of the updates for projects and programmes completed is variable and take up of training on offer from the PMO is consistently low. E.g. weekly drop in sessions have been found to have low attendance.	**R3 (Medium)** A skills audit of those designated to manage projects should be undertaken to assess training needs and identify skills gaps. **Agreed Action:** This will be undertaken as part of the Target Operating Model and People Strategy work. **Timescale:** September 2023

3.3 Voids Follow Up

3.3.1 Scope of Review

An audit of Voids was undertaken as part of the 2020/2021 Internal Audit Plan and resulted in a **Limited Assurance** on the system of internal control being given. The audit made three high and four medium priority recommendations that aimed to mitigate the risks identified. All recommendations were accepted by management and were due to be implemented by the end of 2021.

A Follow Up of the recommendations raised within the original report was undertaken in April 2022, where testing undertaken demonstrated that recommendations remained outstanding, and therefore the Limited Assurance would also remain from the original report.

From April 2022 a new provider was in place to take over the void properties; as part of the tender, a new set of agreed procedures were developed.

This review aimed to assess the implementation of the recommendations raised in the original report.

3.3.2 Summary of Findings

Whilst five of the recommendations raised have now been implemented, two high risk recommendations remain outstanding or have only been partially implemented. Although significant progress has been made to address the weaknesses identified during the initial audit, there are still some outstanding, high risk issues. Therefore the audit assurance remains as **Limited Assurance**.

Section 3.3.3 below details only the recommendations that remain outstanding.

3.3.3 Voids Follow Up – Recommendations and Progress on Implementation

Recommendation 2	**High**
A date should be agreed to fully adopt the Repairs Policy for Council general needs stock, and processes put in place to be able to accurately monitor the level of tenant recharges.	
Original Implementation Date	September 2021
Original Management Response	
The policy is live, but we have not currently implemented the recharge approach. We will ensure a robust process is in place of identifying, recording and managing recharges, and ensuring there is a clear auditable information trail to justify and evidence recharges. We will use Open housing functionality for recording and managing recharges. A monetary credit to the service need to be provided in the accounts, irrespective of whether the monies are recovered or appropriate budget allowances made.	
April 2022 Follow Up Response	
The repairs policy has now been fully adopted. Action is being taken to record the recharge costs for repairs work, with examples of property PI documents provided during the follow up to evidence that this is now being completed. It is expected this process will be in place for all properties in time for the new repairs contract which goes live in April 2022. The repairs contract has been tendered with a new provider being in place from April 2022. As part of the tender process an end to end process has been produced. In order to allow time for the new processes to be embedded the delivery date for this recommendation has been extended to July 2022.	
December 2022 Follow Up Testing	The recording of recharges is now in place as per the Repairs Policy that has been adopted. The policy does state that where chargeable repairs work is identified that LBH will charge tenants accordingly for works that do not meet that acceptable standard. This part of the policy has not fully been adopted at the time of this review. There is an intention to begin collecting recharges for all voids and repairs, discussions are currently ongoing to determine who would have responsibility as the voids process is implemented across multiple teams.
Status of Recommendation	**Partially Implemented: Revised Implementation Date – April 2023**

Recommendation 3	Medium
A standard approach should be put in place for the recording of which costs can be recharged for each void.	
Original Implementation Date:	September 2021
Original Management Response	
The policy is live, but we have not currently implemented the recharge approach. We will ensure a robust process is in place of identifying, recording and managing recharges, and ensuring there is a clear auditable information trail to justify and evidence recharges. We will use Open housing functionality for recording and managing recharges. A monetary credit to the service need to be provided in the accounts, irrespective of whether the monies are recovered or appropriate budget allowances made.	
April 2022 Follow Up Response	
Potential recharges are recorded as part of the handover pack and stored in Swordfish along with relevant photos. A sample of completed void properties were reviewed to ensure that the PI document was being adequately completed and that recharged costs are now being separated.	
December 2022 Follow Up Testing	The recording of recharges is now undertaken as part of the voids process, this is recorded on the VIAS documents used by the contractor (MEARS). When undertaking the inspections for the Void properties the cost of repairs is recorded, along with whether any of these should be recharged to the tenant. Testing could not be undertaken on the documents to ensure that this information is being recorded due to a delay in the auditor gaining access to the system. Therefore this review was unable to evidence that this recommendation is fully implemented.
Status of Recommendation	**Partially Implemented: Revised Implementation Date – April 2023**

Recommendation 7	**High**
A recovery plan, including target dates, should be set for performance to improve to the expected levels following the easing of Covid restrictions.	
Original Implementation Date	September 2021
Original Management Response	
A voids action plan has been produced where weekly updates are now provided in relation to voids data and performance monitoring.	
April 2022 Follow Up Response	
A copy of the action plan was provided when the Voids audit report was issued in July 2021. As the new voids contract is due to begin in April 2022, a review of key performance indicators will be completed once the new provider has had time to implement the agreed processes Update 20/4/22 – the new voids contract is live and a new end to end process embedded which will ensure compliance to the contract KPIs We will monitor the KPIs over the next months to ensure the processes are working.	
December 2022 Follow Up Testing	Performance against void targets is now monitored through the Void Tracker 2022/23. Performance data provided shows that the target for delivery is dependent on the type of the void (V1, V2, V3). The type of void is determined by the value of the void. Formulas within the tracker automatically complete the target dates. Of the 459 voids recorded on the 2022/23 void tracker, 390 did not meet the target date. This means that voids are currently only completed by the target in 15%.
Status of Recommendation	**Outstanding: Revised Implentation Data – April 2023**

3.4 Payroll Follow Up

3.4.1 Scope of Review

An audit of the Payroll System was undertaken as part of the 2021/22 Internal Audit Plan and provided a **Limited Assurance** opinion on the system of internal control. The audit made six high and three medium priority recommendations that aimed to mitigate the risks identified. All recommendations were accepted by management and were due to be implemented by April 2022. The aim of this review was to follow up on progress to implement the recommendations raised in the 2021/22 report.

3.4.2 Summary of Findings

This review has found that work is still underway to implement three of the high priority recommendations raised in the original report. Given the importance of the three outstanding recommendations, the assurance level remains **Limited**.

Whilst this report has identified a slower than anticipated progress against the original action plan, it is recognised that the Payroll Team within Transactional Services lacks sufficient capacity to fully address the actions agreed by management in the original report. This determination is further evidenced by a recent decision to recruit a Payroll Manager and a Payroll Functional Subject Matter Expert (SME). It is expected that these additional posts will enable the existing Payroll staff to deliver business as usual activities, allowing management and the Payroll Functional SME to work collaboratively on identifying and rectifying issues across the service; including those associated with the audit recommendations. It is anticipated that the role of the SME, whilst located within Payroll, will bridge the knowledge gap between the Team and the payroll system, working closely with the Systems Team as part of a new target operating model.

This review also acknowledges that there are wider issues across the Council regarding compliance with policies and procedures which are outside of the control of the Payroll Team, and the scope of this review, that have contributed to the overall findings in this area that included:

- Information not being added to Fusion in a timely manner by managers or employees, resulting in errors that require manual amendments (e.g. Leavers, Return to Work and other changes not being actioned within required timescales/at all);
- Lack of knowledge and skills to address functionality issues in Fusion;
- Lack of training for new staff.

These issues will be reviewed by Internal Audit for inclusion in the 2023/24 audit plan.

The section below details only the recommendations that remain outstanding.

3.4.3 Payroll Follow-Up – Recommendations and Progress on Implementation

Recommendation 1	High
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.	
Original Management Response	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 / CSBT call. SR will be raised.
Original Implementation Date	April 22
Progress Update Management Response	CBST and Payroll collaborated on increasing the fields that were being report to split between Regular earnings i.e. Salary against Non Regular earnings i.e. overtime. This will help payroll prioritise the checking. Work is still underway to test the new report.
Audit Conclusion	A review of exception reports from June and July 2022 found that the planned changes to these reports had not been introduced at the time of the review. In addition the review of the exception reports from June and July 2022 found that explanations for the exception had not been recorded in the majority of cases. Whilst work has been undertaken to address the issues identified in the original audit, as yet there have been no improvements in this area and in fact there is an increased risk that exceptions are not being fully investigated and without adequate information recorded the team are unable to determine the cause of the exception and where necessary take remedial action. The CBST team confirmed in January 2023 that the changes to the report have now been made. It is anticipated that the changes to the exception report will be fully introduced and tested against a live environment by March 2023.
Recommendation Status	**Outstanding – Underway** **Revised Implementation Date: March 2023**

Recommendation 3	High
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.	
Original Management Response	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 debrief of the Audit, specifically this recommendation and reminded of their responsibilities.
Responsible Officer	James Cocks
Implementation Date	April 2022 - Completed
Progress Update	Employees are recording errors on existing template with narrative of cause. Leads are regular reviewing the error logs. The team were briefed of the audit and the implications and recommendations and how their actions can impact the audit. Further revisions to the layout of the error log will be made i.e. adding fields where errors are formally raise with system team, oracle etc. In addition regular reviews of the error log will be taking place from February 23, with the Head of Service and Payroll Leads to ensure any relevant action is taken on errors, i.e. agree staff training, system issues formally raised. In addition the meeting will ensure that the teams are up to date with updating the log.
Audit Conclusion	There is a reliance on staff to populate the error log to ensure there is complete and accurate information to enable the team to understand what errors are occurring, how these errors are impacting on the workload of the team and to take action to address the cause of the errors. This information is also used as part of the monitoring of key performance indicators. Discussions with Management has raised concerns that not all errors are being recorded. There is an expectation that every issue, regardless of the reason, should be recorded if it creates work for the Payroll Team. Management are aware that there are more errors occurring than those reflected on the logs. This information coupled with the conclusion of recommendation 1 above indicates that the process of recording errors is not sufficiently robust. Given the issues outlined above this recommendation remains outstanding. It is anticipated that the changes to the exception report will be finalised and tested against a live environment by March 2023.
Status	**Outstanding – Underway** **Revised Implementation Date: March 2023**

Recommendation 5	High
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.	
Original Management Response	Recommendation Agreed. This has been discussed at one source 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.
Responsible Officer	Dave McNamara / CBST
Implementation Date	February 22
Progress Update	Two meetings have been held, with another planned with Oracle to undertake a review of payroll processes and how we use the system. The work is ongoing and will hopefully result in recommendations to improve processes and the use of the system. It has been identified that there is not a clear understanding of when to use the 'update' or 'correction' process when amending payroll records. Knowledge sharing sessions with payroll staff are being planned and will be run by the payroll and the systems team. Meetings have been held with Oracle and a review undertaken of payroll run books. Output has been received with a number of recommendations that are being followed up. A Payroll SME has been appointed and due to start Jan/Feb 23.
Audit Conclusion	Whilst work has begun in this area, a review of the Oracle report suggests that the initial meeting did not cover the issues raised in the original audit report that led to this recommendation. However, work is underway to recruit a Payroll Manager and a Payroll Functional Subject Matter Expert (SME) that will enable the existing Payroll staff to deliver business as usual activities, allowing management and the Payroll Functional SME to work collaboratively on identifying and rectifying issues across the service, including those associated with the audit recommendations. It is anticipated that the role of the SME, whilst located within Payroll, will bridge the knowledge gap between Payroll and the system, working closely with the Systems Team as part of a new target operating model. Given the issues outlined above this recommendation remains outstanding.
Status	**Outstanding – Underway** **Revised Implementation Date: April 2023**

Section 4. Status of Internal Audit Plan 2022/23

Audit Title – LBH Systems Audits	Opinion / Status as at end Q3	Recommendations			
		H	M	Adv	Total
Governance Arrangements (Highways)	Completed – Advisory review				
DPIA Compliance (CCTV)	Completed – Advisory Review				
Pro-active Data Matching Exercise (Accounts Payable and Payroll)	Reasonable	0	0	2	2
SEND Transport	Limited	4	4	2	10
Contract Management - Cash Collection	Limited	3	1	0	4
Direct Payments	Reasonable	0	4	2	6
Housing – Property Buy-Backs	Reasonable	0	1	1	2
Supported Families (Quarter One Review)	n/a	n/a	n/a	n/a	n/a
Supported Families (Quarter Two Review)	n/a	n/a	n/a	n/a	n/a
Supported Families (Quarter Three Review)	n/a	n/a	n/a	n/a	n/a
Projects and Programmes	Limited	1	2	0	3
Housing – Service Charges	Limited	4	0	0	4
Voids – Follow Up	Limited	2	0	0	2
Payroll Follow Up (Compliance - Key Financial)	Limited	3	0	0	3
Contract Management – Environment (Phase 1)	n/a	n/a	n/a	n/a	n/a
DPIA Compliance - CCTV (ICT Governance)	n/a	n/a	n/a	n/a	n/a
Mayors Appeal Fund	n/a	n/a	n/a	n/a	n/a
Total to the end of Quarter 3		**17**	**12**	**7**	**36**
Private Sector Leasing (PSL) Follow Up	Draft Report				
Contract Management – Environment (Phase 2)	Draft Report				
Procurement inc Contract Management	Underway				
Housing - Compliance	Underway				
Supplier Creation (Compliance – Key Financial)	Underway				
Complaints Process	Underway				
Housing – Responsive Repairs	Q4				
Joint Ventures – Governance & Compliance	Q4				
Waivers	Scope TBC				
Planning	For consideration in 2023/24 Audit Plan				
Safeguarding Adults	Scope TBC				
Continuing HealthCare	Scope TBC				
Contract Management - Highways Services	Scope TBC				

Social Care Contract Award Follow Up	Scope TBC				
Audit Title – LBH Schools Audits					
Scotts Primary	Draft Report				
St Ursula's Catholic Primary	Draft Report				
The RJ Mitchell Primary	Draft Report				
Parklands Primary	Underway				
Academies					
Emerson Park Academy	Reasonable	0	1	3	4
Shaw Primary Academy	Reasonable	0	2	0	2
Health Checks					
Health Checks (14)	6 Completed	4 Underway			

Section 5. Counter Fraud Audit Work

5.1 Proactive Counter Fraud Investigations

5.1.1 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.

5.1.2 Proactive work undertaken during 01/10/2022 to 31/12/2022 is outlined 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.	5
Advice to Other Local Authorities: All Data Protection Act requests via Local Authorities, Police etc.	5
Fraud Hotline: To take all telephone calls and emails relating to the 'Fraud Hotline' and action / refer appropriately.	3
FOI Requests: To undertake all Freedom of Information (FOI) Requests.	1
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.	All data submitted as in accordance within the prescribed times

5.2 Reactive Investigation Cases

5.2.1 Five referrals were brought forward from the previous period.

- One case has been investigated and concluded; and
- The remaining four cases are still under investigation.

5.2.2 During 01/10/22 to 31/12/22 six referrals were received; four of which, information was provided by Whistle-blowers:

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

5.3 Housing Cases

5.3.1 The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications:

Description	2021/22	2022/23 (to date)
Number of referrals investigated	91	106
Properties recovered	6	6
Notional Saving	£108,000	£108,000
RTB referred and reviewed	146	90
RTB stopped	2	5
Notional Saving	£225,600	£581,000
Total Notional Saving	**£333,600**	**£689,000**

5.3.2 The following table illustrates the breakdown of cases:

Description	2022/23 (to date)
Number of referrals brought forward	60
Number of new referrals retained for investigation *	46
Number of referrals currently under investigation	**69**
• Notice To Quit (NTQ) / Surrender of Tenancy (SOT) issued	6
• Pending bailiff action / Awaiting Eviction	3
• Passed to Legal Services for Criminal / Civil Proceedings	12
• Awaiting Court Hearing	2
• Open Investigations	46
Number of completed investigations	**37**
• Closed Properties Recovered	6
• Closed RTB stopped **	5
• Closed Criminal Prosecution	1
• Closed NFA	19
• Closed No Offence	6

Key: * Total number of referrals received and triaged was 104. However, only 46 are being investigated as the remaining referrals do not get investigated by the Counter Fraud Team, e.g. Housing Benefit, other LA's.

** Total number of RTB's referred and reviewed was 90

NB: Housing Services now refer Mutual Exchanges to the Counter Fraud Team to review. A total of 30 Mutual exchanges have been referred and reviewed. One has been retained for further investigation.

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.

AUDIT COMMITTEE
24th January 2023

Subject Heading:	Report on Mercury Land Holdings
SLT Lead:	Neil Stubbings, Director of Regeneration
Report Author and contact details:	Kirsty Moller, Head of Programme & Support (Regeneration) Tel: 01708 434707 E-mail: kirsty.moller@havering.gov.uk Paul Walker, Assistant Director of Development (Regeneration) Tel: 01708 434282 E-mail: Paul.Walker@havering.gov.uk
Policy context:	To provide the committee with information relating to the purpose and activity of Mercury Land Holdings.
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

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

SUMMARY

This report advises the Committee on the background, activity and financial status of Mercury Land Holdings, the Council-owned development company. This report is presented in six sections:

Section 1: Purpose and Background

Section 2. Company Structure

Section 3. Governance

Section 4. Delivery to Date

Section 5. Costs & Income

Section 6. Future Plans

Appendices: Provide supporting detail for Member's information:

Appendix A – Mercury Land Holding accounts for year ending 31st March 2022

EXEMPT Appendix B – Further financial information relating to Mercury Land Holdings

The report will be supported by a PowerPoint presentation to Committee.

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: Purpose and Background

1.1.1 MLH was incorporated in November 2015 following the May 2015 Cabinet decision to establish a commercially focused company that would deliver housing for private rent and sale.

1.1.2 The Council's main objectives for entering into the private sector housing market were:

- To contribute to, and where possible accelerate the provision of housing supply in the borough
- To ensure a mix of housing, in terms of type, size and tenure, best matched to the needs of Havering;
- To support the Council's regeneration and growth aims, bringing forward high quality development on regeneration sites in key parts of the borough.
- To generate an acceptable financial return to the Council by operating a business.

1.1.3 The Council borrows capital funding and provides funding to MLH through either equity or onward lending with interest via loan arrangements. The loan repayments are usually scheduled over 50 years and the interest generates an income to the general fund.

1.1.4 The company has a portfolio of private sector rented (PRS) homes that provide an income to cover debt and company running costs.

1.1.5 The Council, as sole shareholder, will receive dividends from MLH equity in future.

Section 2. Company Structure

2.1 Mercury Land Holdings

2.1.1 Mercury Land Holdings Limited is a private limited company that is wholly owned by the Council, which is the sole shareholder.

2.1.2 It is subject to UK Company Law and is required to make returns to Companies House and submit annual audited accounts. All statutory filings are currently up to date. The accounts for the year ending 31st March 2021 are included as Appendix A.

2.1.3 Mercury Land Holdings is staffed by three full time staff and a non-executive director and is managed by a Board of Directors. The board directors are: Andrew Blake-Herbert, Garry Green, Anthony Huff and Ian Rhodes. The Company Secretary is Shahana Jeewa.

2.1.4 The nominated Council Shareholder Representatives at Member level are the Leader and Lead Member for Finance.

2.2 Mercury Design & Build Ltd

2.2.1 Mercury Design and Build is a limited company and subsidiary of Mercury Land Holdings. It was formed to undertake design and construction activities, such as Winterberry Court. This company can manage and reclaim VAT charges incurred in the development process.

2.2.2 Mercury Design and Build is subject to the same UK law and accounting practices as MLH, consolidated accounts are filed annually at Companies House. The company directors are also the same as those of Mercury Land Holdings Limited.

Section 3. Council Governance

3.1.1 Whilst the company is staffed and managed independently of the Council, the level of strategic Council control is high. This is because the Council is the exclusive funder to the company and in deciding whether to provide working capital and development loans – all at commercial rates – the Council reviews company business plans and individual development business cases, using appropriate legal, financial, and regeneration/property expertise.

3.1.2 The financial activities of Mercury are monitored in depth on a monthly basis by the Council and the integration and liaison of the company’s activities into the overall regeneration activities of the Council is achieved under a close liaison role provided by the Regeneration Service. MLH attend various meetings and report on finances and activity every six weeks at the Regeneration Officer Board (chaired by the Council’s Section 151 Officer).

3.1.3 MLH’s operation and funding is regulated by its business plan, which sets out the funding required and developments to be brought forward. Approval of the business plan has to follow the usual Council executive decision process and ultimately has to be approved by Cabinet.

3.1.4 Before development activity can start, further governance steps are undertaken to set out the terms of lending and provide funding against approved business cases. Development schemes are considered as commercial investments.

Section 4. Delivery to Date

4.1.1 North Street, Hornchurch – 44 PRS homes in operation

4.1.2 Cathedral Court, Romford – 65 PRS homes in operation

4.1.3 Victory Place, Romford (previously Crow Lane)
MLH facilitated the delivery of 38 larger affordable homes for the HRA, there are also 34 PRS homes in operation and 10 market homes sold.

4.1.4 The units that MLH have in operation have proved popular with Havering residents, achieving very high rates of occupation and excellent rates for rent collection.

Section 5. Costs & Income

5.1 Financing Developments

5.1.1 The Council funds the development costs of Mercury through equity and loans.

5.1.2 Development loans are made on commercial terms to be within the Subsidy Control Act (formally state aid compliance). The interest on loans generates an income to the Council's general fund, bank fees are also paid by MLH.

5.1.3 If the units from the development are kept for PRS stock, then the development loans and capitalised interest is refinanced as fixed interest operational loans, usually repaid over 50 years.

5.2 Company Costs

5.2.1 MLH uses rental income from PRS to fund running costs and debt repayments.

5.2.2 The company structure is designed to work in a controlled deficit during early years of growth until economies of scale on rented stock and development profits from sales place the company in a long-term sustainable position. This arrangement is endorsed by Auditors for the Company (reporting also to the Council as shareholder).

5.2.3 MLH currently own 143 PRS units. Another 20 units have secured funding. A portfolio of 400+ units is assessed to be the benchmark where returns from its rental portfolio cover all company costs. Until then, the business plan requires development profit from sales to balance investment and management costs.

5.2.4 At current costs, based on a 2-bed property, £100m of Council funding would be required to increase the portfolio to 400 units. The approved MLH capital budget is currently £204m.

5.2.5 A summary of company assets, liabilities and equity is as follows:

- 3 schemes in operation – Cathedral Court, Winterberry Court, Victory Place
- Current debt level equals £30.9m
- Equity equals £11.3m
- Value of Portfolio equals £47.2m

5.3 Council Finance for MLH

Details of MLH payments to the Council, capital profiling and loan repayments can be found within Exempt Appendix B

5.4 Financial Risks for Development

5.4.1 As with all commercial activity, there are risks to regeneration and development, which are closely monitored to ensure that developments remain viable. The key risks to highlight include:

- Interest Rates Affecting Costs & Financing – current uncertainty around the rate of inflation could impact on construction prices and borrowing rates.

- Housing Market Conditions – sales can be at risk of fluctuating market conditions. If the cost of living goes up and wages stagnate, people could find saving for a deposit and securing a mortgage become more challenging. This is less of a problem for PRS housing

- Changing Planning and Building Requirements – can be more expensive, requires additional work during the design phase which can extend the programme – upside is safer, better insulated and more energy-efficient buildings.

- Availability & Cost of Suitable Land – cost of land for residential development can change and requires regular market testing, professional advice, early engagement, mitigation plans to adjust tenure mix if required.

5.5 Business Planning and Sensitivity Analysis

A refresh of the Mercury Land Holdings business plan is currently underway, to be brought forward for Cabinet consideration in Spring 2023.

Each Business Plan review incorporates a comprehensive set of sensitivity analysis to assess the robustness of the proposed plans. Sensitivity analysis provides an indication of how potential market volatility would impact on viability. The following stress tests are modelled: -

- Interest rate (PWLB) volatility
- Construction costs
- Sales values (impairment)
- Combination of factors

Section 6. Future Plans

MLH have a number of schemes in the development process or under investigation, including:

- Quarles College Campus – 120 homes, 47 affordable units (for LBH), 53 open market sale and 20 PRS
- St Georges, Hornchurch – Facilitating 14 affordable rent and 22 shared ownership for LBH housing department

Further opportunities for Mercury Land Holdings to provide residential units on Council-owned sites are due to be considered by Cabinet in February 2023.

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.

Any requested financial support towards Mercury Land Holdings' activities is assessed via the Council's established governance processes.

The company is liable to provide regular filings to HMRC and annual audited accounts to Companies House. All filings are currently up to date.

Climate Change implications and risks:

None arising directly from this report.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

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

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REPORT OF THE DIRECTORS AND

AUDITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

FOR

MERCURY LAND HOLDINGS LIMITED

THP Limited
Chartered Accountants
and Statutory Auditors
34-40 High Street
Wanstead
London
E11 2RJ

**CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022**

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2022

DIRECTORS:	A Blake-Herbert G K Green A V Huff I P Rhodes
SECRETARY:	S Jeewa
REGISTERED OFFICE:	Town Hall Main Road Romford Essex RM1 3BB
REGISTERED NUMBER:	09878652 (England and Wales)
SENIOR STATUTORY AUDITOR:	Shahid Hameed ACA FCCA
AUDITORS:	THP Limited Chartered Accountants and Statutory Auditors 34-40 High Street Wanstead London E11 2RJ

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2022

The directors present their report with the financial statements of the company and the group for the year ended 31 March 2022.

PRINCIPAL ACTIVITY
The principal activity of the group in the year under review was that of the renting and operating of owned or leased real estate.

CORONAVIRUS
As at the date of signing these accounts, England has come out of all significant Coronavirus related restrictions and there is hope that the situation will continue to improve as we move into Winter 2022 and beyond. There does however remain some degree of uncertainty as to how the situation will evolve in the future.

The main financial risks to the group during the pandemic have been the restrictions imposed by the UK Government on the eviction of tenants in rent arrears and the increase in void periods due to issues in the letting and re-letting of rental properties. Overall there has however been minimal variance against the existing budgets and Directors will continue to monitor and manage the situation.

The group is also able to draw on the support of its main funders and ultimate controlling party "The London Borough of Havering" to ensure that cash flow is supported through periods of uncertainty.

The Directors are confident that the decisions the group has made so far and the support it has received will ensure that it can continue as a going concern.

GOING CONCERN
The group continued to generate significant operating cash flows and continued to increase operations year-on-year. Despite this, the balance sheet as at 31 March 2022 shows net current liabilities of £3,883,343 (2021: £538,834 net current assets) and negative retained earnings of £2,490,182 (2021: £2,340,190) due to significant investments in properties during the past number of years. The result of this investment is that the group has an exceptionally strong balance sheet position with net assets of £13,908,678 (2021: £14,851,715). The group also has a number of future schemes in hand that are expected to deliver significant profits in future years.

The group continues to meet its day to day working capital requirements through operating cash flows and finances all significant refurbishments via the loans from the ultimate controlling party "The London Borough of Havering".

The ultimate controlling party continues to give financial support to the group by injecting funds as necessary for the group to continue trading and it has confirmed that it will continue to support its subsidiary for at least 12 months from the date of approving these accounts.

Having considered all the relevant facts the directors consider it is appropriate to prepare the financial statements on a going concern basis.

EVENTS SINCE THE END OF THE YEAR
Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 April 2021 to the date of this report.

A Blake-Herbert
G K Green
A V Huff
I P Rhodes

REDUCTION IN SHARE CAPITAL
During the year, the company reduced its share capital by £1,000,000 (2021: £nil). This resulted in a payment of £1m being made to The London Borough of Havering following the sale of 10 investment properties at Crow Lane.

The shares represented 8% of the Ordinary £1 shares in issue prior to their cancellation.

DIRECTORS' RESPONSIBILITIES STATEMENT
The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

AUDITORS
The auditors, THP Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

G K Green - Director

16 November 2022

Opinion
We have audited the financial statements of Mercury Land Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2022 which comprise the Consolidated Income Statement, Consolidated Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the group's and of the parent company affairs as at 31 March 2022 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Group Strategic Report or in preparing the Report of the Directors.

Responsibilities of directors
As explained more fully in the Directors' Responsibilities Statement set out on page three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

The extent to which the audit was considered capable of detecting irregularities including fraud
Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the group through discussions with directors and other management, and from our commercial knowledge and experience of the sector in which the group operates;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the group, including the Companies Act 2006, taxation legislation and data protection, anti-bribery, employment, planning regulations, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the group's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:
- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:
- agreeing financial statement disclosures to underlying supporting documentation;
- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC and any other relevant regulators as required.

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

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

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Shahid Hameed ACA FCCA (Senior Statutory Auditor)
for and on behalf of THP Limited
Chartered Accountants
and Statutory Auditors
34-40 High Street
Wanstead
London
E11 2RJ

16 November 2022

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

		2022		2021	
	Notes	**£**	**£**	£	£
TURNOVER			**2,285,373**		1,847,489
Property related costs		**653,076**		558,010	
Administrative expenses		**431,577**		325,525	
			1,084,653		883,535
OPERATING PROFIT	4		**1,200,720**		963,954
Profit on sale of investment property	5		**170,898**		761,562
			1,371,618		1,725,516
Interest receivable and similar income			**-**		723
			1,371,618		1,726,239
Gain on revaluation of investment property			**255,500**		5,629,451
			1,627,118		7,355,690
Interest payable and similar expenses			**1,984,414**		2,039,682
(LOSS)/PROFIT BEFORE TAXATION			**(357,296)**		5,316,008
Tax on (loss)/profit	6		**(369,919)**		1,146,088
PROFIT FOR THE FINANCIAL YEAR			**12,623**		4,169,920
Profit attributable to:					
Owners of the parent			**12,623**		4,169,920

The notes form part of these financial statements

CONSOLIDATED OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £	2021 £
PROFIT FOR THE YEAR		**12,623**	4,169,920
OTHER COMPREHENSIVE INCOME			
Pension scheme deficit movement		**47,000**	(125,000)
Income tax relating to other comprehensive income		**(2,660)**	25,650
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**44,340**	(99,350)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**56,963**	4,070,570
Total comprehensive income attributable to:			
Owners of the parent		**56,963**	4,070,570

The notes form part of these financial statements

MERCURY LAND HOLDINGS LIMITED (REGISTERED NUMBER: 09878652)

CONSOLIDATED BALANCE SHEET
31 MARCH 2022

	Notes	**2022** £	£	2021 £	£
FIXED ASSETS					
Tangible assets	8		**-**		1,313
Investments	9		**-**		-
Investment property	10		**47,546,071**		47,953,389
			47,546,071		47,954,702
CURRENT ASSETS					
Debtors	11	**273,752**		347,485	
Cash at bank		**693,498**		4,841,413	
		967,250		5,188,898	
CREDITORS					
Amounts falling due within one year	12	**4,850,593**		4,650,064	
NET CURRENT (LIABILITIES)/ASSETS			**(3,883,343)**		538,834
TOTAL ASSETS LESS CURRENT LIABILITIES			**43,662,728**		48,493,536
CREDITORS					
Amounts falling due after more than one year	13		**(28,879,871)**		(32,386,383)
PROVISIONS FOR LIABILITIES			**(753,179)**		(1,120,438)
PENSION LIABILITY	17		**(121,000)**		(135,000)
NET ASSETS			**13,908,678**		14,851,715
CAPITAL AND RESERVES					
Called up share capital	15		**11,305,950**		12,305,950
Revaluation reserve	16		**5,092,910**		4,885,955
Retained earnings			**(2,490,182)**		(2,340,190)
SHAREHOLDERS' FUNDS			**13,908,678**		14,851,715

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the Board of Directors and authorised for issue on 16 November 2022 and were signed on its behalf by:

G K Green - Director

The notes form part of these financial statements

COMPANY BALANCE SHEET
31 MARCH 2022

	Notes	2022 £	2022 £	2021 £	2021 £
FIXED ASSETS					
Tangible assets	8		**-**		1,313
Investments	9		**100**		100
Investment property	10		**48,113,842**		48,479,907
			48,113,942		48,481,320
CURRENT ASSETS					
Debtors	11	**273,720**		346,455	
Cash at bank		**685,430**		4,795,501	
		959,150		5,141,956	
CREDITORS					
Amounts falling due within one year	12	**4,894,576**		4,632,946	
NET CURRENT (LIABILITIES)/ASSETS			**(3,935,426)**		509,010
TOTAL ASSETS LESS CURRENT LIABILITIES			**44,178,516**		48,990,330
CREDITORS					
Amounts falling due after more than one year	13		**(28,879,871)**		(32,386,383)
PROVISIONS FOR LIABILITIES			**(753,179)**		(1,120,438)
PENSION LIABILITY	17		**(121,000)**		(135,000)
NET ASSETS			**14,424,466**		15,348,509
CAPITAL AND RESERVES					
Called up share capital	15		**11,305,950**		12,305,950
Revaluation reserve	16		**5,092,910**		4,885,955
Retained earnings			**(1,974,394)**		(1,843,396)
SHAREHOLDERS' FUNDS			**14,424,466**		15,348,509
Company's profit for the financial year			**31,617**		4,613,097

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the Board of Directors and authorised for issue on 16 November 2022 and were signed on its behalf by:

G K Green - Director

The notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Called up share capital £	Retained earnings £	Revaluation reserve £	Total equity £
Balance at 1 April 2020	12,305,950	(1,927,397)	402,592	10,781,145
Changes in equity				
Total comprehensive income	-	(412,793)	4,483,363	4,070,570
Balance at 31 March 2021	12,305,950	(2,340,190)	4,885,955	14,851,715
Changes in equity				
Reduction in share capital	(1,000,000)	-	-	(1,000,000)
Total comprehensive income	-	(149,992)	206,955	56,963
Balance at 31 March 2022	11,305,950	(2,490,182)	5,092,910	13,908,678

The notes form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

	Called up share capital £	Retained earnings £	Revaluation reserve £	Total equity £
Balance at 1 April 2020	12,305,950	(1,873,780)	402,592	10,834,762
Changes in equity				
Total comprehensive income	-	30,384	4,483,363	4,513,747
Balance at 31 March 2021	12,305,950	(1,843,396)	4,885,955	15,348,509
Changes in equity				
Reduction in share capital	(1,000,000)	-	-	(1,000,000)
Total comprehensive income	-	(130,998)	206,955	75,957
Balance at 31 March 2022	11,305,950	(1,974,394)	5,092,910	14,424,466

The notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £	2021 £
Cash flows from operating activities			
Cash generated from operations	20	**1,756,452**	(3,133,231)
Interest paid		**(1,984,414)**	(2,039,682)
Net cash from operating activities		**(227,962)**	(5,172,913)
Cash flows from investing activities			
Purchase of investment property		**(174,304)**	(3,363,505)
Sale of investment property		**837,122**	3,412,878
Interest received		**-**	723
Net cash from investing activities		**662,818**	50,096
Cash flows from financing activities			
Movement in loan from group undertakings		**(3,582,771)**	9,664,471
Reduction in share capital		**(1,000,000)**	-
Net cash from financing activities		**(4,582,771)**	9,664,471
(Decrease)/increase in cash and cash equivalents		**(4,147,915)**	4,541,654
Cash and cash equivalents at beginning of year	21	**4,841,413**	299,759
Cash and cash equivalents at end of year	21	**693,498**	4,841,413

The notes form part of these financial statements

1. STATUTORY INFORMATION

Mercury Land Holdings Limited is a private company, limited by shares , registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

The presentation currency of the financial statements is the Pound Sterling (£).

2. ACCOUNTING POLICIES

Basis of preparing the financial statements and going concern
These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" including the provisions of Section 1A "Small Entities" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

The group continued to generate significant operating cash flows and continued to increase operations year-on-year. Despite this, the balance sheet as at 31 March 2022 shows net current liabilities of £3,883,343 (2021: £538,834 net current assets) and negative retained earnings of £2,490,182 (2021: £2,340,190) due to significant investments in properties during the past number of years. The result of this investment is that the group has an exceptionally strong balance sheet position with net assets of £13,908,678 (2021: £14,851,715). The group also has a number of future schemes in hand that are expected to deliver significant profits in future years.

The group continues to meet its day to day working capital requirements through operating cash flows and finances all significant refurbishments via the loans from the ultimate controlling party "The London Borough of Havering".

The ultimate controlling party continues to give financial support to the group by injecting funds as necessary for the group to continue trading and it has confirmed that it will continue to support its subsidiary for at least 12 months from the date of approving these accounts.

Having considered all the relevant facts the directors consider it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation
The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. All accounting policies as detailed below are applied consistently across the Group.

Related party exemption
The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Transactions between group entities which have been eliminated on consolidation are not disclosed within the financial statements.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services supplied, net of returns, discounts and value added taxes.

Revenue is recognised in the accounting period in which the services were rendered.

Tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.
Fixtures and fittings - 25% on cost

Investment properties
Investment properties are shown at fair values determined by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Any aggregate surplus or deficit that arises from a change in fair value is recognised in the Consolidated Income Statement, net of deferred tax. On an annual basis this surplus or deficit is transferred from retained profits into a separate, non-distributable reserve called the "Revaluation Reserve".

continued...

2. **ACCOUNTING POLICIES - continued**

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Development costs

Development expenditure is capitalised in accordance with company's accounting policy. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

(i) Defined Contribution Scheme

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to profit and loss in the period to which they relate.

(ii) Defined Benefit Scheme

The group also operates a defined benefit scheme, as further explained in Note 17.

Finance costs

Finance costs are charged to the Consolidated Income Statement over the term of the debt using the effective interest method so that amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

3. **EMPLOYEES AND DIRECTORS**

The average number of employees during the year was 4 (2021 - 3) .

The average number of employees by undertakings that were proportionately consolidated during the year was 4 (2021 - 3) .

4. **OPERATING PROFIT**

The operating profit is stated after charging:

	2022	2021
	£	£
Depreciation - owned assets	**1,313**	9,677

continued...

5. EXCEPTIONAL ITEMS

	2022	2021
	£	£
Profit on sale of investment property	**170,898**	761,562

6. TAXATION

Analysis of the tax (credit)/charge
The tax (credit)/charge on the loss for the year was as follows:

	2022	2021
	£	£
Deferred tax	**(369,919)**	1,146,088
Tax on (loss)/profit	**(369,919)**	1,146,088

Tax effects relating to effects of other comprehensive income

		2022	
	Gross	**Tax**	**Net**
	£	**£**	**£**
Pension scheme deficit movement	**47,000**	**(2,660)**	**44,340**

		2021	
	Gross	Tax	Net
	£	£	£
Pension scheme deficit	(125,000)	25,650	(99,350)

It is group policy that no charge is made between group companies for group relief claims and the surrender of taxable losses.

Factors that may affect future tax charges

The deferred tax liability includes £1,194,633 which is the theoretical corporation tax that would be due if the properties were to be sold at their current revalued amount.

The group also has property business tax losses of £2,202,442 (2021: £1,665,212) available to carry forward and utilise against future property business profits and a deferred tax asset of £418,464 on these losses has been recognised and netted off with the liability noted above.

A net deferred tax liability of £753,179 has therefore been provided at 31 March 2022. This tax would only be payable in the event that the properties were actually sold.

7. INDIVIDUAL INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

continued...

8. TANGIBLE FIXED ASSETS

Group

	Fixtures and fittings £
COST	
At 1 April 2021 and 31 March 2022	**38,709**
DEPRECIATION	
At 1 April 2021	**37,396**
Charge for year	**1,313**
At 31 March 2022	**38,709**
NET BOOK VALUE	
At 31 March 2022	**-**
At 31 March 2021	1,313

Company

	Fixtures and fittings £
COST	
At 1 April 2021 and 31 March 2022	**38,709**
DEPRECIATION	
At 1 April 2021	**37,396**
Charge for year	**1,313**
At 31 March 2022	**38,709**
NET BOOK VALUE	
At 31 March 2022	**-**
At 31 March 2021	1,313

9. FIXED ASSET INVESTMENTS

Company

	Shares in group undertakings £
COST	
At 1 April 2021 and 31 March 2022	**100**
NET BOOK VALUE	
At 31 March 2022	**100**
At 31 March 2021	100

continued...

9. FIXED ASSET INVESTMENTS - continued

The group or the company's investments at the Balance Sheet date in the share capital of companies include the following:

Subsidiary

Mercury Design & Build Limited
Registered office: Town Hall, Main Road, Romford RM1 3BB
Nature of business: Development of Real Estate

Class of shares:	% holding
Ordinary	100.00

10. INVESTMENT PROPERTY

Group

	Total £
FAIR VALUE	
At 1 April 2021	47,953,389
Additions	174,304
Disposals	(837,122)
Revaluations	255,500
At 31 March 2022	47,546,071
NET BOOK VALUE	
At 31 March 2022	47,546,071
At 31 March 2021	47,953,389

The investment properties were valued by Savills and Glenny Estate Agents at 31 March 2022 at an open market value. This includes properties of £936,342 that were in the course of construction at that date.

The difference between the investment properties in the group and that in the company (in consolidated accounts) relates to the Mark Up from the subsidiary (Mercury Design & Build Ltd) which is eliminated on consolidation.

Fair value at 31 March 2022 is represented by:

	£
Valuation in 2018	333,061
Valuation in 2020	69,531
Valuation in 2021	5,629,451
Valuation in 2022	255,500
Cost	41,258,528
	47,546,071

Company

	Total £
FAIR VALUE	
At 1 April 2021	48,479,907
Additions	215,557
Disposals	(837,122)
Revaluations	255,500
At 31 March 2022	48,113,842
NET BOOK VALUE	
At 31 March 2022	48,113,842
At 31 March 2021	48,479,907

continued...

10. INVESTMENT PROPERTY - continued

Company

The investment properties were valued by Savills and Glenny Estate Agents at 31 March 2022 at an open market value. This includes properties of £936,342 that were in the course of construction at that date.

The difference between the investment properties in the group and that in the company (in consolidated accounts) relates to the Mark Up from the subsidiary (Mercury Design & Build Ltd) which is eliminated on consolidation.

Fair value at 31 March 2022 is represented by:

	£
Valuation in 2018	**333,061**
Valuation in 2020	**69,531**
Valuation in 2021	**5,629,451**
Valuation in 2022	**255,500**
Cost	**41,826,299**
	48,113,842

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
Trade debtors	**216,863**	182,655	**216,863**	182,655
VAT	**5,490**	109,524	**5,458**	108,494
Prepayments and accrued income	**51,399**	55,306	**51,399**	55,306
	273,752	347,485	**273,720**	346,455

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
Trade creditors	**161,957**	49,600	**161,957**	47,575
Amounts owed to group undertakings	**3,997,736**	4,073,995	**4,048,769**	4,065,002
Social security and other taxes	**7,963**	8,355	**7,963**	8,355
Accruals and deferred income	**682,937**	518,114	**675,887**	512,014
	4,850,593	4,650,064	**4,894,576**	4,632,946

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2022	2021	**2022**	2021
	£	£	**£**	£
Amounts owed to group undertakings	**28,879,871**	32,386,383	**28,879,871**	32,386,383

14. SECURED DEBTS

Amounts owed to group undertakings are secured by fixed and floating charges over the investment properties of the group.

15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number		Class	Nominal value	2022	2021
£	£				
11,305,950 (2021: 12,305,950)		Ordinary	£1	11,305,950	12,305,950

16. RESERVES

Group

	Revaluation reserve £
At 1 April 2021	**4,885,955**
Deferred tax on revaluation	**(48,545)**
Transfer of revaluation surplus	**255,500**
At 31 March 2022	**5,092,910**

Company

	Revaluation reserve £
At 1 April 2021	**4,885,955**
Deferred tax on revaluation	**(48,545)**
Transfer of revaluation surplus	**255,500**
At 31 March 2022	**5,092,910**

17. EMPLOYEE BENEFIT OBLIGATIONS

One of the company's employees is a member of a defined benefit pensions scheme, Local Government Pension Scheme Fund: London Borough of Havering Pension Fund. The assets of the scheme are held separately from those of participating group companies. A complete valuation of the scheme is undertaken by independently qualified actuaries at the year end and annual contributions to the schemes are required to be made in accordance with their recommendations.

The pension liability under FRS 102 at the year end relates to the scheme is as follows:

			31 March 2022	31 March 2021
	£	£		
Assets			107,000	89,000
Obligations			(228,000)	(224,000)
Net asset/(liability)			(121,000)	(135,000)

The major categories of plan assets as a percentage of total plan assets

The actuaries have used the most recent asset split provided to them and allowed for index returns, where required, on each asset category to determine the estimated split of assets as at 31 March 2022.

	31 March 2022	31 March 2021
Equities	40%	54%
Bonds	33%	25%
Property	24%	16%
Cash	3%	5%

Financial Assumptions

The financial assumptions are summarised below:

	31 March 2022	31 March 2021
	% p.a.	% p.a.
Pension Increase Rate (CPI)	3.15%	2.80%
Salary Increase Rate	3.85%	3.50%
Discount Rate	2.75%	2.05%

As at the date of the most recent valuation, the duration of the Employer's funded liabilities is 42 years.

Mortality

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	21.6 years	24.0 years
Future Pensioners*	22.6 years	25.7 years

* Figures assume members aged 45 as at the last formal valuation date.

18. POST BALANCE SHEET EVENTS

Subsequent to the year end, the company was required to earmark £200,000 of cash at bank due to a breach of a loan covenant whereby the Loan to Value Ratio (LTVR) exceeded the required minimum ratio. This retention will be released in part or in full on the basis that the market valuation increases in future valuations.

19. ULTIMATE CONTROLLING PARTY

The ultimate parent undertaking and ultimate controlling party is considered to be The London Borough of Havering. Group financial statements can be obtained from:

London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BD

20. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2022	2021
	£	£
(Loss)/profit before taxation	**(357,296)**	5,316,008
Depreciation charges	**1,313**	9,677
Gain on revaluation of fixed assets	**(255,500)**	(5,629,451)
CIS tax refund	**-**	429,007
Pension deficit charge	**33,000**	10,000
Finance costs	**1,984,414**	2,039,682
Finance income	**-**	(723)
	1,405,931	2,174,200
Decrease/(increase) in trade and other debtors	**73,733**	(197,147)
Increase/(decrease) in trade and other creditors	**276,788**	(5,110,284)
Cash generated from operations	**1,756,452**	(3,133,231)

21. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 March 2022

	31.3.22	**1.4.21**
	£	**£**
Cash and cash equivalents	**693,498**	**4,841,413**

Year ended 31 March 2021

	31.3.21	1.4.20
	£	£
Cash and cash equivalents	4,841,413	299,759

22. ANALYSIS OF CHANGES IN NET FUNDS

	At 1.4.21	**Cash flow**	**At 31.3.22**
	£	**£**	**£**
Net cash			
Cash at bank	**4,841,413**	**(4,147,915)**	**693,498**
	4,841,413	**(4,147,915)**	**693,498**
Total	**4,841,413**	**(4,147,915)**	**693,498**

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By virtue of paragraph(s) 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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AUDIT WORK PROGRAMME 2022/23 Reports will be added to SharePoint for approval			
Meeting	Agenda Item	Lead officer	Reports Deadline
24 January 2023	**Wholly Owned Companies** **Mercury Land Holdings Limited** Mercury Land Holdings Limited - 09878652 **Mercury Designs & Build Ltd** Mercury designs & build Limited - 10515344 Both registered addresses Town Hall, Main Road, Romford Officers involved to attend and explain the benefit to Havering , their business plan We also request for the figures since inception to be given November 2015 & December 2016 prior to the meeting	Paul Walker	
24 January 2023 ?	**Accounts Update** • overdue accounts update	Dave McNamara	
April Onwards	**Committee Grants** • To ask officers to provide a list of all the local community groups who receive a Grant		

	• How Much • How Often		
	Children's Services • School Buildings • Their Finance • Anything else		
	External Audit • Risks and Pensions		
	Invoice Payments into Budgets • Are all invoice payments by external people made into a specific budget then distributed to the correct budget?		
18 April 2023	**Head of Assurance Annual Opinion; incorporating Internal Audit Plan 2022/23 Final Outturn**		
18 April 2023	**Draft Internal Audit Plan 2023/24**		
18 April 2023	**Draft Annual Governance Statement 2022/23**		