Governance, Audit, Risk Management and Standards Committee Supplemental Agenda

Date: **Tuesday 30 November 2021**

. Agenda - Part I

8. **Information Report - Audit Completion of Statement of Accounts 2019-20 - Annual Audit Letters** (Pages 3 - 34)
Report of the Director of Finance and Assurance.

10. **Information Report - Audit Progress Report** (Pages 35 - 48)
Report of the Director of Finance and Assurance.

11. **Statement of Accounts 2020-21** (Pages 49 - 312)
Report of the Director of Finance and Assurance.

. Agenda - Part II - Nil

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda items have been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item	Special Circumstances/Grounds for Urgency
8. Information Report - Audit Completion of Statement of Accounts 2019-20 - Annual Audit Letters	This report was not available at the time the agenda was printed and circulated as up to date information was awaited. Members are requested to consider this item, as a matter of urgency, in order to avail themselves of the opinion of the external auditors on the 2019-20 accounts at the earliest opportunity.
10. Information Report – Audit Progress Report	This report was not available at the time the agenda was printed and circulated as up to date information was awaited. Members are requested to consider this item, as a matter of urgency, in order to avail themselves of the progress of the external auditors on the 2020-21 accounts and their VFM work.

11. Statement of Accounts 2020-21	This report was not available at the time the agenda was printed and circulated as up to date information was awaited. Members are requested to consider this item, as a matter of urgency, in order to avail themselves of the opinion of the external auditors on the 2020-21 accounts at the earliest opportunity.

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Report for:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	30th November 2021
Subject:	Information Report - Audit Completion of Statement of Accounts 2019-20 - Annual Audit Letters
Responsible Officer:	Dawn Calvert, Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	LBH Annual Audit Letter 2019-20 and LBH Pension Fund Annual Audit Letter 2019-20

Section 1 – Summary and Recommendations

This report provides the committee with the opportunity to consider the Annual Audit Letters of the Council and Pension Fund and note that the external audit for the financial year 2019-20 is now complete.

Recommendations:

The Committee is asked to note the report containing the Annual Audit Letters

Section 2 – Report

Background

1. The GARMS committee considered and the approved the Statement of Accounts 2019-20 at the meeting held on 22nd October 2020.

2. The Accounts and Audit (England) Regulations 2015 requires the Committee to consider the Annual Audit Letters of the external auditors.

3. The Council's external auditors (Mazars LLP) have now issued their Annual Audit Letters for the Council and the Pension Fund for the financial year ended 31st March 2020.

4. The 2019-20 Annual Audit Letters are attached as appendices to this report and cover the following matters:

    - Executive Summary
    - Audit of the financial statements
    - Value for money conclusion
    - Other reporting responsibilities
    - Audit fees
    - Forward look

5. The key conclusions arising from the auditors work were:

    - The council received an unqualified audit opinion and value for money conclusion
    - No audit recommendations were issued

Legal Implications

The Annual Audit Letter summaries the work of the external auditor for the Council for the year ended 31st March 2020. This work is covered by the Accounts and Audit Regulations 2015. The purpose of the audit is to provide reasonable assurance to users that the financial statements are free from material error.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

There are no risk management implications.

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below. **n/a**

Equalities implications / Public Sector Equality Duty

Considering the Council's Public Sector Equality Duties under the Equality Act 2010, s.149, is integral to the decision- making process.

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

Council Priorities

The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

Section 3 - Statutory Officer Clearance

Statutory Officer:
Signed by the Chief Financial Officer

Dawn Calvert

Date: 22nd November 2021

Statutory Officer:
Signed on behalf of the Monitoring Officer

Jessica Farmer

Date: 22nd November 2021

Chief Officer:
Signed by the Corporate Director

Charlie Stewart

Date: 22nd November 2021

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

Section 4 - Contact Details and Background Papers

Contact: **Paul Gower** (Interim Technical Accounting Manager)
Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

Background Papers:

1. LBH Harrow Statement of Accounts 2019-20

If appropriate, does the report include the following considerations?

1	Consultation	No
2	Priorities	No

Annual Audit Letter

London Borough of Harrow

Year ending 31 March 2020

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01 Executive summary

02 Audit of the financial statements

03 Value for money conclusion

04 Other reporting responsibilities

05 Our fees

06 Forward look

Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Harrow (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 6 July 2021 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
Reporting to the group auditor	In line with group audit instructions, issued by the NAO on 4th November 2020, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. The audit report included emphasis of matter paragraphs:

- As detailed within our response to the significant risk over the valuation of the Council's Property, Plant and Equipment, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuations.
- As detailed within our response to the significant risk over the valuation of the Council's IAS19 pension liability, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuation of associated property investment funds.

Our opinion on the Council's financial statements was not qualified in respect of these matters.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance, Audit, Risk management and Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Revenue Expenditure.	£9.15m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£279k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Officer's Remuneration - Exit Packages	 £5k £5k

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the GARMS Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls		
In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing testing in respect of: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements	There are no significant findings arising from our review of potential areas of management override
Revenue recognition		
Based on our initial knowledge and planning discussions we concluded we could rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we rebutted the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts. We did not rebut the income risk relating to other material income streams within the Council, such as adult social care costs and charges for use of Council facilities, where the level of inherent risk is higher.	We addressed the risk by obtaining a detailed understanding of the Council's processes to recognise revenue in the correct accounting year. We performed the following work: • detailed testing of transactions within the 2019/20 financial statements; • testing around the year-end to provide assurance that there were no material unrecorded items of income and expenditure in the 2019/20 accounts.	There are no significant findings arising from our review of revenue recognition

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
Property, Plant & equipment valuation Where Council's assets are subject to revaluation, the year end carrying value should reflect the appropriate fair value. The Council has a rolling revaluation model covering a five year cycle, which may result in individual assets not being revalued for several years, which creates a risk that the carrying value of assets not revalued in year is materially different from the year end value. Due to the high degree of estimation uncertainty associated with these valuations, and the impact of the Covid-19 pandemic, we have determined there is a significant risk in this area. The Council's valuer applied a material valuation uncertainty paragraph to the valuations performed.	We addressed this risk by reviewing the approach adopted by the Council to assess the risk, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, in order to determine whether these indicate that fair values have moved materially. In addition, for assets revalued during the year we: • assessed the valuer's qualifications; • assessed the valuer's objectivity and independence; • reviewed the methodology used; and • performed testing of the associated underlying data and assumptions.	The Council's valuer has included a material valuation uncertainty paragraph within their valuation report. The Council has included a disclosure of material valuation uncertainty of land and buildings in note 5.3 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion. There are no further significant findings from our work on property, plant and equipment valuations.

Opinion on the financial statements	Unqualified

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
Defined benefit pension liability		
The latest triennial valuations of London Borough of Harrow Pension Fund and the London Pension Fund Authority were completed at 31 March 2019. The valuation provides the basis of the associated net pension liability for the Council as at 31 March 2020. The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., Due to the high degree of estimation uncertainty associated with valuations, we determined this to be a significant risk. The Covid-19 pandemic has had an impact on all markets with significant impact on pension fund unquoted investment valuations as at 31 March 2020. There may be a greater level of uncertainty over valuations as a result of a lack of comparable market data.	We addressed this risk by reviewing the controls that the Council had in place over the information sent to the Scheme Actuary by the fund administrators (London Borough of Harrow Pension Fund). We also: • assessed the skill, competence and experience of the Fund's actuary; • challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; • carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation. In response to the potential valuation uncertainty arising from the Covid-19 pandemic we have requested assurance from the Pension Fund auditor on the work performed on unquoted investment valuations.	London Borough of Harrow Pension Fund's financial statements included disclosures regarding material valuation uncertainty of its unquoted (level 3) investments. Linked to this matter, the Council included a disclosure of material valuation uncertainty of its share of the pension fund assets in note 5.3 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion. There are no other issues arising from our work on the defined benefit liability valuation.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

informed decision making;

sustainable resource deployment; and

working with partners and other third parties.

Our auditor's report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council has well developed arrangements setting out how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. GARMS fulfils the expected functions of such a committee and has continued to meet regularly throughout the year, receiving reports of internal and external audit, and challenged the findings and recommendations as appropriate. The Corporate Risk Register is formally reported regularly to GARMS with a supporting analysis detailing movements in risk levels. There are a number of developed risk registers at service levels which are also subject to regular review and challenge. The Council has a detailed Treasury Management Strategy with regular reporting throughout the year. Decisions on treasury management are linked to the Medium Term Financial Strategy and capital programme of the Council. There has been regular reporting to Cabinet of performance and financial performance throughout the year, with a Medium Term Financial Strategy (covering the period to 2021/22) for the year ended 31 March 2020.	Yes

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Council achieved its planned savings during 2019/20, leading to a balanced outturn and a bolstering of reserves to support the 2020/21 financial position. The final financial outturn was very close to the projected position throughout the year. The Council has a good track record of achieving savings during the financial year. As in the prior year, there was a significant underspend against the capital plan, which as part of the MTFS refresh necessitated by the Covid-19 pandemic, is being subjected to detailed review. Large variances in capital spend were recorded generally as a result of delays to planned schemes including the Harrow Strategic Development Partnership and redevelopment work at the Depot. £94m had been set in the Capital plan for property investment, which is being reconsidered in line with CIPFA guidance on local authorities borrowing to invest. As with revenue, detailed reports setting out variances and reasons have been presented to the Council throughout the year. During the year, a balanced budget was set for 2020/21 alongside an identified savings gap of £22.592m in the two years to follow (£11.414m in 2021/22 and £11.178m in 2022/23). During the year expected savings have been identified by Directorates and subjected to a robust challenge as to the likelihood and extent of achievement. Regular reporting to Cabinet and the Council reported on the level of savings proposed, progress in achieving them as well as additional pressures that had been identified. The MTFS as agreed during 2019/20 was challenging and has been further challenged by the impact of the Covid-19 pandemic, with lost income and additional expenditure being incurred. The Council are applying robust challenge to saving and spend projections for future years across all Directorates. Financial reporting to Council has included details associated with the Council's response to the Covid-19 pandemic, and its potential longer term impact, as this has developed.	Yes

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services. During the year, in a focussed inspection, Ofsted awarded the Council's Children and Families service a judgement of 'Good' and highlighted positive outcomes for children, strong leadership and good partnerships. The Health and Well Being Board is responsible for the Harrow Better Care Fund plan. The Board, made up of representatives from the Council, NHS Harrow CCG and the voluntary sector monitors the outcomes and performance of this plan.	Yes

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
Financial Sustainability The Council's Medium Term Financial Plan identified the need to make significant savings.	We addressed this risk by • Reviewing the controls put in place by the Council to ensure financial resilience, including the development and implementation of the Medium Term Financial Plan, and that this has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, and the pandemic impact. • Reviewing management actions and mitigations to deliver the budgeted position.	We have no significant issues arising from our work to report and note that the Council is continuing to respond to the challenges presented by the Covid-19 pandemic.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**(N/A)**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers. The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We have completed this work and submitted it to the NAO.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance, Audit, Risk management and Standards committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£116,057	£116,057
Additional fee for work required to meet regulatory requirements	N/A	TBC
Other non-Code work – grant claim assurance	£24,750	£24,750

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

6. FORWARD LOOK

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

CONTACT

Lucy Nutley

Director

Phone: 020 7063 4634

Mobile: 07387 242052

Email: lucy.nutley@mazars.co.uk

Stuart Frith

Senior Manager

Phone: 020 7063 4409

Mobile: 07909 982774

Email: stuart.frith@mazars.co.uk

Annual Audit Letter

London Borough of Harrow Pension Fund

Year ending 31 March 2020

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01 Executive summary

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Harrow Pension Fund (the Fund) for the year ended 31 March 2020. Although this letter is addressed to the Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 6 July 2021 included our opinion that the financial statements: • give a true and fair view of the Fund's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Fund.
Consistency Report	Information within the Pension Fund Annual Report is consistent with the financial statements within London Borough of Harrow Statement of Accounts.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Fund and whether they give a true and fair view of the Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended. As described further within our response to the significant risk over the valuation of the Fund's unquoted investment portfolio (pooled property investments), our draft auditor's report includes an emphasis of matter paragraph with respect to the Fund's disclosures of these valuation uncertainties. Our opinion on the Council's financial statements is not modified in respect of these matters.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance, Audit, Risk management and Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Net asset statement materiality	Our net asset statement materiality is based on 1.5% of net assets.	£11,666k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£350k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Fund Account	£3,591k

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance, Audit, Risk management and Standards Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls	**How we addressed this risk**	**Audit conclusion**
In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk by performing audit work in the following areas: • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.	There were no significant findings arising from our review of areas of potential management override of controls. We have no matters to report.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
Valuation of unquoted investments As at 31 March 2020, the Pension Fund held investments which were not quoted on an active market with a fair value of £72.2m, accounting for 9.3 per cent of the Fund's net investment assets. This is a decrease from the values held as at 31 March 2019 of £79.7m. The assets are held within overall investment vehicles and are only analysed in full at year end, with the proportion of the Fund's net investment assets included. Inherently such assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.	**How we addressed this risk** We addressed this risk by completing the following additional procedures: • agreeing holdings from fund manager reports to the global custodian's report; • agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, confirming that they are supported by a clear opinion; and • considering the appropriate analysis of the investment as level 2 or 3 and management's judgement of investment analysis. In response to the potential valuation uncertainty arising from the Covid-19 pandemic we have completed additional review procedures. We have: • obtained and documented our understanding of the market data used by the valuer in forming the valuations of unquoted (level 3) investments.	**Audit conclusion** The Pension Fund has included a disclosure of material valuation uncertainty in note 5 to the financial statements with regard to property fund valuations which in light of the Covid-19 pandemic have had a 'material valuation uncertainty' attached to their 31 March 2020 valuation. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion. There are no further significant finings from our work on investment valuations.

3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

4. OUR FEES

Fees for work as the Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to governance, audit, risk management and standards committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£16,170	£16,170

Fees for other work

We confirm that we have not undertaken any non-audit services for the Fund in the year.

5. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the way we report the outcomes of our work to you.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

CONTACT

Lucy Nutley

Director

Phone: 020 7063 4634

Mobile: 07387 242052

Email: lucy.nutley@mazars.co.uk

Stuart Frith

Senior Manager

Phone: 020 7063 4409

Mobile: 07909 982774

Email: stuart.frith@mazars.co.uk

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Harrow COUNCIL LONDON

Report for:	**GOVERNANCE, AUDIT, RISK MANAGEMENT and STANDARDS COMMITTEE**
Date of Meeting:	30th November 2021
Subject:	**INFORMATION REPORT -** Audit Progress Report
Responsible Officer:	Dawn Calvert, Director of Finance & Assurance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – Audit Progress Report

Section 1 – Summary and Recommendations

This report provides the Governance, Audit, Risk Management and Standards Committee (GARMS) with an update on progress from our external auditors on the delivery of their responsibilities and highlights the potential risk of there being a significant weakness in VFM arrangements relating to an identified fraud.

Section 2 – Report

2.1 The attached report (Appendix 1) from the Council's external auditors Mazars provides an update on the progress of their work on the Council's financial Statements 2020/21 and their work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.2 The report also highlights an identified risk of significant weakness in the Council's value for money arrangements.

Legal Implications

2.3 There are no legal implications to this report.

Financial Implications

2.4 There are no direct financial implications of this report.

Risk Management Implications

2.5 Risks included on corporate or directorate risk register? **No**

2.6 Separate risk register in place? **No**

2.7 The relevant risks contained in the register are attached/summarised below. **n/a**

2.8 The following key risks should be taken into account when considering this report:

Risk Description	Mitigations	RAG Status
Risk of significant weakness in the Council's VFM arrangements	▪ Internal audit review of system ▪ Quantification of fraud loss ▪ Independent review ▪ Management response to recommendations made	Amber

Equalities implications / Public Sector Equality Duty

2.9 Was an Equality Impact Assessment carried out? **No** as not relevant to this report.

Council Priorities

1. **Improving the environment and addressing climate change**
2. **Tackling poverty and inequality**
3. **Building homes and infrastructure**
4. **Addressing health and social care inequality**
5. **Thriving economy**

Section 3 - Statutory Officer Clearance

Statutory Officer:
Signed on by the Chief Financial Officer

Dawn Calvert, Director of Finance & Assurance

Date: 24/11/21

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud, 02084241420

Background Papers: None

If appropriate, does the report include the following considerations?

1.	Consultation	NO
2.	Priorities	NO

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Audit Progress Report

London Borough of Harrow Council

30 November 2021

1. Audit Progress
2. Significant Weakness in the Council’s Value for Money (VFM) Arrangements

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Governance, Audit, Risk Management and Standards Committee (GARMS) with an update on progress in delivering our responsibilities as your external auditors and, in section 2, highlights the potential risk of there being a significant weakness in VFM arrangements relating to an identified fraud.

Audit progress

Financial Statements – our audit work on the financial statements is substantially complete, as reported to GARMS on 30 November 2021. We anticipate issuing an unmodified opinion on the financial statements in the coming weeks.

In relation to our Whole of Government Accounts (WGA) work, we are currently awaiting group instructions from the NAO and the Council is also awaiting instructions for their WGA submission. The Council and external audit will complete their work upon receipt of the relevant instructions. This work will allow us to confirm that the Council's consolidation schedules were consistent with the audited financial statements.

Value for Money (VFM) work - we reported in our Audit Completion Report to GARMS on 30 November 2021 that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. We noted that we intended to report on these arrangements, in our Annual Audit Report, within three months of signing the financial statements. A reminder of the new requirements in relation to our VFM work and reporting is provided overleaf.

In this report we have noted a potential risk of there being a significant weakness in the Council's VFM arrangements. We also set out the work we intend to do against this risk. Where we do not consider that the risk has been fully mitigated at the point of Annual Audit Report, we will issue a recommendation in that report.

Audit Certificate - following the completion of our VFM and WGA work we will issue our audit certificate which formally closes the audit for the 2020/21 financial year. In the audit certificate, if we have identified a recommendation regarding a significant weakness in VFM arrangements this will referenced in the Audit Certificate.

Audit Progress

External audit work on the Council's arrangements to deliver value for money in its use of resources

We reported during 2020/21 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from 1 April 2020. The new Code changes the work that auditors are required to do, and the related reporting, on the Council's arrangements to deliver value for money in their use of resources.

The changes to the reporting requirements means that from 2020/21 we no longer include a value for money conclusion in our Financial Statements Audit Report. We now report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in arrangements, we should report recommendations to GARMS (as those charged with governance) promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **Financial sustainability**: how the body plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**: how the body ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We are required to structure our VFM commentary on the Council's arrangements under these specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office as detailed overleaf.

Audit Progress

External audit work on the Council's arrangements to deliver value for money in its use of resources (continued)

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

02

Section 02:

Risk of Significant Weakness in the Council's Value for Money (VFM) Arrangements

Identified risk of Significant Weakness in the Council's VFM Arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist. The table below outlines the risk of significant weaknesses in arrangements that have been identified during our audit work.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3E's	Planned Procedures
In August 2021, the Council were alerted to allegations of fraud and corruption, that are currently subject to a criminal investigation by the Police. Allegations of fraud and corruption indicate a possible significant weakness in relation to the operation of internal controls and the achievement of value for money.		●		Internal Audit have undertaken initial work to establish the cause and quantum of the fraud, which is ongoing and will be reported to GARMS in due course. The Chief Executive has commissioned an independently led review of the Communities directorate to establish causality and lessons learned. Our work will include, but will not be limited to: • Review of the internal audit findings and recommendations and consideration of management's progress in their implementation • Consideration of the independent review findings and recommendations and of managements' progress in their implementation For both reviews we will consider if where controls weaknesses are identified, this constitutes a significant weakness in the arrangements for the Council that ensures they can gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Contact

Mazars

Director: Lucy Nutley

Phone: 0207 063 4634

Mobile: 0738 724 2052

Email: lucy.nutley@mazars.co.uk

Manager: Stuart Frith

Phone: 0207 063 4409

Mobile: 0790 998 2774

Email: stuart.frith@mazars.co.uk

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

*where permitted under applicable country laws.

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Report for:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	30th November 2021
Subject:	Statement of Accounts 2020-21
Responsible Officer:	Dawn Calvert, Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 Statement of Accounts 2020-21 Appendix 2 Pension Fund Annual Report 2020-21 Appendix 3 Summary Statement of Accounts 2020-21 Appendix 4 Draft Audit Completion Reports on the Audit of the Statement of Accounts and the Harrow Pension Fund for the year ended 31st March 2021

Section 1 – Summary and Recommendations

This report presents the audited Statement of Accounts for 2020-21 subject to the issue of the audit opinion

Recommendations:
The GARMS committee is requested to :

1. Consider the draft Audit Completion Reports of the External Auditor on matters arising from the audit of the Statement of Accounts 2020-21 and the Pension Fund Annual Report 2020-21;
2. Approve the audited Statement of Accounts 2020-21 and authorise the signing thereof by the Chair, subject to recommendation 4 below;
3. Note the Pension Fund Annual Report 2020-21;
4. Authorise the Director of Finance and Assurance, following consultation with the Chair, to make any final minor amendments to the Statement of Accounts 2020-21 and Pension Fund Annual Report 2020-21 arising from the external audit prior to the signing by the auditor; and
5. Note the Summary Statement of Accounts 2020-21.

Reason:

Under the Accounts and Audit Regulations 2015 the Statement of Accounts must be approved by a committee of Members. Once approval has been given, the Chair of the Committee is required to sign and date the Statement of Accounts.

Section 2 – Report

Background

1. In July 2021 the GARMS committee received a report on the draft Statement of Accounts 2020-21. Today's report is on the audited Statement of Accounts 2020-21.

2. The Accounts and Audit Regulations 2015 require Local Authorities to prepare Statement of Accounts in accordance with proper practices. Previous timetable deadlines have meant that the draft Statement of Accounts must be published by 31st May with the audited version being published by 31st July each year. Due to the Coronavirus pandemic the legislative requirements have been relaxed and this has continued for 2020-21. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) have revised the deadlines to 31st July 2021 for the draft accounts and 30th September 2021 for the audited accounts. Ongoing audit work has meant that the accounts are still to be signed by the external auditors.

3. Following the public inspection period, the Regulations require the audited Statement of Accounts to be submitted to a committee for approval. The Statement of Accounts must be signed and dated by the Chair of the committee. At Harrow, the committee nominated to receive and approve the accounts is the GARMS committee.

4. The publication of the Statement of Accounts set out the Council's financial performance for the year of account .They provide public information on the Council's financial performance, and are a substantial part of the process by which the Council is held accountable to the public for the proper management and stewardship of the Council's resources.

5. The Pension Fund Committee considered the draft Pension Fund Annual Report and Financial Statements on 13th September 2021 and will be asked to consider the Pension Fund external Audit Completion Report and approve the Pension Fund Annual Report at their next meeting.

6. In accordance with International Standard on Auditing (ISA) 260, the external auditor (Mazars LLP) prepares detailed reports on matters arising from the audit of the Statement of Accounts and Pension Fund Annual Report. The LBH Audit Completion Report is required to be considered by "those charged with governance" (GARMS) before the external auditor can sign the accounts. This report is attached as appendix 4.

Accounts Summary

7. The **Narrative Report** includes the performance of the Council and provides an outlook for the future.

8. **The Expenditure and Funding Analysis** compares the outturn shown in the Narration Report with the true economic cost of providing services valued in accordance with proper accounting practices as shown in the Comprehensive Income and Expenditure Statement (CIES). The differences between the outturn and CIES are mainly capital items and IAS19 pension costs.

9. The **Comprehensive Income and Expenditure Account** shows the true economic cost of providing Council services.

10. Under statutory regulations some of the costs disclosed in the CIES (e.g. depreciation, impairments, IAS 19 costs, etc.) are not taken into account when setting the Council Tax and Dwelling Rents as these are technical accounting adjustments. These are reversed in the **Movement in Reserves Statement** which summarises the Council's total usable and unusable reserves.

11. The **Balance Sheet** sets out the financial position of the Council as at 31st March 2021.

12. The **Cash Flow** statement shows how the Council generates and uses cash.

13. The **Housing Revenue Account (HRA)** shows the true economic cost of providing housing services.

14. The **Collection Fund** statement is an agent's statement that reflects the statutory obligations of the London Borough of Harrow, as billing authority to maintain a separate Collection Fund.

15. The **Pension Fund** Accounts show the net assets of the fund together with associated supporting disclosure notes.

External Audit Progress Update

16. The draft **Audit Completion Report** contains matters raised by the auditor, their recommendations on those issues and the management response provided by officers. A further update on the progress of the audit will be given verbally at the meeting.

17. The external auditor's draft audit opinion states that the financial statements :-
    - Give a true and fair view of the financial position of the Council as at 31st March 2021, and of it's expenditure and income for the year then ended, and
    - Have been properly prepared in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020-21

18. The Covid-19 pandemic has had an impact on all markets including property. Officers have proactively considered the potential effects of the pandemic to ensure fair valuations have been included in the financial statements following the issue of the Royal Institute of Chartered Surveyors' (RICS) valuation practice alert, setting out guidance for valuers in the light of the global pandemic. Officers have updated the narrative text within disclosure note 5.3 to include comments on the valuation uncertainty as a consequence of the Covid-19 pandemic.

19. Th inclusion of the "emphasis of matter" paragraph on the valuation of land, buildings, and investment property and the Pension Fund pooled property investments does not modify the draft audit opinion.

20. Findings from the external audit work identified five misstatements to the financial statements. These have been narrated within the misstatement section (pages 25 and 26) of the LBH Audit Completion Report. The first table contains the three items not changed by the Council, with the second table providing details of the two accounting changes incorporated within the final version of the 2020-21 Statement of Accounts.

21. The above changes have impacted on the Comprehensive Income and Expenditure Statement, MIRS, Balance Sheet, Cash Flow Statement and associated disclosure notes. There has been no impact on the Council's usable reserves.

22. The draft Audit Completion Report includes six internal control recommendations. Four of these relate to the 2020-21 financial year, the

other two are forward looking in respect of the new IFRS16 Leasing arrangements and the recent implementation of the Council's new financial information system Dynamics 365. Officers have provided a management response to each of the six recommendations.

23. Mazars are conducting their final management reviews and anticipate signing the accounts by the middle of December 2021.

Legal Implications

The legal implications are included in the body of the report. The Accounts and Audit Regulations 2015, section 9 sets out the process for signing and approval of the Statement of Accounts.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

There are no risk management implications.

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below. **n/a**

Equalities implications / Public Sector Equality Duty

Considering the Council's Public Sector Equality Duties under the Equality Act 2010, s.149, is integral to the decision- making process.

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

Council Priorities

The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

Section 3 - Statutory Officer Clearance

Statutory Officer:
Signed by the Chief Financial Officer

Dawn Calvert

Date: 23rd November 2021

Statutory Officer:
Signed on behalf of the Monitoring Officer

Jessica Farmer

Date: 24th November 2021

Chief Officer:
Signed on behalf of the Corporate Director

Dawn Calvert

Date: 24th November 2021

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager)
Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

Background Papers:

1. LBH Statement of Accounts 2020-21
2. LBH Pension Fund Annual Report 2020-21
3. LB Harrow Audit Completion Report 2020-21
4. LB Harrow Pension Fund Audit Completion Report 2020-21

If appropriate, does the report include the following considerations?

1	Consultation	No
2	Priorities	No

Statement of Accounts

2020 - 2021

Subject to Audit

Harrow COUNCIL LONDON

London Borough of Harrow
Statement of Accounts
2020 - 2021

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1. Narrative Report

Message from the Director of Finance

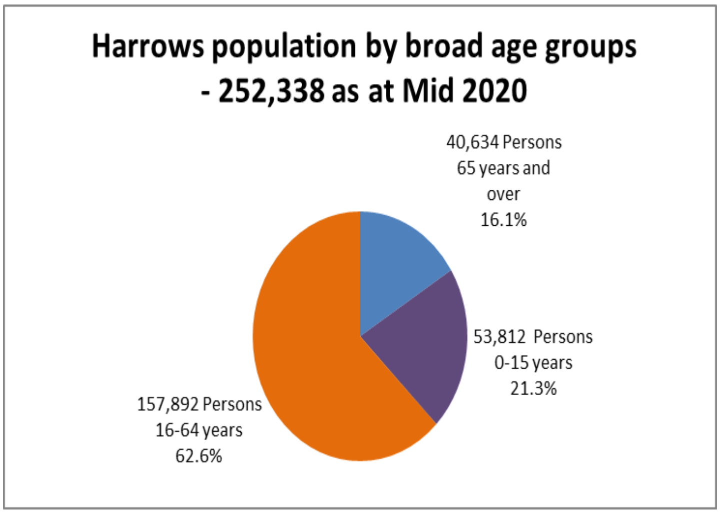
As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2020-21. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2020-21.

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of the Statement of Accounts is to provide information on the Council's financial position and performance, and to give confidence to stakeholders that public money has been used to provide value for money services and has been accounted for in an appropriate manner.

This report includes the following sections:

1.1 An Introduction to Harrow
1.2 Review of the year including Financial Performance of the Council
1.3 Outlook for the Future
1.4 Explanation of the Financial Statements
1.5 Statement of Accounts
1.6 Receipt of Further Information and Acknowledgements

1.1 An Introduction to Harrow



Harrow is one of the most diverse places in the country. It is the 12th largest London Borough in terms of geographical area with a population of approximately 252,338 as at 25th June 2020. Harrow covers an area of approximately 50 sq km (just under 20 square miles) and over a quarter of the borough consists of open space, much of which is designated green belt or Metropolitan Open Land. Harrow has a strong entrepreneurial tradition with over 16,140 businesses located in the borough. It is well connected to London and the rest of the UK via the M1, M25 and M40 motorways and easily accessible for Heathrow Airport.

Key Facts about the Council

Harrow Council provides a range of services to the local community. Its vision and priorities are directed by the political leadership and implemented by the Corporate Strategic Board (CSB).

Harrow, in common with the majority of authorities in England, operates a 'Leader and Cabinet' model as its political management structure. This means that a Councillor is elected Leader of the Executive (Cabinet) by the Authority. The Leader has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

Organisational Structure

The Corporate Strategic Board (CSB) comprises the Council's Senior Management Team. This team is made up of the Council's Corporate Directors and Statutory Officers. The structure of the Senior Management Team has not changed in 2020/21 and comprises:

Chief Executive

Corporate Director - Community and Regeneration

Corporate Director - People's

Corporate Director - Resources

Director of Finance and Assurance

Director of Legal & Governance

Director of Adult Social Services

Director of Public Health

The CSB manages the delivery of Council services, improvements and future plans for Harrow. It provides managerial leadership and supports the elected Members in developing strategies and reviewing the Council's effectiveness of providing value for money services to the public. The Council is structured as follows:

Resources Directorate	**People's Directorate**
Revenues and Benefits	Adult Social Care
Customer Services and IT	Public Health
Finance and Assurance	Commissioning and Schools
Strategic Commissioning	Children and Young People's Services
Procurement	**Community**
Human Resources	Environment and Culture
Legal and Governance	Commissioning and Commercial
	Housing
	Regeneration, Enterprise and Planning

1.2 Summary of the Financial Performance of the Council

Revenue Budget

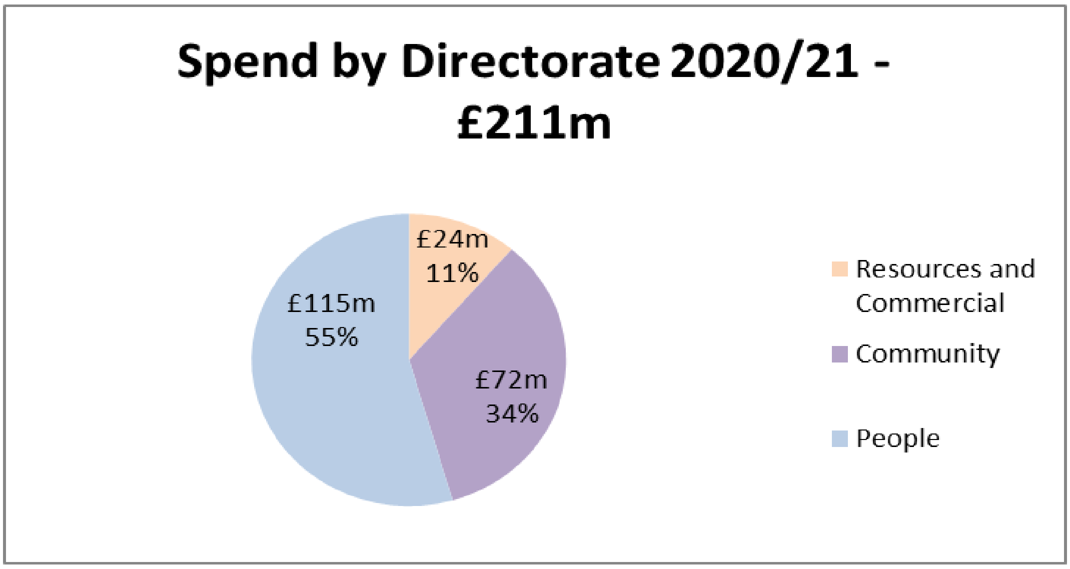
With Local Government being at the forefront of the response to both the public health and economic crisis caused by Covid 19, it is hardly surprising that the pandemic had a significant impact on local government finances. The Council received tranches of emergency funding (£17.6m), Controlling Outbreak Management Fund (£4.6m) and compensation for loss of income (£6.2m) as well as a number of other more specific grants/income sources. In addition, the Council administered £80m of grants to businesses and residents.

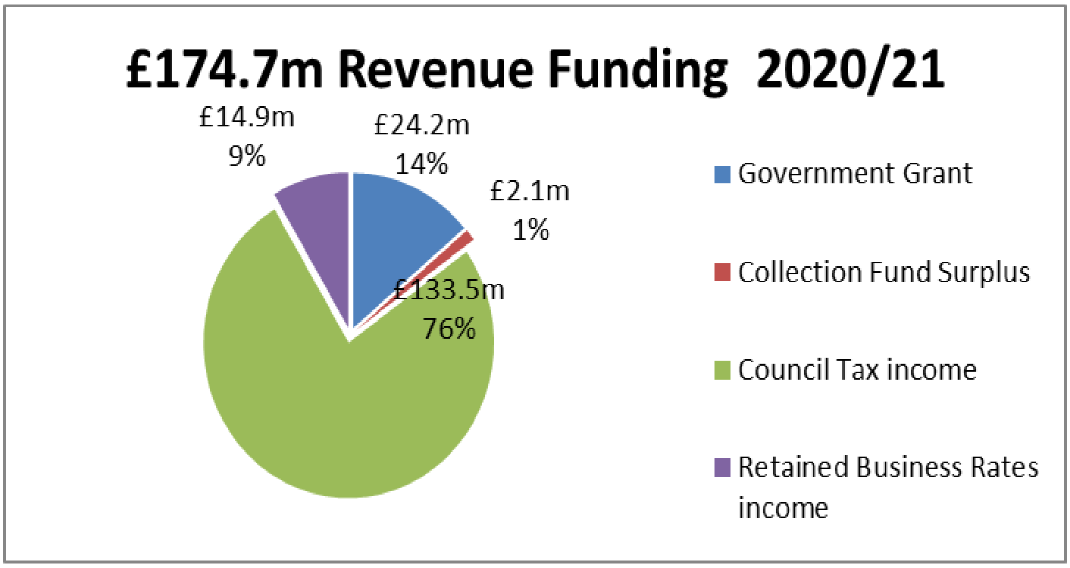
Despite the challenges of Covid 19, the Council delivered its services within the approved budget of £174.8m, and contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in a balanced outturn position after contributing just under £15.3m into Corporate reserves, £2m of which has been carried forward to support the 2021/22 budget and £8.9m which relates to funding to cover the Collection Fund deficit for 2021/22.

The Council has maintained its General Fund Balances at just over £10m in 2020-21. This maintains the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further changes to Central Government funding. Earmarked Reserves have increased from £46.5m to £66.9m in 2020-21 as set out in note 5.7. The final outturn position for the year compared to the revised budget is set out below:

		2020-21	
	Budget £000	Actuals £000	Variation £000
Directorate costs			
People - Adult Services and Public Health	72,355	70,963	(1,392)
People - Children and Families	42,664	43,901	1,237
Community	49,687	72,155	22,468
Resources and Commercial	18,242	23,921	5,679
Total - Directorate	**182,948**	**210,940**	**27,992**
Other operating income			
Contingencies, Corporate Items and Non-service grants	(12,962)	(49,359)	(36,397)
Capital Financing and Interest	4,774	(2,093)	(6,867)
Net Expenditure	**174,760**	**159,488**	**(15,272)**
Transfer to Reserves:			
Contribution to Reserves	0	15,272	15,272
Net Expenditure	**174,760**	**174,760**	**0**
Funded by :			
Revenue Support Grant	(1,585)	(1,585)	0
Collection Fund Surplus	(2,117)	(2,117)	0
Council Tax income	(133,492)	(133,492)	0
Business Rates income	(14,942)	(14,942)	0
Business Rates Top Up Grant	(22,624)	(22,624)	0
Total	**(174,760)**	**(174,760)**	**0**
Surplus for the year		0	
General Fund balance at 31 March 2021		**10,008**	

The following pie charts break down actual total expenditure and revenue funding as per the final outturn position:





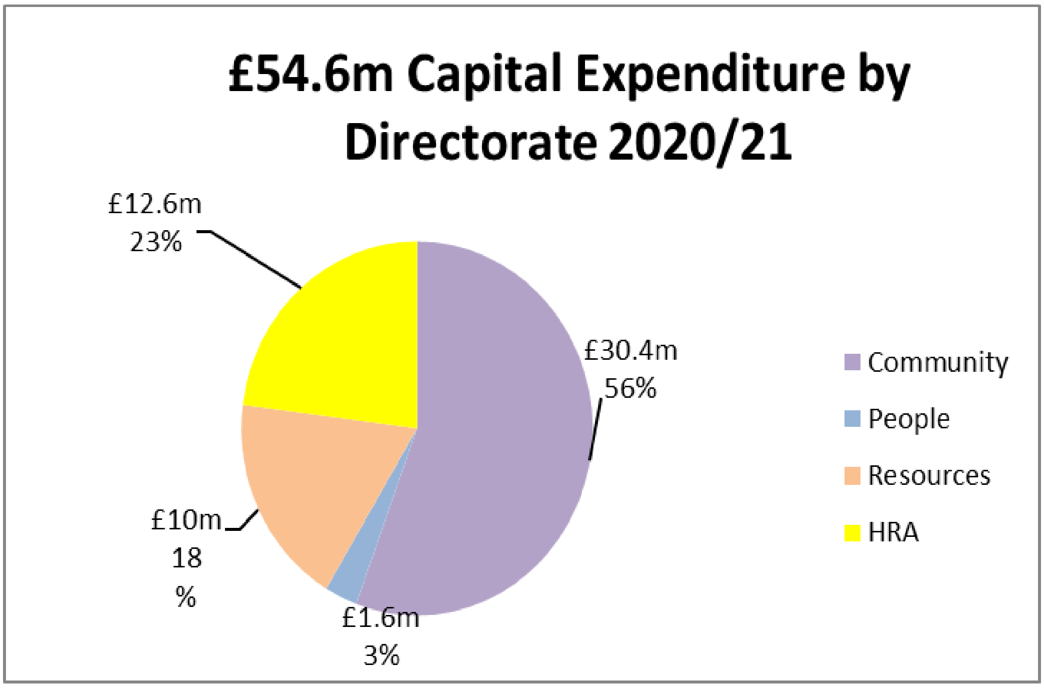
Capital Programme 2020-21

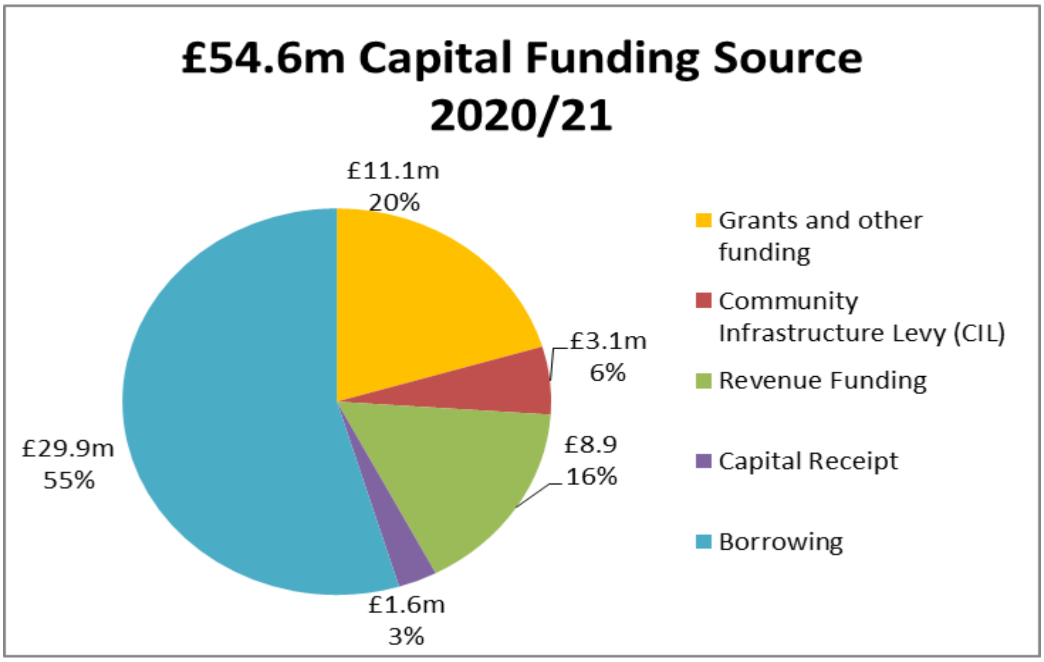
During 2020-21 the Council invested £54.6m on developing or acquiring capital assets. This was mainly funded from £29.9m borrowing and the balance of £24.7m funded from external grants, Community Infrastructure Levy (CIL) contributions, revenue contributions and capital receipts.

Major projects included in the capital programme were:

- Continued investment in new technology to improve Council Services;
- Highways improvement programme and Street Lighting Improvements;
- Continuation of the programme to redevelop the central depot;
- Improvements to parks and playgrounds;
- Improvements to the Harrow Arts Centre
- Purchase of new transport fleet;
- Provision of disabled facility grants to private sector tenants;
- Purchase of homes in Harrow for temporary accommodation;
- Improvements to the Council's housing stock including the Grange Farm development;
- Provision of new Council Homes

The following charts show how the £54.6m was spent by Directorate and also how the Capital Programme was funded:





Housing Revenue Account (HRA)

The Council's ambition to increase housing supply by 639 units through the Mayor of London's Building Council Homes for Londoners' Programme is progressing with 78 homes having been completed in 2020/21, 133 homes under construction and a further 428 in the planning and development stage.

Collection Fund

The in-year Council tax collection rate for 2020-21 was 95.35% which was just under 2% lower than the target of 97.25% expected. This was mainly due to the impacts of the pandemic, including the stopping of court action by central government. Business rate collection was 89.07% which was below the target of 97%. This was fully attributed to the pandemic and the retail sector suffering huge trade losses due to the mandated closedowns which impacted on their ability to pay. Collection performance for local taxation will remain challenging due to both the time businesses will need post pandemic to recover, but also due to Brexit and the impact to the economy in the short term. The overall position for the Collection Fund is a net deficit of £36m (NDR £33.1m; Council Tax £2.9m), although this was mostly due to central government announcing addition business rate reliefs for which the local authority was fully compensated via s31 grants.

Treasury Management

The main focus for Treasury Management is to maintain the value of investments, to ensure cash balances are maintained in a way to support the capital programme and maintain an adequate level of working capital, to seek optimum returns within these parameters and to minimize borrowing costs. Due to the Coronavirus crisis the MPC cut the base rate from 0.75% down to 0.10% and along with the short duration of investments held, this meant the average return on investments was 0.05% for 2020/21.

During 2020-21 there was no change to borrowing. Total Borrowing at year end was £422m and the average interest rate was 3.5%. The strategy to fund capital expenditure was to use cash balances in-year, in recognition of the unfavorable gap between investment returns and borrowing cost.

Pensions

The Pension Fund is maintained at a level to meet the Council's long-term liability for pension benefits. In the year to 31 March 2021, the Fund's net assets increased to £968.0m, almost entirely due to the increase of £191.4m in the market value of investments, reflecting the recovery in asset values after these had fallen significantly in March 2020 at the beginning on the global pandemic. The Fund's investment performance for the year was 24.9%.

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the International Accounting Standards (IAS19). For balance sheet purposes, the Council's estimated liabilities for retirement benefits exceeded the assets in the relevant funds by £518m at 31st March 2021. This is £111m more than the net liabilities of £407m twelve months earlier reflecting the reduction in the discount rate applied to the value of future pension liabilities (see note 5.38.5).

The Pension Fund is required to have sufficient funds available to meet its pension liabilities when they fall due. To achieve this, an actuarial valuation of the Fund is carried out every three years. As part of that valuation, the level of employer contributions is fixed for the next three years, and it is the level of those contributions which impacts on the Council's budget and hence on the council tax. The current strategy is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by limiting increases over a period of time. At the last valuation, carried out in March 2019, the fund was assessed as being 94% funded, corresponding to a shortfall of £52m. The Council's contribution rate for the financial year 2020-21 was 24.76%.

Harrow's 2020-21 Achievements

The Council's key achievements for the year are set out below:

During the last year, the Council has taken a leading role in responding to the COVID-19 pandemic:

- Providing direct support including food to those who are vulnerable/shielding;
- Setting up testing and vaccination centres;
- Financially supporting local businesses and individuals who are self-isolating;
- Providing accommodation for homeless individuals and families and those sleeping rough;
- Supporting schools to provide remote learning and create a COVID safe environment on pupils' return;
- Continuing to deliver a full range of services from street cleaning to social care, while adapting services to minimise contact and spread of the virus;
- Providing Personal Protective Equipment (PPE) for care homes and other local care settings, to protect staff and service users;
- Encouraging and, where appropriate, enforcing distancing and hygiene measures across the borough;
- Communicating guidance and best practice for residents to limit the spread of the virus and signposting to available support;
- Leading and co-ordinating the response from local organisations and voluntary sector

Examples of other key achievements during the year include:

- Successful roll-out of a new-strengths based approach to supporting existing Adult social care clients, that has cut projected increases in spend from an annualised £1.5m to £0.3m across the Locality teams;
- A substantially higher number of people referred to reablement preventative support from the community, which has resulted in many more people having their social care needs reduced or delayed;
- Despite the challenges of the pandemic, successful intervention in 84% of new requests for Adult social care support from residents, with three quarters being from new clients;
- Keeping in touch with vulnerable Housing tenants during the Covid lockdowns by making nearly 1400 phone calls during the first period, 370 contacts by email and phone in the second; and over 1230 contacts by email and text in the third;
- Successful completion of over 13,500 housing repairs;
- The prevention of homelessness in 127 cases;
- Worked to focus the DfE Holiday Activities and Food Programme on those families identified as in the highest need;
- Delivery of statutory and commissioned services to schools, supporting children with SEND;
- Delivery of a Wellbeing for Education project, enhancing mental health training and support in schools;
- Ongoing Covid-related support to children, families and schools;
- Harrow CYPS have been involved in a range of innovative projects and good practice developments in 2020/21 such as 'The Social Workers in Schools Project' - Designated social work team has embedded 1 social worker in 6 secondary school settings;
- The fit out of the new Greenhill Library in College Road, Harrow Town Centre was completed in March 2021;

- Phase 1 of the capital project at Harrow Arts Centre involving funding from the GLA was completed in October 2020. This included the refurbishment of 3 redundant spaces on the site enabling them to be used for cultural activities;
- Regeneration projects at Waxwell Lane and Haslam House continued with completion due at the end of 2021;
- The Planning Service determined 3,817 planning applications during the financial year and successfully moved to virtual Planning Committees in response to the pandemic;
- A review of the Harrow Local Plan commenced, which will guide how the borough will develop over the next 10-15 years and the infrastructure required to support this;
- The Building Control Service undertook 8,034 site inspections (mostly during lockdowns) and dealt with 978 building control applications. The Building Control Service achieved 51% market share, comparing very favourably with that across London;
- Learn Harrow has delivered learning, engagement and Information, Advice and Guidance to 3287 individuals to date. In addition, Learn Harrow has introduced new vocational courses to meet local needs in response to the surge in unemployment and those facing redundancy risks

1.3 Outlook for the Future

The Council, along with the rest of local government, faced an unprecedented crisis following the outbreak of the global coronavirus pandemic that has impacted the lives of so many people in Harrow, the UK and worldwide and which resulted in the Country going into lockdown in March 2020 with a potential end date for restrictions in July 2021.

The national and local response to the Covid-19 crisis has been unprecedented. For the Council this has involved action across many spheres of activity both with regard to our community leadership role and as provider of universal and specialist services.

The Council's response has been focused on ensuring that the core objectives of reducing the spread of the virus while protecting the most vulnerable members of our community have been achieved. In delivering this response much of this activity has been in partnership with other organisations including the NHS, Care providers, Local business and the voluntary and community sector.

The Covid-19 emergency continues to have a significant financial impact on the Council's financial position both for 2021/22 and the subsequent financial years. Given the size and scale of the potential impact on the Council's finances this will remain a key focus for the organisation going forward as without adequate short and medium term financial support from the Government the impact on the Council's ability to deliver services in an ongoing way will be severely compromised.

Prior to the Covid-19 crisis the Council was already facing substantial financial challenges as a result of ongoing annual reductions in funding received from Central Government as well as additional spending pressures caused by the increase in the cost of living and an increased demand for services in Adult Social Care as a result of having an ageing population.

In 2021-22 a Revenue budget of £179.4m was set along with a 4.99% increase in Council Tax which was approved by the Council in February 2021. The 4.99% increase reflected a 1.99% increase in respect of the traditional council tax increase and 3.0% for the Adult Social Care precept (ASC).

The General Fund Balance as at 31st March 2021 remains just above £10m (£10.008m). The Earmarked and Non-Earmarked Reserves are £66.9m at 31st March 2021, which compares with £46.5m at the 1st April 2020. As pressures on the Council's finances continue, it is anticipated that these reserves will need to be monitored closely to ensure that they are adequate and proportionate to the risks faced by Harrow.

All councils, not just Harrow, continue to find themselves in a very uncertain and volatile situation as a result of external events, beyond the Council's control, adversely impacting on funding and demand for Harrow services. Apart from the significant impact of Covid-19, the impact of Brexit also still remains uncertain.

There is no likelihood of any positive change expected in Central Government's funding levels to Local Government from either the fair funding or spending review which have now been delayed further beyond 2021/22. This continues to create a challenging environment for the very real role that local government plays in the local community and the positive impact that the Council can have on people's quality of life.

The 3 year budget (2021-22 to 2023-24) was set to address the financial challenges faced by the Council and to set out its plans for financial sustainability. This 3 year budget will be refreshed annually to ensure it accurately reflects the ongoing challenges faced.

Despite identifying efficiencies and looking at ways to innovate service delivery in previous years, the Council faces budget gaps of £24.6m in 2022/23 and £5.1m in 2023/24.

1.4 Explanation of the Financial Statements

The Statements are prepared on a going concern basis, that is, they are prepared on the assumption that the Council will continue in operational existence for the foreseeable future. The Statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements. Proper accounting practices represent compliance with the following:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2020-21;
- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

1.5 The Statement of Accounts

- **Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the Council and the Chief Finance Officer.
- **Comprehensive Income and Expenditure Statement (CIES)** shows the true economic cost of providing services in the year, valued in accordance with proper accounting practices. Differences between the true economic cost of providing services and the level of expenditure allowed by regulations to be funded by local taxation and dwelling rents are explained in the EFA.
- **Movement in Reserves Statement (MiRS)** shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The Total Comprehensive Expenditure and (Income) line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES.
- **Balance Sheet** shows the value of the assets and liabilities recognised by the Council as at 31st March 2021, valued in accordance with proper accounting practices. The net value of these assets and liabilities is matched by the value of the Council's reserves. Usable Reserves can be used to provide services, subject to any statutory limitations on their use. Unusable Reserves cannot be used to provide services. These include reserves holding unrealised gains and losses on assets, which will only become available to provide services if the assets are sold, and reserves holding timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. Cash flows from operating activities show how the operations of the Council are funded

by way of taxation, grant income and receipts from services provided by the Council. Cash flows from investing activities shows cash flows intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

- **Housing Revenue Account (HRA)** shows the true economic cost in the year of providing housing services, valued in accordance with proper accounting practices. Differences between the true economic cost of providing housing services and the level of expenditure allowed by regulations to be funded by rental income is explained in the Statement of Movement on the HRA Balance.
- **The Collection Fund** is an agent's statement reflecting the Council's statutory obligation to maintain a separate Collection Fund. The statement shows tax income collected from local taxpayers and the distribution of this money to the Council, the Government and the GLA.
- **Annual Governance Statement** sets out the framework within which the effectiveness of the Council's internal controls (including financial controls) are managed and reviewed each year. The review reports on significant weaknesses, areas identified for improvement and the actions taken to strengthen these areas.
- **The Pension Fund Account** provides information about the financial position, performance and financial adaptability of the Fund. It shows contributions to the Council's Pension Fund for employees during the year, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund.

1.6 Receipt of further Information and acknowledgements

If you would like to receive further information about these accounts, please do not hesitate to contact me at the Finance Division, Resources and Commercial Directorate, Harrow Council (Dawn.Calvert@harrow.gov.uk).

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues from the Finance Team and other services, who assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

D. Calvert

Dawn Calvert CPFA
Director of Finance
30th November 2021

2 Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- Approve the statement of accounts (delegated to the Governance, Audit, Risk Management and Standards Committee (GARMS Committee)).

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

Certification by the Director of Finance:

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position of the Council as at 31st March 2021 and its income and expenditure for the year ended 31st March 2021.

D. Calvert

Dawn Calvert CPFA
Director of Finance
30th November 2021

Governance, Audit, Risk Management and Standards Committee Certificate for the Approval of Accounts

These accounts were considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC) at the meeting held on 30th November 2021.

Councillor David Perry
Chairman (GARMSC)

3 Audit Opinion & Certificate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HARROW

TO BE INCLUDED ON COMPLETION OF AUDIT

For and on behalf of Mazars LLP, Statutory Auditor

Chartered Accountants

4 Presentation of Financial Statements

4.1 Comprehensive Income and Expenditure Statement

2019-20 Gross Expenditure £000	2019-20 Gross Income £000	2019-20 Net Expenditure /(Income) £000		Notes	2020-21 Gross Expenditure £000	2020-21 Gross Income £000	2020-21 Net Expenditure /(Income) £000
106,782	(38,464)	68,318	People - Adult Services and Public Health		117,719	(49,841)	**67,878**
203,483	(153,497)	49,986	People - Children and Families		193,937	(160,219)	**33,718**
96,252	(50,431)	45,821	Community		105,874	(43,426)	**62,448**
176,601	(149,842)	26,759	Resources		171,948	(141,608)	**30,340**
25,949	(31,940)	(5,991)	Housing Revenue Account	6.1	25,909	(32,089)	**(6,180)**
609,067	(424,174)	184,893	**Cost of Services**		615,387	(427,183)	**188,204**
13,243	(5,917)	7,326	Other Operating Income and Expenditure	5.8	14,547	(2,729)	**11,818**
38,252	(1,635)	36,617	Financing and Investment Income and Expenditure	5.9	26,347	(8,247)	**18,100**
0	(204,079)	(204,079)	Taxation and Non-Specific Grant Income	5.10	0	(224,395)	**(224,395)**
		24,757	**(Surplus) Deficit on Provision of Services**				**(6,273)**
		(38,781)	(Surplus) Deficit on revaluation of property, plant & equipment	5.23.1			**(34,663)**
		(23,607)	Remeasurements of net pension liability	5.23.4			**95,179**
		(62,388)	**Other Comprehensive (Income) and Expenditure**				**60,516**
		(37,631)	**Total Comprehensive (Income) and Expenditure**				**54,243**

4.2 Movement in Reserves Statement (MiRS)

	General Fund Balance £000	Housing Revenue Account £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019 brought forward	(10,008)	(7,474)	(66,235)	(18,138)	(5,713)	(26,541)	(134,109)	(297,801)	(431,910)
Movement in reserves during 2019-20									
Total Comprehensive Expenditure and (Income) (Note 4.1)	31,187	(6,430)	0	0	0	0	24,757	(62,388)	(37,631)
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	(22,012)	6,289	0	(567)	(2,028)	(8,847)	(27,165)	27,165	0
Net (Increase)/Decrease	9,175	(141)	0	(567)	(2,028)	(8,847)	(2,408)	(35,223)	(37,631)
Movements in earmarked reserves (Note 5.7)	(9,175)	89	9,086	0	0	0	0	3	3
(Increase)/Decrease in 2019-20	0	(52)	9,086	(567)	(2,028)	(8,847)	(2,408)	(35,220)	(37,628)
Balance at 31 March 2020 carried forward (Note 4.3)	**(10,008)**	**(7,526)**	**(57,149)**	**(18,705)**	**(7,741)**	**(35,388)**	**(136,517)**	**(333,021)**	**(469,538)**
Balance at 31 March 2020 brought forward (Note 4.3)	(10,008)	(7,526)	(57,149)	(18,705)	(7,741)	(35,388)	(136,517)	(333,021)	(469,538)
Movement in reserves during 2020-21									
Total Comprehensive Expenditure and (Income) (Note 4.1)	**(5,230)**	**(1,043)**	**0**	**0**	**0**	**0**	**(6,273)**	**60,516**	**54,243**
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	**(21,194)**	**1,382**	**0**	**4,354**	**1,329**	**(2,153)**	**(16,282)**	**16,282**	**0**
Net (Increase)/Decrease	**(26,424)**	**339**	**0**	**4,354**	**1,329**	**(2,153)**	**(22,555)**	**76,798**	**54,243**
Movements in earmarked reserves (Note 5.7)	**26,424**	**913**	**(27,336)**	**0**	**0**	**0**	**1**	**(1)**	**0**
(Increase)/Decrease in 2020-21	**0**	**1,252**	**(27,336)**	**4,354**	**1,329**	**(2,153)**	**(22,554)**	**76,797**	**54,243**
Balance at 31 March 2021 carried forward (Note 4.3)	**(10,008)**	**(6,274)**	**(84,485)**	**(14,351)**	**(6,412)**	**(37,541)**	**(159,071)**	**(256,224)**	**(415,295)**

4.3 Balance Sheet

31-Mar-20 £000		Notes	31-Mar-21 £000
1,230,673	Property Plant and Equipment	5.11	**1,289,945**
72,927	Investment Property	5.13	**77,155**
16,017	Long Term Debtors	5.15	**15,700**
1,319,617	**Long Term Assets**		**1,382,800**
23,615	Short Term Investments	5.14	**17,616**
37,659	Short Term Debtors	5.16	**64,053**
38,606	Cash and Cash Equivalents	5.17	**61,468**
99,880	**Current Assets**		**143,137**
(4,765)	Short Term Borrowing	5.18	**(4,560)**
(80,873)	Short Term Creditors	5.19	**(125,287)**
(4,393)	Provisions	5.20	**(4,836)**
(90,031)	**Current Liabilities**		**(134,683)**
(5,907)	Provisions	5.20	**(5,971)**
(422,403)	Long Term Borrowing	5.14	**(422,358)**
(424,484)	Other Long Term Liabilities	5.21	**(534,488)**
(7,134)	Capital Grants Receipts in Advance	5.33.3	**(13,142)**
(859,928)	**Long Term Liabilities**		**(975,959)**
469,538	**Net Assets**		**415,295**
(136,517)	Usable Reserves	5.22	**(159,071)**
(333,021)	Unusable Reserves	5.23	**(256,224)**
(469,538)	**Total Reserves**		**(415,295)**

4.4 Cash Flow Statement

2019-20 £000		Notes	2020-21 £000
(24,757)	Net (deficit)/surplus on the provision of services	4.1	**6,273**
71,645	Adjustments to net deficit on the provision of services for non cash movements	5.24.1	**60,460**
(32,801)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.24.1	**(17,953)**
14,087	Net cash flow from Operating Activities		**48,780**
(67,398)	Investing Activities	5.24.2	**(24,724)**
79,265	Financing Activities	5.24.3	**(1,194)**
25,954	Net increase/(decrease) in cash and cash equivalents		**22,862**
12,652	Cash and cash equivalents at the beginning of the reporting period	5.17	**38,606**
38,606	Cash and cash equivalents at the end of the reporting period	5.17	**61,468**

5 Notes to the Financial Statements

5.1 Accounting Policies

5.1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2020-21 financial year and its position as at 31st March 2021. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2015, which require preparation in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Council makes use of estimation techniques as deemed appropriate to specific circumstances and these are disclosed in the accounts where material.

The accounts have been prepared in accordance with three fundamental concepts:

- Going Concern;
- Primacy of Legislative Requirements; and
- Accruals of Income and Expenditure.

Going Concern

The Statement of Accounts have been prepared on a going concern basis, that is, the accounts have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Primacy of Legislative Requirements

Local Councils derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of the Council's accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall take precedence.

Accruals of Income and Expenditure

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

- Revenue is recognised when goods or services are transferred to an external customer in accordance with the performance obligations in the contract;
- Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be collected due to non-payment or default, the balance not expected to be collected is written down and a charge made to revenue.

5.1.2 Cash and Cash Equivalents

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

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

5.1.3 Material Items of Income and Expense

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5.1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

Where a change in accounting policies is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5.1.5 Charges to Revenue for Non-Current Assets

Services, support services, trading accounts and the Housing Revenue Account (HRA) are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation or amortisation attributable to the assets used by the relevant service; and
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make Minimum Revenue Provision (MRP) from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses are therefore replaced by the MRP contribution in the General Fund, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Capital charges to the HRA are made in accordance with the Item 8 Determination. The HRA is not required to contribute MRP. Instead, depreciation charged to the HRA is transferred to the Major Repairs Reserve to be used to fund future HRA capital expenditure.

5.1.6 Accounting for Council Tax and NDR

Billing Authorities in England are required by statute to maintain a separate Collection Fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NDR). Billing Authorities act as an agent in respect of that proportion of Council Tax and NDR Income collected on behalf of preceptors.

Council Tax collected belongs proportionately to the Council and the Greater London Authority. NDR collected by the Council belongs to the Council (30%), to the Ministry of Housing, Communities and Local Government (33%) and to the Greater London Authority (37%).

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

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

5.1.7 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs of a restructuring which include the payment of termination benefits.

Post-Employment Benefits

Employees of the Council are members of the following pension schemes:

- The Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pensions Scheme, administered by the Council.

The schemes provide defined benefits to members earned as employees who worked for the Council.

However, the arrangements for the teachers' scheme mean that the Council's share of net liabilities for these benefits cannot ordinarily be separately identified. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Comprehensive Income and Expenditure Statement is charged with employer contributions payable in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme.
The liabilities of Harrow Council Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the Actuary (based on the indicative rate of return on high quality corporate bonds).

The assets of Harrow Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value current bid price.

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

- Current Service Cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the service segments for which the employees worked;
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Net Interest Cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is debited or credited to the Pensions Reserve; and
- Contributions paid to the Councils' pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

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

Discretionary Benefits

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

5.1.8 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. Two types of events can be identified:

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

5.1.9 Financial Instruments

Financial Liabilities

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

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. Regulations allow the impact on the General Fund Balance of these gains and losses to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified and measured on a basis that reflects the business model for holding the financial assets and their cash flow characteristics. The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets Measured at Amortised Cost

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

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Losses on debtors are recognised collectively on a lifetime basis.

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

5.1.10 Intangible Assets

The Council does not hold material intangible assets.

5.1.11 Government Grants, Contributions and Donated Assets

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that must be met by the recipient as specified, or the grant must be repaid.

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

Where revenue grants that have been credited to the Comprehensive Income and Expenditure Statement are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund Balance to an Earmarked Reserve in the Statement of Movement in Reserves. A transfer back is made in future years to match expenditure as it is incurred.

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

5.1.12 Investment Property

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

Investment properties are measured initially at cost and subsequently revalued annually at fair value, based on the amount at which the asset could be sold in an orderly transaction between market participants at the measurement date. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

5.1.13 Joint Operations

The Council discloses pooled budgets and other joint operations where they are material. The pooled budget notes disclose all income and expenditure incurred under the arrangements. The Comprehensive Income and Expenditure Statement and the Balance Sheet include only the Council's share of income and expenditure.

5.1.14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet after the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a contribution equal to the amount applied to write down the lease liability is made from revenue funds in accordance with statutory requirements. Depreciation and revaluation and impairment losses are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

Operating Leases

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

5.1.15 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

5.1.16 Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage Assets are generally recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below:

- Scheduled ancient monuments and war memorials are excluded from the balance sheet as there is either no information available on cost, or it is not practicable to obtain a valuation at reasonable cost; and
- Civic insignia are de-minimis for inclusion in the balance sheet.

5.1.17 Property, Plant and Equipment (PPE)

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

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it increases the value of the asset and that it yields benefits to the council and the services it provides for more than one financial year.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

The gain is then reversed out of the General Fund to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure assets and assets under construction – depreciated historical cost;
- Council dwellings – current value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH));
- Surplus assets – current value, determined as fair value based on the amount at which the asset could be sold in an orderly transaction between market participants;
- All other property assets – current value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV); and
- Assets that the local Council intends to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, for example community schools, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

The Council has a rolling programme that ensures all PPE included in the Balance Sheet at fair value are revalued at least every five years and are reviewed at the year end to ensure that their carrying amount is not materially different from their fair value. Assets Under Construction are valued in the year that they come into use. Increases in valuations are usually matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the

carrying amount of the asset is written down against the relevant service segment line(s) in the Comprehensive Income and Expenditure Statement; and

- Amounts written down against the relevant service segments are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax or the HRA.

Impairment

Assets are reviewed at 31st March each year to determine whether there is any indication that their carrying amounts are greater than their recoverable amount. Where differences between the two amounts are estimated to be material an impairment loss is recognised.

Where impairment losses are identified, they are accounted for in the same way as revaluation decreases.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Newly acquired or completed assets are depreciated in the year following acquisition or completion.

Depreciation is calculated on the following basis:

- Council dwellings – straight-line allocation over the useful life of the property as estimated by the valuer: generally 90 years, with the exception of material components: 15–20 years;
- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- Vehicles, plant, furniture and equipment: straight- line allocation 5 years;
- Infrastructure assets – straight-line allocation: 10-80 years;
- Freehold land - not depreciated;
- Community assets are held at nominal value and therefore are not depreciated; and
- Newly acquired or completed assets are depreciated in the year following acquisition or completion.

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

Componentisation

Material components are identified, valued at DRC, and depreciated separately. For Council Dwellings the Council identified the following material components:

Component	Valuation basis	Useful economic life when new
Central heating	1.2% of building net book value	15 years
Double glazing	1.7% of building net book value	15 years
Flat roof	Ranges £2,750 to £6,300	20 years
Kitchen	£5,000	15 years
Bathroom	£3,000	15 years

The Council applies the following de-minimis criteria to General Fund properties to identify material components to be depreciated:

	Criteria	De-minimis threshold
1	Main building value	The value of the building must be greater than £4m.
2	Main asset Useful Economic Life	The main asset life must be 20 years or more.
3	Component value	The value of the component must be 20% or more of the value of the main asset.
4	Component Useful Economic Life	The life of the component must be 60% or less of the life of the main asset.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

5.1.18 Fair Value Measurement

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

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

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The inputs to valuation techniques used are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

5.1.19 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. PFI non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service segment in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – recognised as additions to Property, Plant and Equipment when the relevant works are carried out.

5.1.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

5.1.21 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service segment in that year against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance.

Some reserves such as the Revaluation Reserve, Capital Adjustment Account, Collection Fund Adjustment Account, Financial Instruments Adjustment Account, Employee Benefit Reserve and Pensions Reserve are maintained for purely accounting purposes and do not represent usable resources available to the Council. Their use is governed by statutory and / or CIPFA guidance and are explained in the relevant policies.

5.1.22 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service segment in the Comprehensive Income and Expenditure Statement in the year. A transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is then made so that there is no charge against Council Tax.

5.1.23 Accounting for Schools

Community schools and voluntary aided schools are funded through Dedicated Schools Grant.

Community schools are recognised on the balance sheet as Property, Plant and Equipment. Expenditure, income, asset and liability balances for community schools are fully consolidated in the Statement of Accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over voluntary aided schools. Their assets and liabilities are not therefore included in the Council's accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over academy schools. Their asset, liability, income and expenditure balances are not included in the Council's accounts. Community schools that achieve academy status are derecognised in the balance sheet.

5.1.24 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenues and Customs. VAT receivable is excluded from income.

5.1.25 Group Accounts

The Council has interests in subsidiary companies. These interests are not material to the accounts therefore groups accounts have not been prepared. The Council's interests in subsidiary companies are disclosed in the single-entity accounts as financial assets at cost, less any provision for losses.

5.2 Critical Judgements in Applying Accounting Policies

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

<u>Funding</u>

There is a high degree of uncertainty about future levels of funding for Local Government coupled with severe pressures on public expenditure. The Council has, however, put in place a financial strategy to mitigate these risks. As a consequence, it is the Council's view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.

5.3 Assumptions made about the future and other major sources of estimation uncertainty

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

The items on the Council's Balance Sheet for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Adjustments to valuations and remaining useful economic lives have also been made on the basis of approved regeneration proposals. Assets valued are at fair value are estimated based on quoted prices in active markets or other observable inputs for the type of asset being valued (fair value hierarchy levels 1 and 2). The outbreak of Covid-19 has impacted global financial markets. As at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation - Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the impact of Covid-19 on the economy. Values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. The fair value of some of the Council's investment properties and surplus assets cannot be estimated based on quoted prices in active markets or other observable inputs such as similar assets in active markets. In these case's fair value is measured using the most recent valuations adjusted to current valuation by the use of indexation and impairment review (fair value hierarchy level 3).	If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall. Any reduction in asset values will result in a reduction in the Council's overall net asset position.
Provisions	Provisions are estimated on the basis of current knowledge of the amount that will eventually be paid. It is possible that the amounts eventually paid may be more than expected.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.

Outstanding Debts	Provisions have been made for debt owed to the Council for which payment is doubtful. In the current economic climate, it is not certain that the amount provided for will be adequate. The economic impact of the Covid-19 pandemic has made the estimation of the level of provisions needed more difficult. There is greater uncertainty about the economic viability of debtors and hence their ability to settle their debts.	Provisions may not be adequate where there is a deterioration in collection rates caused by default i.e. debtors not being able to pay the amounts they owe the Council. These additional costs of default would have to be met from the Council's general fund.
Business Rates	The Council must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data and the analysis of successful appeals to date as at the end of the reporting period.	If the refunds payable are higher than the provision, the difference will reduce the balance on the Collection Fund and reduce the Council's share of business rates income in future years.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Pooled property funds within the Pension Fund are valued by the asset managers using professional valuers as set out in the fund arrangements. The outbreak of Covid-19 has impacted global markets and therefore our fund managers have advised that valuations have been reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight can be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – should be attached to valuations of pooled property fund assets than would normally be the case.	The actuarial loss or gain provided by the actuary's calculation can be significant. This charge to the Comprehensive Income & Expenditure Statement is notional as it is not charged to the General Fund, and does not affect Council tax levels. If the future investment returns are different from the actuarial assumptions, it will not affect the council tax. However, if the Pension Fund assets and liabilities vary significantly from those forecast by the actuary, it could mean that either higher or lower pension contributions would be payable by the Council in the future.

5.4 Accounting Standards that have been issued but have not yet been adopted

The following accounting standard changes are not yet reflected in the 2020-21 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented in 2022-23;
- Definition of a Business: Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7;
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

None of these changes are expected to have a material impact on the accounts.

5.5 Expenditure and Funding Analysis

Expenditure and Funding Analysis (EFA) shows how resources and expenditure are allocated for decision making purposes between the Council's directorates. It shows how expenditure in the year is applied and funded, and compares this with the true economic cost of providing services valued in accordance with proper accounting practices as shown in the CIES. The true economic cost is different from resources and expenditure allocated for decision making purposes because amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes are specified by regulations.

2019-20				**2020-21**		
Net Expenditure Chargeable to General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis Note 5.5.1 £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000		**Net Expenditure Chargeable to General Fund and HRA Balances £000**	**Adjustments between Funding and Accounting Basis Note 5.5.1 £000**	**Net Expenditure in Comprehensive Income and Expenditure Statement £000**
66,356	1,962	68,318	People - Adult Services and Public Health	**70,963**	**(3,085)**	**67,878**
42,469	7,517	49,986	People - Children and Families	**43,901**	**(10,183)**	**33,718**
49,095	(3,274)	45,821	Community	**72,155**	**(9,707)**	**62,448**
9,214	17,545	26,759	Resources and Commercial	**(12,259)**	**42,599**	**30,340**
(52)	(5,939)	(5,991)	Housing Revenue Account	**1,252**	**(7,432)**	**(6,180)**
167,082	17,811	184,893	**Net Cost of Services**	**176,012**	**12,192**	**188,204**
(167,082)	6,946	(160,136)	Other Income & Expenditure	**(174,760)**	**(19,717)**	**(194,477)**
0	24,757	24,757	**Surplus or Deficit**	**1,252**	**(7,525)**	**(6,273)**
(17,482)			Opening General Fund and HRA Balance	**(17,534)**		
(52)			Plus Surplus on General Fund and HRA Balance in Year	**1,252**		
(17,534)			Closing General Fund and HRA Balance as at 31 March *	**(16,282)**		

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

5.5.1 Note to the Expenditure and Funding Analysis - adjustments between funding basis and accounting basis under regulations

2020-21

	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Earmarked Reserves £000 (Note c)	Non-Specific Grant Income £000 (Note d)	Other Differences £000 (Note e)	Total Adjustments £000 (Note f)
People - Adult Services and Public Health	(496)	1,033	(632)	0	(2,990)	**(3,085)**
People - Children and Families	(12,135)	3,952	(6,027)	0	4,027	**(10,183)**
Community	3,952	2,474	(3,971)	0	(12,162)	**(9,707)**
Resources and Commercial	8,577	(1,312)	(16,006)	51,125	215	**42,599**
Housing Revenue Account	(419)	348	(913)	0	(6,448)	**(7,432)**
Cost Of Services	(521)	6,495	(27,549)	51,125	(17,358)	**12,192**
Other income and expenditure	(15,875)	9,429	0	(51,125)	37,854	**(19,717)**
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of	**(16,396)**	**15,924**	**(27,549)**	**0**	**20,496**	**(7,525)**

2019-20

	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Earmarked Reserves £000 (Note c)	Non-Specific Grant Income £000 (Note d)	Other Differences £000 (Note e)	Total Adjustments £000 (Note f)
People - Adult Services and Public Health	(954)	1,677	(760)	0	1,999	**1,962**
People - Children and Families	(6,758)	6,868	2,261	0	5,146	**7,517**
Community	4,828	4,172	507	0	(12,781)	**(3,274)**
Resources and Commercial	8,476	1,867	3,907	14,782	(11,487)	**17,545**
Housing Revenue Account	(6,887)	646	(88)	0	390	**(5,939)**
Cost Of Services	(1,295)	15,230	5,827	14,782	(16,733)	**17,811**
Other income and expenditure	(4,844)	(9,907)	0	(14,782)	36,479	6,946
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of	**(6,139)**	**5,323**	**5,827**	**0**	**19,746**	**24,757**

Note a: This column includes capital grants, the minimum revenue provision, gains and losses on the sale of property, plant and equipment, movements on the balance of investment properties, depreciation, amortisation, impairments, revaluation and other gains and losses charged to services but which are not included in the Outturn Report.

Note b: Adjusts for the amount of pension current service cost charged to services which are in excess of the actual pension contributions paid included in the Outturn Report.

Note c: Adjusts for net transfers to/from earmarked reserves which are included in the Outturn Report but not in the CIES.

Note d: Adjusts for balance of non-specific grant income included within Resources and Commercial in the Outturn Report

Note e: Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts included in the outturn report.

Note f: The total difference between funding and accounting basis. See note 5.5.

5.6 Note to the Movement in Reserves Statement - adjustments between accounting basis and funding basis under regulations

2020-21	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(15,576)	(348)	0	0	0	15,924
Depreciation	(26,812)	(7,677)	0	0	0	34,489
Impairment	7,474	(79)	0	0	0	(7,395)
Premiums and Discounts on Debt Restructure	400	45	0	0	0	(445)
Movements in market value of Investment Properties	4,228	0	0	0	0	(4,228)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	(14,787)	0	0	0	0	14,787
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	(2,578)	0	0	0	0	2,578
Transfer to Dedicated Schools Grant Reserve	(3,730)	0	0	0	0	3,730
Revenue expenditure funded from capital	(1,246)	0	0	0	0	1,246
Non Current assets w ritten out on disposal	0	(1,868)	0	0	0	1,868
Total Adjustments to Revenue Resources	**(52,627)**	**(9,927)**	**0**	**0**	**0**	**62,554**
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	18,644	9	0	0	0	(18,653)
Capital expenditure funded from revenue balances	3,210	500	0	0	0	(3,710)
Capital grants and contributions	9,579	3,718	0	0	(3,355)	(9,942)
Transfer of sale proceeds credited to the CIES	0	4,656	(4,656)	0	0	0
Administrative cost of non-current asset disposals	0	(60)	60	0	0	0
Payment to the Housing Capital Receipts Pool	0	(5,178)	5,178	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,664	0	(7,664)	0	0
Total Adjustments between Revenue and Capital Resources	**31,433**	**11,309**	**582**	**(7,664)**	**(3,355)**	**(32,305)**
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	8,993	0	(8,993)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	3,772	0	0	(3,772)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	1,202	(1,202)
Total Adjustments to Capital Resources	**0**	**0**	**3,772**	**8,993**	**1,202**	**(13,967)**
Total Adjustments	**(21,194)**	**1,382**	**4,354**	**1,329**	**(2,153)**	**16,282**

2019-20	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(24,492)	(646)	0	0	0	25,138
Depreciation	(27,861)	(7,659)	0	0	0	35,520
Impairment	7,274	111	0	0	0	(7,385)
Premiums and Discounts on Debt Restructure	403	45	0	0	0	(448)
Movements in market value of Investment Properties	(14,307)	0	0	0	0	14,307
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	(442)	0	0	0	0	442
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	571	0	0	0	0	(571)
Revenue expenditure funded from capital	(3,268)	0	0	0	0	3,268
Non Current assets w ritten out on disposal	(1,271)	(3,213)	0	0	0	4,484
Total Adjustments to Revenue Resources	**(63,393)**	**(11,362)**	**0**	**0**	**0**	**74,755**
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	21,978	8	0	0	0	(21,986)
Capital expenditure funded from revenue balances	3,681	0	0	0	0	(3,681)
Capital grants and contributions	15,152	7,523	0	0	(14,201)	(8,474)
Transfer of sale proceeds credited to the CIES	3,689	6,437	(10,126)	0	0	0
Administrative cost of non-current asset disposals	(19)	(82)	101	0	0	0
Payment to the Housing Capital Receipts Pool	0	(3,882)	3,882	0	0	0
Use of capital receipts to fund revenue expenditure	(3,100)	0	3,100	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,647	0	(7,647)	0	0
Total Adjustments between Revenue and Capital Resources	**41,381**	**17,651**	**(3,043)**	**(7,647)**	**(14,201)**	**(34,141)**
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	5,619	0	(5,619)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	2,476	0	0	(2,476)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	5,354	(5,354)
Total Adjustments to Capital Resources	**0**	**0**	**2,476**	**5,619**	**5,354**	**(13,449)**
Total Adjustments	**(22,012)**	**6,289**	**(567)**	**(2,028)**	**(8,847)**	**27,165**

5.7 Earmarked reserves

	Balance at 31-Mar-19	Transfers Out 2019-20	Transfers In 2019-20	Balance at 31-Mar-20	Transfers Out 2020-21	Transfers In 2020-21	Balance at 31-Mar-21
	£000	£000	£000	£000	£000	£000	£000
Earmarked Reserves:							
Transformation Reserve	(7,526)	0	0	(7,526)	2,176	0	(5,350)
Business Rates Pool Reserve	(4,279)	4,279	(1,800)	(1,800)	1,033	0	(767)
Budget Planning Reserve	(6,829)	4,200	0	(2,629)	0	(14,060)	(16,689)
Capacity Building Reserve	(4,261)	2,212	(1,172)	(3,221)	1,221	0	(2,000)
Collection Fund Reserve	0	0	0	0	0	(8,925)	(8,925)
PFI Sinking Funds	(3,923)	0	(114)	(4,037)	0	(86)	(4,123)
Projects in Progress	(2,384)	2,384	(3,224)	(3,224)	3,224	(2,041)	(2,041)
Revenue Grant Reserve	(4,926)	719	(2,862)	(7,069)	1,228	(2,972)	(8,813)
Public Health	(2,127)	280	0	(1,847)	20	(545)	(2,372)
MTFS Implementation Cost	(2,067)	292	0	(1,775)	1,426	0	(349)
CIL - Harrow	(8,948)	3,612	(2,452)	(7,788)	3,095	(2,038)	(6,731)
Dedicated Schools Grant Reserve *	0	2,944	0	2,944	0	(2,944)	0
Other Earmarked Reserves	(5,033)	618	(1,207)	(5,622)	1,698	(4,821)	(8,745)
Total Earmarked Reserves	(52,303)	21,540	(12,831)	(43,594)	15,121	(38,432)	(66,905)
Locally Managed School Balances	(13,227)	466	0	(12,761)	0	(3,113)	(15,874)
HRA Earmarked Reserves	(705)	128	(217)	(794)	0	(912)	(1,706)
Total	(66,235)	22,134	(13,048)	(57,149)	15,121	(42,457)	(84,485)

* The Dedicated Schools Grant has been reclassified from Earmarked Reserves to Unusable Reserves to comply with CIPFA guidance

Transformation, Budget Planning and Capacity Building Reserves: Resources set aside as additional contingency to support the budget.

Business Rates Pool Reserve: Income from the London Business Rates Pool that will be used to support the budget.

PFI Sinking Funds: The balance of unspent PFI grants. These will be used to fund future payments to PFI contractors.

Projects in Progress: Resources set aside for revenue expenditure committed but not yet incurred as at the balance sheet date.

Revenue Grants Reserve: Unspent balances of revenue grants restricted for specific purposes.

Public Health Reserve: Unspent balance of public health grant restricted to fund future public health expenditure.

CIL – Harrow Reserve: Holds unspent Community Infrastructure Levy planning charges collected under the Planning Act 2008. The balance is restricted to fund local infrastructure projects.

Locally Managed School Balances: Unspent balances of school funding which schools can carry forward to fund future expenditure. These balances are not available to the Council for general use.

Dedicated Schools Grant reserve: The negative balance represents current year's schools expenditure eligible to be funded from the Dedicated Schools Grant but that will be funded from future year's grant payments.

5.8 Other operating income and expenditure

2019-20 £000		2020-21 £000
	Levies	
188	London Boroughs Grants Committee	**187**
296	London Pension Fund Authority	**297**
8,475	West London Waste Authority (WLWA)	**8,479**
205	Lee Valley Regional Park Authority	**205**
197	Environment Agency	**200**
9,361	Sub Total Levies	**9,368**
3,882	Payments to the Government Housing Capital Receipts Pool	**5,179**
(5,917)	Losses/(gains) on the disposal of non current assets	**(2,729)**
7,326	**Total**	**11,818**

5.9 Financing and investment income and expenditure

2019-20 £000		2020-21 £000
16,864	Interest payable and similar charges	**16,918**
9,907	Net interest on the net defined benefit liability	**9,429**
(1,635)	Interest receivable and similar income	**(1,237)**
11,481	Income in relation to investment properties & changes in their fair value	**(7,010)**
36,617	**Total**	**18,100**

5.10 Taxation and non- specific grant income

2019-20 £000		2020-21 £000
(127,958)	Council tax income	**(130,854)**
(24,955)	Business Rates Retention	**(4,906)**
(13,753)	Business Rates Top-Up Grant	**(22,623)**
(1,044)	London Business Rates Pool	**(2,318)**
0	COVID Emergency Funding	**(28,395)**
(4,345)	New Home Bonus Grant	**(3,716)**
(3,198)	Section 31 Grants	**(12,564)**
(6,151)	Other General Grants	**(5,722)**
(22,675)	Capital grants and contributions (Note 5.33.2)	**(13,297)**
(204,079)	**Total**	**(224,395)**

5.11 Property, plant and equipment

Property, Plant and Equipment

2020-21	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant, IT and Equipment £000	PFI Assets Included in Property, Plant, IT and Equipment £000
Cost or Valuation									
At 1 April 2020	449,655	558,983	58,712	213,221	1	70,952	16,697	**1,368,221**	**45,818**
Reversal of accumulated depreciation on revaluation	(6,755)	(8,119)	0	0	0	0	0	**(14,874)**	0
Additions	3,269	7,624	1,690	7,675	441	32,871	0	**53,570**	9
Revaluation increases/(decreases) recognised in the Revaluation Reserve	19,087	14,273	0	0	0	0	1,303	**34,663**	2,576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	7,932	0	0	(467)	0	(70)	**7,395**	0
Derecognition - Disposals	(2,228)	0	0	0	0	0	0	**(2,228)**	0
Reclassifications/ Transfer	9,771	7,596	1,226	1,227	26	(19,273)	(573)	**0**	0
At 31 March 2021	**472,799**	**588,289**	**61,628**	**222,123**	**1**	**84,550**	**17,357**	**1,446,747**	**48,403**
Accumulated Depreciation									
At 1 April 2020	(6,755)	(10,574)	(28,745)	(91,302)	0	0	(172)	**(137,548)**	(2,783)
Reversal of accumulated depreciation on revaluation	6,755	8,119	0	0	0	0	0	**14,874**	0
Depreciation charges for 2020-21	(7,350)	(9,594)	(6,176)	(11,359)	0	0	(10)	**(34,489)**	(687)
Derecognition - Depreciation on Disposal	361	0	0	0	0	0	0	**361**	0
At 31 March 2021	**(6,989)**	**(12,049)**	**(34,921)**	**(102,661)**	**0**	**0**	**(182)**	**(156,802)**	**(3,470)**
Net Book Value									
At 31 March 2021	**465,810**	**576,240**	**26,707**	**119,462**	**1**	**84,550**	**17,175**	**1,289,945**	**44,933**
At 31 March 2020	442,900	548,409	29,967	121,919	1	70,952	16,525	1,230,673	43,035

2019-20	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2019	411,604	550,281	52,597	212,871	1	49,507	16,922	**1,293,783**	44,762
Reversal of accumulated depreciation on revaluation	(6,518)	(7,818)	0	0	0	0	0	**(14,336)**	0
Additions	2,478	7,356	10,699	8,635	95	31,411	0	**60,674**	266
Revaluation increases/(decreases) recognised in the	26,739	10,968	0	0	0	0	1,075	**38,782**	790
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	7,760	0	0	(256)	0	0	**7,504**	0
Derecognition - Disposals	(3,807)	(707)	0	0	0	0	0	**(4,514)**	0
Derecognition - Other*	0	0	(5,380)	(8,292)	0	0	0	**(13,672)**	0
Reclassifications/ Transfer	19,159	(8,857)	796	7	161	(9,966)	(1,300)	**0**	0
At 31 March 2020	**449,655**	**558,983**	**58,712**	**213,221**	**1**	**70,952**	**16,697**	**1,368,221**	**45,818**
Accumulated Depreciation									
At 1 April 2019	(6,518)	(9,547)	(25,910)	(88,718)	0	0	(172)	**(130,865)**	(1,825)
Reversal of accumulated depreciation on revaluation	6,518	7,818	0	0	0	0	0	**14,336**	0
Depreciation charges for 2019-20	(7,362)	(9,067)	(8,215)	(10,876)	0	0	0	**(35,520)**	(958)
Derecognition - Depreciation on Disposal	607	222	0	0	0	0	0	**829**	0
Derecognition - Other*	0	0	5,380	8,292	0	0	0	**13,672**	0
At 31 March 2020	**(6,755)**	**(10,574)**	**(28,745)**	**(91,302)**	**0**	**0**	**(172)**	**(137,548)**	**(2,783)**
Net Book Value									
At 31 March 2020	**442,900**	**548,409**	**29,967**	**121,919**	**1**	**70,952**	**16,525**	**1,230,673**	**43,035**
At 31 March 2019	405,086	540,734	26,687	124,153	1	49,507	16,750	1,162,918	42,937

* The gross book value of fully depreciated assets that are no longer in use.

5.11.1 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council dwellings – 90 years, with the exception of material components: 15–20 years;
- Other buildings – 20-80 years;
- Vehicles, plant, furniture and equipment: 5-10 years;
- Infrastructure assets – 10-80 years; and
- Freehold land - not depreciated.

5.11.2 Capital commitments

The Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment at a budgeted cost of £32.7m (£53.1m as at 31st March 2020). This expenditure will be incurred in 2021-22 and future years. The major capital commitments are as follows:

- HRA Building Council Homes for London scheme £21.1m (£29.0m as at 31st March 2020)
- Redevelopment of the Council's central depot £4.4m (£13.6m as at 31st March 2020)
- Redevelopment of Waxwell Lane £2.1m (£4.7m as at 31st March 2020)
- Replacement of Financial Information System £1.55m (£nil as at 31st March 2020)

5.11.3 Revaluations

The Council's rolling programme that ensures all Property, Plant and Equipment (PPE) included in the Balance Sheet at fair value is revalued at least every five years and reviewed at year-end to ensure that the carrying amount is not materially different from fair value. Valuations of non-HRA property assets are normally carried out internally at 1st April each year except for surplus and investment properties and properties with greater than £450k of capital expenditure spent on them in-year which are valued at 31st March each year. Due to market uncertainty and legal restrictions in response to the COVID-19 pandemic, valuations of non-HRA assets which would normally be carried out at 1st April 2020 have for 2020-21 been carried out at 31st December 2020.

Specialist and out of borough investment properties have been valued by Crosthwaites, Fleurets, Gerald Eve and Knight Frank. All other valuations have been carried out by the Council internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. In estimating fair value, regard has been given to the nature of the property by reference to its use, location, size, method of construction, age, all other relevant matters, and the prevailing market forces.

The HRA portfolio is valued in line with the 5 year rolling programme as at 1st April 2020. The Land Registry Index is used to calculate the movement in property values between 1st April 2020 and 31st March 2021. The movement in HRA asset values has been analysed in note 6.2.3.

Rolling revaluation programme:

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infra-structure Assets £000	Asset Under Construction £000	Surplus Assets £000	Total £000	Investment Property £000
Valued at historical cost	0	0	26,707	119,462	84,550	0	230,719	0
Valued at fair value:								
As at 31st March 2021	465,810	389,275	0	0	0	17,175	872,260	77,155
As at 31st March 2020	0	51,418	0	0	0	0	51,418	0
As at 31st March 2019	0	27,008	0	0	0	0	27,008	0
As at 31st March 2018	0	75,028	0	0	0	0	75,028	0
As at 31st March 2017	0	33,511	0	0	0	0	33,511	0
Total Cost or Valuation as at 31st March 2021	**465,810**	**576,240**	**26,707**	**119,462**	**84,550**	**17,175**	**1,289,944**	**77,155**

This table excludes community assets valued at £1K

5.11.4 Valuation of Surplus Assets

Surplus assets are valued using inputs to valuation techniques categorised within the fair value hierarchy at either level 2 or level 3:

2019-20		2020-21
£000		£000
0	Surplus assets valued using level 2 inputs	1,475
16,525	Surplus assets valued using level 3 inputs	15,700
16,525	Balance at end of the year	17,175

Reconciliation of movements in surplus assets valued using inputs to valuation techniques categorised within the fair value hierarchy at level 3 during the year:

2019-20		2020-21
£000		£000
15,450	Balance of surplus assets valued using level 3 inputs at 1st April	16,525
1,075	Increase in valuations during the year	925
0	Reclassification from surplus assets to other land & buildings	(1,750)
16,525	Balance of surplus assets valued using level 3 inputs at 31st March	15,700

5.11.5 Trust, Foundation, Voluntary Aided and Academy Schools

The Council has a number of schools that are operated by various trusts, are classed as voluntary aided schools, or have transferred to Academy status. The Council is responsible for providing funding to the schools from the Dedicated Schools Grant (DSG) and Capital Resources, with the exception of the Academies who receive funding direct from the Government.

The Trustees of these schools have control of the school buildings and associated land. The assets are therefore not shown on the Council's Balance Sheet.

5.12 Heritage assets

The Council's heritage assets are as detailed below. With the exception of the Headstone Manor Listed Buildings which are operational assets valued at an Existing Use Value of £3.8m (£3.4m in 2019-20), these assets are not included on the balance sheet as it is either not practical to obtain a valuation, historical cost information is not available or the value of the assets is insignificant.

1. Headstone Manor Moated Site and Listed Buildings: The moat is complete and water filled, varying in width between 7m and 14m. It is believed to date from the 14th Century. Headstone Manor (Grade I) was built circa 1310 and altered/added to in the 17th and 18th Centuries. The Tithe Barn (Grade II) dates from 1506 and the Small Barn has 14th century foundations.

2. Grim's Dyke Earthwork: A linear bank and ditch which had formed a continuous earthwork from the Harrow Weald Ridge, within the grounds of the Grim's Dyke Hotel, to Cuckoo Hill (and possibly beyond).

3. Pinner Hill Ice House: Believed to date from the mid 19th Century, it represents one of only two well preserved surviving ice houses in the Greater London area.

4. Pear Wood Earthwork: This earthwork is a linear bank and ditch, similar to Grim's Dyke, located within Pear Wood at Stanmore.

5. Pinner Deer Park: This represents a rare survival of ancient landscape in Greater London.

6. Civic Insignia: The Council owns items of Civic Insignia. There is a formal policy for the safe keeping and security of these items. These items are held at the Civic Centre and can be viewed by appointment through the Mayor's Office.

7. War Memorials: There are a number of war memorials situated within the Borough. The Imperial War Museum publishes a full list of all memorials on its website.

5.13 Investment properties

2019-20 £000		2020-21 £000
34,728	Balance at start of the year	**72,927**
53,426	Additions	**0**
(920)	Disposals	**0**
(14,307)	Net gains/(losses) from fair value adjustments	**4,228**
72,927	Balance at end of the year	**77,155**

2019-20 £000		2020-21 £000
66,572	Investment properties valued using level 2 inputs	**71,195**
6,355	Investment properties valued using level 3 inputs	**5,960**
72,927	Balance at end of the year	**77,155**

Reference is made of the Investment Property rental income at note 5.36.2 – The Council as Lessor (Operating Leases).

5.14 Financial instruments

The following categories of financial instrument are carried in the Balance Sheet at amortised costs:

	Long-term		Current	
	31-Mar-21 £000	31-Mar-20 £000	**31-Mar-21 £000**	31-Mar-20 £000
Investments				
Short term investments	**0**	0	**17,616**	23,615
Cash and cash equivalents	**0**	0	**64,967**	40,982
Total investments	**0**	0	**82,583**	64,597
Debtors				
Long term debtors	**15,699**	16,017	**0**	0
Financial assets carried at amortised cost *	**0**	0	**27,657**	27,796
Total Debtors	**15,699**	16,017	**27,657**	27,796
Borrowings				
Financial liabilities at amortised cost	**(422,358)**	(422,403)	**(8,058)**	(7,141)
Total borrowings	**(422,358)**	(422,403)	**(8,058)**	(7,141)
Other Liabilities				
PFI and finance lease liabilities	**(16,265)**	(17,364)	**(1,306)**	(1,156)
Total other liabilities	**(16,265)**	(17,364)	**(1,306)**	(1,156)
Creditors				
Financial liabilities carried at amortised cost	**0**	0	**(39,863)**	(55,548)
Total creditors	**0**	0	**(39,863)**	(55,548)

* Comparative figure has been amended to remove £1,084k statutory tenant debtors which should not be classed as financial instruments

The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include only balances relating to contractual arrangements and exclude balances relating to statutory debts that do not arise from contracts. Thus balances relating to Council Tax, NDR, government grants, housing benefits and outstanding parking fines etc. are excluded. The balance of short term debtors excludes £36.7m (£9.9m in 2019-20). The creditors balance excludes £84.4m (£24.2m in 2019-20). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £3.5m bank overdraft balance has been treated as current borrowings for the purposes of this note.

Gains and losses on financial instruments

Gains and losses on financial instrument balances during the year are as follows:

Financial Liabilities Measured at amortised cost 2019-20 £000	Financial Assets Loans and receivables 2019-20 £000	Total 2019-20 £000		Financial Liabilities Measured at amortised cost 2020-21 £000	Financial Assets Loans and receivables 2020-21 £000	Total 2020-21 £000
16,131	0	16,131	Interest Expenses	16,283	0	16,283
0	733	733	Impairment Losses	0	635	635
16,131	733	16,864	**Interest payable and similar charges**	16,283	635	16,918
0	(1,635)	(1,635)	Interest income	0	(1,237)	(1,237)
0	(1,635)	(1,635)	**Interest and investment income**	0	(1,237)	(1,237)
16,131	(902)	15,229	**Net gain/(loss) for the year**	16,283	(602)	15,681

Impairment losses on financial assets excludes losses relating to statutory debts that do not arise from contracts.

Fair value of assets and liabilities

The fair value of an instrument is an estimate of its current market value. Fair value calculations have been made using the following methodology and assumptions:

- Valuations make use of level 2 inputs i.e. inputs other than quoted market prices that are observable for the financial asset/liability;
- Accrued interest has been included in the fair value calculations;
- The fair value of trade and other receivables is taken to be the carrying value or invoiced or billed amount;
- The fair value of fixed term deposits is calculated by comparing the fixed term investment with a comparable investment with the same or similar lender for the remaining period of the deposit;
- The fair value of loans receivable is calculated using the appropriate benchmark market rate;
- The fair value of borrowing has been calculated using the appropriate premature redemption discount rate.

The comparison of carrying value with fair value is given below:

Carrying Amount 2019-20 £000	Fair Value 2019-20 £000	Difference 2019-20 £000		Carrying Amount 2020-21 £000	Fair Value 2020-21 £000	Difference 2020-21 £000
23,615	23,615	0	Investments	17,616	17,616	0
16,017	29,474	13,457	Loans and receivables	15,699	31,849	16,150
40,982	40,982	0	Cash and Cash	57,971	57,971	0
(427,168)	(831,618)	(404,450)	Borrowing	(426,964)	(696,293)	(269,329)

5.15 Long term debtors

31-Mar-20 £000		31-Mar-21 £000
15,864	West London Waste Authority	15,568
153	Other Loans	132
16,017	**Total**	15,700

5.16 Short term debtors

31-Mar-20 £000		31-Mar-21 £000
1,047	Business Rates & Council Tax *	**25,138**
34,738	Trade debtors	**34,344**
1,874	Other debtors	**4,571**
37,659	**Total**	**64,053**

* The increase in Business Rates & Council Tax debtors over 2019-20 is due to the Central Government and GLA share of the carried forward Collection Fund deficit (£10,894k and £12,775k respectively). Refer to section 7 of the accounts.

5.17 Cash and cash equivalents

31-Mar-20 £000		31-Mar-21 £000
65	Cash held by the Authority	**129**
(2,376)	Bank current accounts	**(3,498)**
40,917	Short-term deposits w ith Banks and Building Societies	**64,837**
38,606	**Total Cash and Cash Equivalents**	**61,468**

5.18 Short term borrowing

31-Mar-20 £000		31-Mar-21 £000
(2,791)	Public Works Loan Board	**(2,791)**
(573)	Other Financial Institutions	**(566)**
(1,289)	Pension Fund	**(1,035)**
(112)	Other Loans	**(168)**
(4,765)	**Total**	**(4,560)**

5.19 Short term creditors

31-Mar-20 £000		31-Mar-21 £000
(8,714)	Business Rates & Council Tax	**(10,316)**
(57,766)	Trade Creditors	**(96,750)**
(14,393)	Other Creditors	**(18,221)**
(80,873)	**Total**	**(125,287)**

5.20 Provisions

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	**Total £000**
Short Term				
Balance at 1 April	(1,100)	(912)	(2,381)	**(4,393)**
Additional provisions made	(997)	(870)	(775)	**(2,642)**
Transferred to/from Long Term	64	0	0	**64**
Amounts used	933	912	248	**2,093**
Unused amounts reversed	0	0	42	**42**
Balance at 31 March	(1,100)	(870)	(2,866)	**(4,836)**
Long Term				
Balance at 1 April	(5,907)	0	0	**(5,907)**
Transferred to/from Short Term	(64)	0	0	**(64)**
Balance at 31 March	(5,971)	0	0	**(5,971)**

Insurance: This provision is the estimated liability for insurance claims that the Council self funds, including actual claims submitted, and events for which the Council has not received a claim (incurred but not reported IBNR). The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered when the total of all claims under the cover exceeds that amount for the period of insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or tree related subsidence claims. All IBNR (Incurred but not reported) amounts are calculated by the Council’s actuary. The provision includes £1.5m to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

Business Rate Appeals: The provision covers the Council’s share of the estimated business rate income that will be repaid due to successful appeals against the rateable value of business premises.

5.21 Other long term liabilities

31-Mar-20 £000		**31-Mar-21 £000**
(3,092)	Finance Lease Liability (Note 5.36.1)	**(2,739)**
(14,272)	PFI Lease Liability (Note 5.37)	**(13,526)**
(407,120)	IAS19 Pension Liability (Note 5.38.5)	**(518,223)**
(424,484)	**Total**	**(534,488)**

5.22 Usable reserves

31-Mar-20 £000		Note	**31-Mar-21 £000**
(10,008)	General Fund	4.2	**(10,008)**
(57,149)	Earmarked Reserves	5.7	**(84,485)**
(7,526)	Housing Revenue Account	6.1	**(6,274)**
(7,741)	Major Repairs Reserve	6.2.4	**(6,412)**
(18,705)	Capital Receipts Reserve	5.22.1	**(14,351)**
(35,388)	Capital Grants and Contributions Unapplied	5.22.2	**(37,541)**
(136,517)	**Total Usable Reserves**		**(159,071)**

5.22.1 Capital receipts reserve

The Capital Receipts Reserve accumulates proceeds from the disposals of land or other assets. Statute permits capital receipts to be used to fund new capital expenditure or to reduce Council indebtedness. The balance on the reserve shows the resources that have yet to be applied for these purposes at year end.

General Fund 2019-20 £000	HRA 2019-20 £000	Total 2019-20 £000		General Fund 2020-21 £000	HRA 2020-21 £000	Total 2020-21 £000
(4,002)	(14,136)	(18,138)	Balance unapplied at 1 April	**(4,572)**	**(14,133)**	**(18,705)**
(3,689)	(1,750)	(5,439)	Receipts in year - Others	**0**	**(162)**	**(162)**
0	(4,687)	(4,687)	Receipts in year - Right to Buy	**0**	**(4,494)**	**(4,494)**
19	82	101	Disposal Costs	**0**	**60**	**60**
0	3,882	3,882	Pooling payment to the MHCLG	**0**	**5,178**	**5,178**
3,100	0	3,100	Use of capital receipts to fund revenue expenditure	**0**	**0**	**0**
0	0	0	Applied during the year - others	**2,178**	**1,594**	**3,772**
0	2,476	2,476	Applied during the year - Right to Buy	**0**	**0**	**0**
(4,572)	(14,133)	(18,705)	**Balance unapplied at 31 March**	**(2,394)**	**(11,957)**	**(14,351)**

5.22.2 Capital grants and contributions unapplied

The Council receives various grants and contributions towards the financing of its capital programme each year. The following table details the transactions posted to the account for the period:

General Fund 2019-20 £000	HRA 2019-20 £000	Total 2019-20 £000		General Fund 2020-21 £000	HRA 2020-21 £000	Total 2020-21 £000
(23,792)	(2,749)	(26,541)	Balance unapplied at 1 April	**(29,552)**	**(5,836)**	**(35,388)**
(10,323)	(3,878)	(14,201)	Receipts in year	**(3,332)**	**(23)**	**(3,355)**
4,563	791	5,354	Applied during the year	**1,202**	**0**	**1,202**
(29,552)	(5,836)	(35,388)	**Balance unapplied at 31 March**	**(31,682)**	**(5,859)**	**(37,541)**

5.23 Unusable reserves

31-Mar-20 £000		Notes	31-Mar-21 £000
(182,432)	Revaluation Reserve	5.23.1	**(212,994)**
(571,335)	Capital Adjustment Account	5.23.2	**(595,728)**
11,573	Financial Instruments Adjustment Account	5.23.3	**11,128**
407,120	Pensions Reserve	5.23.4	**518,223**
(2,495)	Collection Fund Adjustment Account	5.23.5	**12,291**
4,556	Accumulating Compensated Absences Adjustment Account	5.23.6	**7,133**
0	Dedicated Schools Grant Reserve *		**3,731**
(8)	Deferred Capital Receipts Reserve	5.23.7	**(8)**
(333,021)	**Total Unusable Reserves**		**(256,224)**

* The Dedicated Schools Grant has been reclassified from Earmarked Reserves to Unusable Reserves to comply with CIPFA guidance

Dedicated Schools Grant Reserve: The negative balance represents current year's schools expenditure eligible to be funded from Dedicated Schools Grant but that will be funded from future year's grant payments.

5.23.1 Revaluation reserve

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

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

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

2019-20 General Fund £000	2019-20 HRA £000	2019-20 Total £000		2020-21 General Fund £000	2020-21 HRA £000	2020-21 Total £000
(99,480)	(47,118)	(146,598)	**Balance at 1 April**	**(108,943)**	**(73,489)**	**(182,432)**
(31,338)	(27,433)	(58,771)	Upward revaluation of property, plant & equipment	**(47,531)**	**(19,672)**	**(67,203)**
15,895	372	16,267	Less: reversal of past impairments charged to Provision of Services	**15,879**	**52**	**15,931**
(15,443)	(27,061)	(42,504)	Upward revaluation of assets charged to the revaluation reserve	**(31,652)**	**(19,620)**	**(51,272)**
12,409	77	12,486	Impairment of property, plant & equipment	**24,403**	**742**	**25,145**
(8,694)	(69)	(8,763)	Less: impairments charged to Provision of Services	**(8,225)**	**(311)**	**(8,536)**
3,715	8	3,723	Impairments charged to the revaluation reserve	**16,178**	**431**	**16,609**
(111,208)	(74,171)	(185,379)	(Surplus) / Deficit on revaluation of non-current assets not posted to (Surplus) / Deficit on the Provision of Services	**(124,417)**	**(92,678)**	**(217,095)**
2,017	765	2,782	Difference between fair value depreciation and historical cost depreciation	**3,408**	**622**	**4,030**
248	(83)	165	Accumulated gains on assets sold or scrapped	**0**	**71**	**71**
2,265	682	2,947	Amount written off to the Capital Adjustment Account	**3,408**	**693**	**4,101**
(108,943)	(73,489)	(182,432)	**Balance at 31 March**	**(121,009)**	**(91,985)**	**(212,994)**

5.23.2 Capital adjustment account

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

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains net revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2019-20 General Fund £000	2019-20 HRA £000	2019-20 Total £000		2020-21 General Fund £000	2020-21 HRA £000	2020-21 Total £000
(282,595)	(265,696)	(548,291)	**Balance at 1 April**	**(303,178)**	**(268,157)**	**(571,335)**
27,861	7,659	35,520	Reversal of depreciation charged to the CIES	**26,812**	**7,677**	**34,489**
(7,274)	(111)	(7,385)	Asset Impairment/ (Reversal of Impairment)	**(7,474)**	**79**	**(7,395)**
1,271	3,213	4,484	Non Current assets written out on Disposal	**0**	**1,868**	**1,868**
3,268	0	3,268	Revenue expenditure funded from capital under statute	**1,246**	**0**	**1,246**
(2,265)	(682)	(2,947)	Amounts written off from the revaluation reserve	**(3,408)**	**(693)**	**(4,101)**
(22,703)	0	(22,703)	Deferred credit on transfer of fixed asset	**0**	**0**	**0**
0	(2,476)	(2,476)	Use of the Capital Receipts Reserve	**(2,178)**	**(1,594)**	**(3,772)**
0	(5,619)	(5,619)	Use of the Major Repairs Reserve	**0**	**(8,993)**	**(8,993)**
(9,389)	(4,437)	(13,826)	Capital grants credited to the CI&E	**(7,449)**	**(3,695)**	**(11,144)**
(21,978)	(8)	(21,986)	Minimum Revenue Provision	**(18,644)**	**(9)**	**(18,653)**
(3,681)	0	(3,681)	Revenue Contribution to Capital Outlay	**(3,210)**	**(500)**	**(3,710)**
14,307	0	14,307	Movements in the market value of Investment Properties debited/credited to the CI&E Statement	**(4,228)**	**0**	**(4,228)**
(303,178)	(268,157)	(571,335)	**Balance at 31 March**	**(321,711)**	**(274,017)**	**(595,728)**

5.23.3 Financial instruments adjustment account

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

2019-20 £000		2020-21 £000
12,021	**Balance at 1 April**	**11,573**
0	Premiums incurred in the current year and charged to the CIES	**0**
	Premiums and Discounts incurred in previous years to be charged against the General Fund and HRA in accordance w ith statutory requirements:	
(403)	General Fund	**(400)**
(45)	HRA	**(45)**
11,573	**Balance at 31 March**	**11,128**

5.23.4 Pensions reserve

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

2019-20 £000		2020-21 £000
405,589	**Balance at 1 April**	**407,120**
(23,607)	Remeasurement of the net defined benefit liability	**95,179**
48,470	Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**39,547**
(23,332)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(23,623)**
407,120	**Balance at 31 March**	**518,223**

5.23.5 Collection fund adjustment account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2019-20 £000		2020-21 £000
(2,937)	**Balance at 1 April**	**(2,495)**
442	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	**14,786**
(2,495)	**Balance at 31 March**	**12,291**

5.23.6 Accumulating compensated absences adjustment account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2019-20 £000		2020-21 £000
5,126	**Balance at 1 April**	**4,556**
(5,126)	Settlement or cancellation of accrual made at the end of the preceding year	**(4,556)**
4,556	Amounts accrued at the end of the current year	**7,133**
4,556	**Balance at 31 March**	**7,133**

5.23.7 Deferred capital receipts reserve

The Deferred Capital Receipts Reserve holds gains recognised on the disposal of non-current assets but for which settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable to finance new capital expenditure until they are received, at which point they are transferred to the Capital Receipts Reserve.

Regeneration projects 2019-20 £000	Other 2019-20 £000	Total 2019-20 £000		**Regeneration projects 2020-21 £000**	**Other 2020-21 £000**	**Total 2020-21 £000**
(22,703)	(8)	(22,711)	Balance deferred at 1 April	**0**	**(8)**	**(8)**
22,703	0	22,703	Transfer to Capital Adjustment Account	**0**	**0**	**0**
0	(8)	(8)	**Balance deferred at 31 March**	**0**	**(8)**	**(8)**

The Council sold land assets to developers in 2016-17 in consideration for a number of newly-constructed dwellings and other property assets. These were transferred to Council ownership in 2019-20 on completion of the development. The amount disclosed as ‘Regeneration Projects’ was the fair value of the assets the Council was to receive, adjusted to account for the time value of money. The balance has now been transferred to the Capital adjustment account.

5.24 Notes to the Cash Flow Statement

5.24.1 Operating activities

2019-20 £000		2020-21 £000
	The cash flows for operating activities include the following items:	
16,864	Interest payable & similar charges	16,918
(1,635)	Interest and Investment income	(1,237)
11,480	Other investment income	(7,010)
	The surplus or deficit on the provision of services has been adjusted for the following non cash movements:	
25,138	Adjustment for pension funding	15,924
(1,532)	Increase/(Decrease) in Provision	507
28,135	Impairment and Depreciation	27,094
(571)	Accumulated Absence	2,576
4,484	Carrying amount of non-current assets disposed	1,868
907	Other non cash items charged to CIES	(4)
14,307	Movement in the value of investment properties	(4,228)
685	Billing authority Collection Fund adjustments	(22,672)
	Items on an accrual basis	
(4,260)	(Increase)/Decrease in Debtors	(3,026)
4,352	Increase/(Decrease) in Creditors	42,421
71,645	**Adjustments for non cash movements**	60,460
(10,126)	Proceeds from the sale of non-current assets	(4,656)
(22,675)	Capital grants credited to surplus or deficit on the provision of services	(13,297)
(32,801)	**Adjustments for investment and financing activities**	(17,953)

5.24.2 Investing activities

2019-20 £000		2020-21 £000
(89,864)	Purchase of property, plant and equipment and investment property	(55,000)
24,494	Capital grants received in year	19,305
10,126	Proceeds from the sale of property, plant and equipment and investment property	4,656
(12,511)	Proceeds from short-term and long-term investments	5,999
357	Other long term loans granted	316
(67,398)	**Net cash flows from Investing Activities**	**(24,724)**

5.24.3 Financing activities

2019-20 £000		2020-21 £000
3,018	Cash receipts/ (payments) for the Increase/ (reduction) of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(948)
76,247	Cash receipts/ (repayments) of short-term and long-term borrowing	(246)
79,265	**Net cash flows from financing activities**	**(1,194)**

5.25 Expenditure and income analysed by nature

The analysis of income and expenditure by service segment on the face of the Comprehensive Income and Expenditure Statement matches the Council's Directorate structure. Alternatively, total income and total expenditure can be analysed by nature.

2019-20 £000	Expenditure/Income	Notes	2020-21 £000
	Expenditure		
209,601	Employee benefits expenditure		**209,173**
124,371	Housing benefits		**115,914**
217,732	Other service expenses		**227,612**
25,076	Support service recharges (excl. employee costs)		**30,388**
32,288	Depreciation and impairment		**32,301**
51,495	Other expenditure	5.8 - 5.9	**40,893**
660,563	**Total expenditure**		**656,281**
	Income		
(128,630)	Fees, charges and other service income		**(113,218)**
(295,545)	Revenue grants included within cost of services	5.33.1	**(313,966)**
(211,631)	Other income	5.8 - 5.10	**(235,370)**
(635,806)	**Total income**		**(662,554)**
24,757	**(Surplus) Deficit on Provision of Services**		**(6,273)**

5.26 Road charging schemes under the Transport Act 2000

The Council must keep a separate account of any income or expenditure related to parking enforcement.

2019-20 £000		2020-21 £000
(9,456)	Penalty Charge Notices	**(5,777)**
(1,180)	On street meters	**(643)**
(730)	Residents Permits	**(596)**
(11,366)	Total income	**(7,016)**
2,496	Enforcement contract/costs	**2,114**
1,179	Other expenditure	**1,253**
3,675	Total expenditure	**3,367**
(7,691)	Total (surplus) for the year ending 31 March 2021	**(3,649)**
	Utilisation of Surplus	
7,691	Concessionary fares	**3,649**
7,691		**3,649**

5.27 Pooled budgets – Better Care Fund

The Council is the lead body for the Better Care Fund (BCF) with the NHS Harrow Clinical Commissioning Group (CCG). The BCF is managed by the Health & Wellbeing Board with representatives from the Council, CCG and voluntary organisations. The purpose of the BCF is to provide care and support for vulnerable people.

2019-20 £000		2020-21 £000
	Funding provided to the pooled budget	
(13,127)	· Harrow Contribution	**(8,189)**
(9,377)	· NHS Harrow CCG Contribution	**(16,271)**
(22,504)		**(24,460)**
	Revenue Expenditure met from the pooled budget:	
11,610	· Harrow Council	**12,904**
9,377	· NHS Harrow CCG	**9,835**
20,987		**22,739**
	Capital Expenditure met from the pooled budget:	
1,517	· Harrow Council - Disabled Facilities Grants	**1,721**
1,517		**1,721**
0	Surplus for the year	**0**

5.28 Members' Allowances

Information on the Members' Allowance Scheme may be found on the Council's website.

2019-20 £000		2020-21 £000
872	Allowances	**891**
872	Total	**891**

5.29 Remuneration

The remuneration paid to the Council's senior employees is as follows:

5.29.1 Remuneration bands

The number of employees whose remuneration, excluding pension contributions was £50,000 or more is detailed below in bands of £5,000. The bandings include only the remuneration of employees that have not been disclosed separately in the 'Senior officer remuneration' note. The number of employees that exceeded the £50,000 including redundancy or voluntary severance payments is shown in the separate 'Due to Lump Sum' column.

Remuneration band	Number of Council Employees			
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum
	2020-21	2020-21	2019-20	2019-20
£50,000 - £54,999	**140**	**1**	119	0
£55,000 - £59,999	**76**	**1**	74	0
£60,000 - £64,999	**61**	**1**	43	0
£65,000 - £69,999	**37**	**0**	30	1
£70,000 - £74,999	**17**	**1**	10	0
£75,000 - £79,999	**20**	**0**	31	0
£80,000 - £84,999	**16**	**1**	3	0
£85,000 - £89,999	**3**	**0**	6	0
£90,000 - £94,999	**4**	**0**	6	0
£95,000 - £99,999	**3**	**0**	5	0
£100,000 - £104,999	**5**	**0**	4	0
£105,000 - £109,999	**3**	**0**	1	1
£110,000 - £114,999	**3**	**0**	4	1
£115,000 - £119,999	**3**	**0**	1	0
£120,000 - £124,999	**2**	**1**	0	0
£140,000 - £144,999	**0**	**0**	0	1
£155,000 - £159,999	**0**	**1**	0	0
£190,000 - £194,999	**0**	**1**	0	0
£255,000 - £259,999	**0**	**0**	0	1
	393	**8**	337	5

5.29.2 Senior officer remuneration

Remuneration Disclosures for employees defined by Regulation as Senior Employees whose salary is £150,000 or more per year

Position Held	Notes	Salary (including Fees and Allowances) £	£	Employers Pension Contribution £	£	Exit payments £	£	Total Remuneration including employers pension contributions £	£
		2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Sean Harriss (Chief Executive)	1	226,050	220,291	0	0	0	0	226,050	220,291
Charlie Stewart (Corporate Director - Resources)	2	160,293	135,032	39,865	32,435	0	0	200,158	167,467
Paul Hewitt (Corporate Director - People Services)	1	150,774	146,733	0	18,246	0	0	150,774	164,979
Paul Walker (Corporate Director - Community)	1	150,774	146,733	0	0	0	0	150,774	146,733
		687,891	**648,789**	**39,865**	**50,681**	**0**	**0**	**727,756**	**699,470**

Remuneration disclosures for Senior Officers whose salary is less than £150,000 but more than £50,000

Position Held	Notes	Salary (including Fees and Allowances) £	£	Employers Pension Contribution £	£	Exit payments £	£	Total Remuneration including employers pension contributions £	£
		2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Director Legal and Governance		147,054	160,224	35,268	38,579	0	0	182,322	198,803
Director of Finance		136,674	130,460	33,991	32,445	0	0	170,665	162,905
Acting Director of Adult Social Services	3	0	20,815	0	4,216	0	88,001	0	113,032
Director of Adult Social Services	4	133,322	110,089	33,157	27,379	0	0	166,479	137,468
		417,050	**421,588**	**102,416**	**102,619**	**0**	**88,001**	**519,466**	**612,208**

Note 1 The officer is not a member of the pension scheme.
Note 2 The Corporate Director commenced on 20th May 2019.
Note 3 The Acting Director left the Council on 30th April 2019.
Note 4 The Director commenced on 27th May 2019.

5.30 Termination benefits

The number of exit payments split between compulsory and other redundancies and the total cost per band are set out below:

Exit Payments cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of Exit Payments by cost band		Total cost of Exit Payments in each band	
	2020-21	2019-20	**2020-21**	2019-20	**2020-21**	2019-20	**2020-21**	2019-20
							£000	£000
£0 - £20,000	**4**	3	**6**	28	**10**	31	**81**	146
£20,001 - £40,000	**5**	0	**6**	4	**11**	4	**318**	124
£40,001 - £60,000	**0**	1	**1**	0	**1**	1	**40**	57
£60,001 - £80,000	**1**	0	**0**	0	**1**	0	**77**	0
£80,001 - £100,000	**0**	0	**1**	2	**1**	2	**99**	187
£100,001 - £120,000	**0**	0	**0**	1	**0**	1	**0**	111
Total	**10**	4	**14**	35	**24**	39	**615**	625

'Other departures agreed' in the above table are under the Council's Voluntary Severance Scheme.

The net value of termination benefits charged to the Cost of Services in the Comprehensive Income and Expenditure Statement is as follows:

Exit payment liabilities

2019-20 £000		**2020-21 £000**
595	Exit payments not provided for in 2019-20	**454**
30	Employment provision (within note 5.20)	**161**
625	**Included in cost of services**	**615**

5.31 External audit costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor:

2019-20 £000		**2020-21 £000**
	Fees payable to external auditors in respect of:	
117	External audit services carried out by the appointed auditor for the year	**133**
25	Certification of grant claims and returns for the year	**27**
142	Total	**160**

5.32 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by Department for Education and known as the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the local authority area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2018.

Details of the deployment of DSG receivable are as follows:

	Central Expenditure £000	Individual Schools Expenditure £000	Total £000
Final DSG for 2020-21 before academy recoupment			226,283
Academy and high needs figure recouped for 2020-21			(94,538)
Total DSG after academy recoupment for 2020-21			131,745
Plus: Brought forward from 2019-20			269
Less: Carry forward to 2021-22 agreed in advance			(269)
Agreed budgeted distribution in 2020-21	55,986	75,759	131,745
In-year adjustments	434	0	434
Final budget distribution for 2020-21	56,420	75,759	132,179
Less: Actual central expenditure	55,947	0	55,947
Less: Actual ISB deployed to schools	0	76,759	76,759
In year carry forward to 2021-22	473	(1,000)	(527)
Plus: Carry forward to 2021-22 agreed in advance			269
Carry forward to 2021-22			(258)

5.33 Grants income

5.33.1 Revenue grants included within the cost of services

The following revenue grants have been included within the cost of services in the comprehensive Income and Expenditure Account:

2019-20 £000	Grant	Awarding Body	2020-21 £000
(129,339)	Dedicated Schools Grant	Department for Education	(132,448)
(3,810)	Pupil Premium	Department for Education	(4,948)
(2,274)	Universal Infant Free School Meals	Department for Education	(2,693)
(2,744)	Private finance initiative	Various	(2,744)
(10,523)	Public Health	Department of Health	(11,150)
(134)	COVID-19 Grants	Various	(9,596)
(100,497)	Rent Allowance	Department of Work and Pensions	(91,109)
(24,444)	HRA Rent Rebate	Department of Work and Pensions	(25,681)
(2,127)	New Burdens	Department of Work and Pensions	(2,612)
0	Workforce Capacity Grant	Ministry of Housing, Communities and Local Gov.	(2,806)
(4,352)	EFA 6th Form Funding	Young People's Learning Agency	(6,407)
(5,498)	Improved Better Care Fund	Ministry of Housing, Communities and Local Gov.	(6,468)
(9,803)	Other Grants	Various	(15,304)
(295,545)	**Total Revenue Grants included in the Comprehensive Income and Expenditure Account**		(313,966)

5.33.2 Capital grants included within taxation and non-specific grant income

The following capital grants have been included within the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Account:

2019-20 £000	Grant	Awarding Body	2020-21 £000
(8,535)	LA Capital Maintenance and Basic Need Grant	Department for Education	**(3,121)**
(3,073)	HRA Affordable Housing Grant	Greater London Authority	**0**
(2,644)	HRA Grange Farm Phases 1 & 2	Greater London Authority	**(3,025)**
(1,423)	Section 20 & 106 income	Various	**(903)**
(7,000)	Other	Various	**(6,248)**
(22,675)	**Total Capital Grants included in Comprehensive Income and Expenditure Account**		**(13,297)**

5.33.3 Capital grants receipts in advance

2019-20 £000	Grant - Capital	Awarding Body	2020-21 £000
(3,750)	Borough Intervention Agreement	Greater London Authority	**(3,750)**
0	Decarbonisation Scheme Funding	Department for Business, Energy & Industrial Strategy	**(2,483)**
0	Housing Infrastructure Funding	Greater London Authority	**(2,281)**
(696)	Section 106 Capital Receipts	Various	**(746)**
(2,688)	Other Capital Grants	Various	**(3,882)**
(7,134)			**(13,142)**

5.34 Related parties

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

Material transactions between the Council and its subsidiaries are disclosed in note 5.42.

5.34.1 United Kingdom Government and other Public Bodies

Central government has significant influence over the general operations of the Council by providing the statutory framework within which the Council operates, significant funding in the form of grants and by prescribing the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received and payments to levying bodies are disclosed in the notes to the accounts. Payments to precepting bodies are detailed in the Collection Fund and Comprehensive Income and Expenditure Statement. The Better Care Fund pooled budget is disclosed in note 5.27.

Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies.

The Register of Interests for Members can be viewed on the Harrow Council website. The register shows that Members hold various positions on the governing bodies of a number of organisations including charities, associations, academy schools and companies. In no case does the Council control any of these organisations by virtue of Members controlling their governing bodies.

The Council has significant influence over the decisions of 3 local charities due to a significant number of Members also being trustees on their governing bodies. In 2020-21 the Council made the following payments for grants and services:

Organisation	Amount £000
West House and Heath Robinson Museum	7
Harrow Associated of Disabled People	67
Harrow Heritage Trust	1

Senior officers had no material transactions with related parties to disclose during the financial year.

5.34.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2019-20 £000		2020-21 £000
22,893	Employers Pension Contributions to the Fund	**23,206**
(906)	Administration expenses paid by the Fund	**(908)**
1,289	Cash Due to the Fund	**1,035**

5.35 Capital Financing

Total capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources used to finance it. Capital expenditure results in an increase in the Capital Financing Requirement (CFR). CFR is thus a measure of the capital expenditure incurred historically by the Council that has yet to be financed. CFR is analysed in the bottom part of the note.

2019-20 £000		2020-21 £000
517,532	Opening Capital Financing Requirement	**564,610**
	Capital Investment	
60,674	Property, Plant and Equipment	**53,570**
53,426	Investment Property	**0**
3,268	Revenue Expenditure Funded from Capital under Statute	**1,246**
	Sources of finance	
(2,476)	Capital receipts	**(3,772)**
(13,825)	Government grants and other contributions	**(11,144)**
(22,703)	Deferred capital receipts	**0**
	Sums set aside from revenue:	
(3,681)	· Direct revenue contributions	**(3,710)**
(21,986)	· Minimum Revenue Provision	**(18,653)**
(5,619)	· Major Repairs Reserve	**(8,993)**
564,610	*Closing Capital Financing Requirement*	**573,154**
	Explanation of movements in year	
69,064	Increase in unsupported borrowing	**27,197**
(21,986)	Minimum Revenue provision	**(18,653)**
47,078	*Increase in Capital Financing Requirement*	**8,544**

5.36 Leases

5.36.1 The Council as Lessee

Finance Leases

Assets acquired under finance leases are included as part of Vehicles, Plant, Furniture and Equipment in the Property, Plant and Equipment balance in the Balance Sheet. The book value of these assets is £3.1m (£3.5m in 2019-20). Outstanding lease liabilities are £3.3m (£3.6m in 2019-20) and minimum lease payments of £4.4m (£4.8m in 2019-20) will be made over the next 1 to 6 years.

Operating Leases

The Council enters into operating leases, principally in respect of properties. Properties leased include Premier House, Wealdstone, with the local Primary Care Trust, as well as some libraries and car parks. In addition, the Council leases residential properties from the private sector (PSLs) for homelessness needs. Contract end dates vary, with some of the properties being long leases in excess of twenty years. PSLs are generally between 2 to 5 years in length.

The expenditure relating to minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to the operating leases is analysed below.

31-Mar-20 £000		31-Mar-21 £000
3,473	Not later than one year	**3,199**
1,335	Later than one year and not later than five years	**1,548**
2,150	Later than five years	**2,088**
6,958		**6,835**
2,816	Min. lease payments charged to revenue in 20-21	**3,473**

5.36.2 The Council as Lessor

Finance Leases

The Council has granted 125 year peppercorn leases in respect of 14 maintained schools which transferred to Academy status in prior years under the provisions of the Academies Act 2010.

Although the legal form of the transfer arrangement is a lease, and the Council retains the freehold, the transfer of schools to Academy status are treated as in substance a disposal in the Council's balance sheet. No maintained schools transferred to Academy status in 2020-21.

Operating Leases

The Council leases out property under operating leases for the provision of community services, such as sports facilities and community centres and for economic development purposes. The Council also leases out a number of investment properties.

Operating leases have been classified as Investment Properties or Property, Plant and Equipment, generating a rental stream of £4.5m in 2020-21 (£4.2m in 2019-20).

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

31-Mar-20 £000	Land and Buildings	31-Mar-21 £000
4,730	Not later than one year	**5,526**
16,283	Later than one year and not later than five years	**18,092**
21,518	Later than five years	**16,428**
42,531		**40,046**

5.37 Private Finance Initiative (PFI)

The Council has two PFI contracts: special schools and Neighbourhood Resource Centres (NRCs). Both contracts fall within the scope of service concession arrangements under IFRIC 12 as the use of the assets is controlled by the Council and the assets revert back to the Council on the expiration of the contracts.

Under these contracts, the Council pays a unitary charge which is subject to payment deductions for service and availability failures, and increases each year for inflation based on RPI. The Council receives an annual PFI grant from the government for each scheme. Unused amounts of grant are transferred to sinking funds to finance future PFI payments.

At the end of the contracts the assets and all rights under the agreements revert to the Council at no additional cost. The providers are required to undertake regular benchmarking exercises for certain operational costs and market test these where necessary. In the event of default by the provider the Council has the option to either re-tender the contract and pay the contractor the highest compliant tender price or to take over the contract and pay the contractor the estimated fair value of the agreement. In the event of voluntary termination the provider is entitled to a termination sum based on the debt outstanding. The Council is entitled to receive a 50% share of any refinancing gains.

Outstanding PFI lease liabilities are as follows:

Special schools

2019-20 £000		2020-21 £000
(10,406)	Balance outstanding at start of year	**(10,030)**
1,332	Lease repayments during the year	**1,374**
(956)	Finance charge	**(921)**
(10,030)	Balance outstanding at year end	**(9,577)**

NRCs

2019-20 £000		2020-21 £000
(5,095)	Balance outstanding at start of year	**(4,888)**
630	Lease repayments during the year	**599**
(423)	Finance charge	**(406)**
(4,888)	Balance outstanding at year end	**(4,695)**

5.37.1 Special schools

The contract relates to two new schools for pupils with learning disabilities, and the refurbishment of a first and middle school. The contract is for the provision of the facilities on Council sites under licence to the provider. The works were phased in and the three schools were fully operational by February 2006.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
Schools					
Payable in 2021-22	1,268	880	514	117	2,779
Payable within 2 to 5 years	6,714	3,053	1,856	(116)	11,507
Payable within 6 to 10 years	8,248	2,636	4,009	449	15,342
Payable within 11 to 13 years	3,917	555	3,198	721	8,391
Total	**20,147**	**7,124**	**9,577**	**1,171**	**38,019**

5.37.2 Neighbourhood Resource Centres (NRC)

Three Centres have been provided under the Local Improvement Finance Trust (LIFT) initiative on Council sites under licence to the provider. These became operational in May 2009.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
NRC					
Payable in 2021-22	270	390	231	260	1,151
Payable within 2 to 5 years	1,150	1,350	1,133	1,265	4,898
Payable within 6 to 10 years	1,991	1,132	1,740	1,982	6,845
Payable within 11 to 14 years	1,433	270	1,591	1,603	4,897
Total	**4,844**	**3,142**	**4,695**	**5,110**	**17,791**

5.38 Defined benefit pension schemes

5.38.1 Participation in pension scheme

The Council offers retirement benefits as part of the terms and conditions under which staff are employed. Although these benefits will not actually be paid until after employees retire, commitments to make the payments are recognised in the accounts at the time that the entitlements are earned.

The Council participates in the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to ensure that sufficient funds are held to ensure that pension liabilities are paid when they are due.

5.38.2 Transactions relating to post-employment benefits

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

Cumulative actuarial remeasurement losses of £329m have been recognised in the Movement in Reserves Statement up to and including 2020-21 (£233m in 2019-20).

Expected employer contributions for 2021-22 are £20.7m, excluding any contributions in respect of unfunded benefits.

2019-20 8000		2020-21 £000
	Cost of Services:	
35,950	• current service cost	29,845
2,613	• past service and settlement costs	273
	Financing and Investment Income and Expenditure	
29,192	• interest cost	25,352
(19,285)	• interest income on scheme assets	(15,923)
48,470	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**39,547**
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
(11,365)	• changes in demographic assumptions	14,582
(87,719)	• changes in financial assumptions	258,858
118,818	• return on plan assets	(166,684)
(43,341)	• changes in other experience	(11,577)
(23,607)		**95,179**
24,863	Total Post Employment Benefit Charged to the CIES	**134,726**
23,332	Actual amount charged to the General Fund balance in the year	**23,623**

5.38.3 Reconciliation of present value of the scheme liabilities

The weighted average duration of the defined benefit obligation for scheme members is 19 years.

2019-20 £000		**2020-21 £000**
(1,212,805)	Opening balance at 1 April	(1,104,073)
(35,950)	Current service cost	(29,845)
(29,192)	Interest cost	(25,352)
(5,519)	Contributions by scheme participants	(5,667)
	Remeasurement (gains)/losses arsing from changes in:	
11,365	Demographic Assumptions	(14,582)
87,719	Financial Assumptions	(258,858)
43,341	Other Experience	11,577
39,581	Benefits paid	37,668
(2,613)	Past service costs	(45)
(1,104,073)	Closing balance at 31 March	**(1,389,177)**

5.38.4 Reconciliation of fair value of the scheme (plan) assets

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £182.6m (2019-20: -£99.5m).

2019-20 £000		**2020-21 £000**
807,216	Opening balance at 1 April	696,953
19,285	Interest income on plan assets	15,923
(118,818)	Remeasurement gain/(loss)	166,684
0	Effects of settlements	(228)
23,332	Employer contributions	23,623
5,519	Contributions by scheme participants	5,667
(39,581)	Benefits paid	(37,668)
696,953	Closing balance at 31 March	**870,954**

5.38.5 Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the LGPS will be made good by investment returns in excess of the assumed discount rate and by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

	2020-21 £000	2019-20 £000	2018-19 £000	2017-18 £000	2016-17 £000
Present value of liabilities	**(1,389,177)**	(1,104,073)	(1,212,805)	(1,116,211)	(1,102,110)
Fair value of assets	**870,954**	696,953	807,216	760,920	732,652
Net deficit in the scheme	**(518,223)**	(407,120)	(405,589)	(355,291)	(369,458)

5.38.6 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the Projected Unit Method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31st March 2019.

The principal assumptions used by the actuary have been:

2019-20		**2020-21**
	Long-term expected rate of return on assets in the scheme:	
8.3%	Equity investments	26.3%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.0	Men	22.2
24.3	Women	24.6
	Longevity at 65 for future pensioners:	
23.1	Men	23.5
26.3	Women	26.9
	Financial assumptions:	
2.6%	Rate of increase in salaries	3.6%
1.9%	Rate of increase in pensions (CPI)	2.9%
2.3%	Rate for discounting scheme liabilities	2.0%
	Take-up of option to convert annual pension into retirement lump sum:	
50.0%	- Pre April 2008 Service	50.0%
75.0%	- Post April 2008 Service	75.0%

5.38.7 Scheme assets

LGPS assets consist of the following categories, by proportion of the total assets held. All categories are quoted in active markets:

31-Mar-20		**31-Mar-21**
13.0%	Debt Securities - Corporate Bonds	14.0%
1.0%	Private Equity	1.0%
7.0%	Real Estate: UK Property	6.0%
	Investment Funds and Unit Trusts:	
53.0%	Equities	53.0%
23.0%	Other	23.0%
3.0%	Cash and Equivalents	3.0%
100%		**100%**

5.38.8 History of experience gains and losses

	2020-21	2019-20	2018-19	2017-18	2016-17
	%	%	%	%	%
Differences between the expected and actual return on assets	19.14	-17.05	4.09	2.22	17.35
Experience gains and (losses) on liabilities	-0.83	-3.93	0.07	-0.02	1.79

5.38.9 Sensitivity of the defined benefit obligation to changes in actuarial assumptions

	Increase in present value of scheme liabilities	
	%	£000
0.5% decrease in the real discount rate	8	124,558
0.5% increase in rate of increase in salaries	1	8,784
0.5% increase in the rate of increase in pensions	8	113,414
1 year increase in member life expectancy	3 - 5	41,675 - 69,459

The sensitivity analysis has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. Changes in some assumptions may however be interrelated. Estimations in the sensitivity analysis follow the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

5.39 Teachers' Pension Scheme

The Teachers' Pension Agency (TPA) provides retirement benefits for teachers on behalf of the Department for Education.

The assets and liabilities for the Teachers' Pension Scheme cannot be identified at individual employer level. It is therefore accounted for on the same basis as a defined contribution scheme.

In 2020-21 the Council made £8.54m (£7.40m in 2019-20) of employer contributions to the TPA. The current contribution rate is 23.68%. The rate increased from 16.48% on 1st September 2019.

5.40 Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's Code of Practice on Treasury Management and complies with The Prudential Code for Capital Finance in Local Authorities. As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry of Housing, Communities and Local Government's Investment Guidance for Local Authorities. In order to minimise the risk to Council resources the Strategy gives priority to security and liquidity, rather than yield.

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with non-UK banks and financial institutions unless they are rated independently with a minimum score of AA- sovereign rating, A- long term rating, F1 short term rating. The Council does not rely solely on the credit ratings but also has regard to other measures including credit default swaps and equity prices when selecting commercial organisations for investment. Investments are diversified across institutions to ensure a spread of risk throughout the counterparty list. Information relating to the counterparties is constantly monitored and action taken should any institution fail to meet the minimum criteria.

The table below shows a summary of institutions with which the Council has deposits:

	Amount at 31-Mar-21	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-21	Estimated maximum exposure to default and uncollectability 31-Mar-21
	£000	%	%	**£000**
UK Banks	**80,838**	0.00	0.00	**0**
UK Money Market Funds	**1,616**	0.00	0.00	**0**
Customers	**12,443**	4.36	19.90	**3,090**
Total	**94,897**			**3,090**

The Council does not allow credit for customers. The financial instruments short term debtors balance is analysed by age as follows:

Amount at 31-Mar-20		Amount at 31-Mar-21
£000		**£000**
10,545	Less than three months	8,839
449	Three to six months	1,127
666	Six months to one year	852
989	More than one year	1,625
12,649	**Total Debtors ***	**12,443**

* Comparative figure has been amended to remove statutory tenant debtors which should not be classed as financial instruments

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the Public Works Loans Board (PWLB) and money market for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future with Prudential Indicators included in the Treasury Management Strategy setting maximum levels of debt to mature within any financial year. This also aims to minimise the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of long term borrowing is as follows:

31-Mar-20 £000		31-Mar-21 £000
	Source of Loan:	
(348,461)	Public Works Loan Board	**(348,461)**
(73,800)	Market Loans	**(73,800)**
(142)	Other financial institutions	**(97)**
(422,403)	**Total**	**(422,358)**
	Analysis of loans by maturity:	
(46)	1-2 years (1.4.2022 - 31.3.2023)	**(5,033)**
(5,070)	3-5 years (1.4.2023 - 31.3.2026)	**(54)**
(20,027)	6-10 years (1.4.2026 - 31.3.2031)	**(20,010)**
(397,260)	More than 10 years (1.4.2031 onwards)	**(397,261)**
(422,403)	**Total**	**(422,358)**

The more than ten years category in the above analysis includes a £20.8m LOBO – Lender Option Borrower Option loan where the lender may ask for the rate payable to be changed. The Council has the option to either accept this increase or repay the loan in full, without penalty. In the current economic climate it is not anticipated that any of these will be called and require repayment. However, if the lender does exercise its rights, this loan can be repaid from prudential borrowing.

Market risk

Interest rate risk

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

- borrowings at variable rates – the interest expense charged to the (Surplus) or Deficit on the Provision of Services will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Council seeks to minimise this risk through expert advice on forecasts of interest rates received from our treasury management consultants. This is used to formulate a strategy for the year for both investments and borrowing. The Treasury Team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. Also, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The long term borrowing of the Council is held at a fixed rate and thus there would be no effect on the Comprehensive Income and Expenditure Statement, if interest rates were different from those that prevailed on the Balance Sheet date.

The average balance of investments was £95m (£90m in 2019-20). With the base rate currently fixed at 0.10%, the risk of exposure from a downwards move is low. A positive movement of 1% in rates received on average investment balances would generate additional investment income of £0.95m.

5.41 Trust funds

Trust funds do not represent assets of the Council and are therefore not included in the Balance Sheet.

The Council acts as a custodian for various trust funds. The balance of these trust funds at 31 March 2021 was £214k (£216k at 31 March 2020).

In addition the Council acts as administrator for the Edward Harvist Charity. Charity funds are held in a permanent endowment fund. Income from the investment is distributed to 5 Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of their residents. The value of Charity funds at 31 March 2021 was £10.8m (£9.6m at 31 March 2020).

5.42 Interests in subsidiary companies

The Council controls the following subsidiary companies:

Concilium Group Ltd is 100% owned by the Council and acts as a holding company.

Concilium Assets LLP is owned 95% by Harrow and 5% by Concilium Group Ltd. The LLP paid £451k to the Council in 2020-21 mostly for the lease of residential properties.

Sancroft Community Care Ltd and Concilium Business Services Ltd are 100% owned by Concilium Group Ltd. The Council paid £1,906k to Sancroft Community Care Ltd in 2020-21 for provision of residential care services.

5.43 Events after the reporting period

The Statement of Accounts was authorized for issue by the Director of Finance on XX November 2021. Events taking place after this date are not reflected in the financial statements or notes.

6 Housing Revenue Account

6.1 Housing Revenue Account (HRA)

The account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all the transactions relating to the provision, maintenance and management of the Council's housing stock.

2019-20 £000		Note	2020-21 £000	2020-21 £000
	Expenditure			
8,428	Repairs and maintenance		**8,025**	
9,289	Supervision and management		**9,500**	
108	Rents, rates, taxes and other charges		**156**	
7,647	Depreciation of non current assets	6.2.3	**7,664**	
0	Impairment of non-current assets		**79**	
37	Debt management costs		**37**	
25,509	**Total Expenditure**			**25,461**
	Income			
(28,002)	Dwelling rents (gross)	6.2.1	**(28,310)**	
(549)	Non-dwelling rents (gross)	6.2.2	**(513)**	
(2,060)	Charges for services and facilities		**(1,868)**	
(1,218)	Contributions towards expenditure		**(1,398)**	
(111)	Reversal of impairment of non-current asets		**0**	
(31,940)	**Total Income**			**(32,089)**
(6,431)	**Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**			**(6,628)**
440	HRA's share of Corporate and Democratic Core			**448**
(5,991)	**Net cost of HRA Services**			**(6,180)**
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
(3,143)	Loss (Gain) on sale of HRA Fixed Assets			**(2,729)**
3,882	Pooling payments in respect of Right to Buy disposals			**5,179**
6,380	Interest payable and similar charges			**6,422**
(51)	Interest & investment income			**(19)**
(7,507)	Capital grants & contributions receivable			**(3,717)**
(6,430)	**(Surplus) Deficit for the year on HRA services**			**(1,044)**

Statement of Movement on the HRA Balance

2019-20 £000		Note	2020-21 £000
(7,474)	**Balance on HRA at end of the previous year**		**(7,526)**
(6,430)	(Surplus)/deficit for the year on the HRA Income & Expenditure Statement		**(1,044)**
3,188	Adjustment between accounting basis and funding basis under regulations	6.2.9	**2,774**
(3,242)	Net increase or decrease before transfers from reserves		**1,730**
3,190	Transfer to reserves	6.2.9	**(478)**
(52)	**(Increase)/decrease in year on the HRA**		**1,252**
(7,526)	**Balance on HRA at end of the current year**		**(6,274)**

6.2 Notes to the Housing Revenue Account

6.2.1 Dwelling Rents Income

This is the total income due for the year after allowance is made for voids etc. At year end 0.77% of lettable properties were vacant (0.88% in 2019-20). The average de-pooled rents were £113.56 per week (£110.46 in 2019-20). There was an average rent increase of 2.7% over the previous year. The average increase, after taking into account service charges, was 2.96%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 61.5% of garages were vacant (51.5% in 2019-20).

6.2.3 HRA Fixed Assets

	Land £000	Dwellings £000	Assets under construction £000	Shops £000	Garages £000	Community Halls £000	**Total £000**
Net book value as at 1 April 2020	213,033	229,866	7,717	5,067	5,144	7,813	**468,640**
Revaluations and additions	2,907	29,221	12,583	(147)	(302)	265	**44,527**
Disposals	(899)	(969)	0	0		0	**(1,868)**
Gross book value as at 31 March 2021	**215,041**	**258,118**	**20,300**	**4,920**	**4,842**	**8,078**	**511,299**
Depreciation for year	0	(7,349)	0	(40)	(171)	(104)	**(7,664)**
Net book value as at 31 March 2021	**215,041**	**250,769**	**20,300**	**4,880**	**4,671**	**7,974**	**503,635**

The HRA portfolio has been revalued in line with the 5 year rolling programme of valuations as set out in the Accounting Policies and Revaluations note 5.11.3.

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the RICS Valuation – Professional Standards dated January 2014 but subject to amendment in accordance with the Department of Communities and Local Government (DCLG) Guidance for Stock Valuation for Resource Accounting 2016 (published November 2016).

A vacant possession valuation for dwellings at 1st April 2020 would have been £1,530m (£1,497m at 1st April 2019), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,087m (2019-20 £1,092m).

Depreciation has been charged on a straight line basis over the useful life of the property. Material components are depreciated separately. Please refer to the Accounting Policies for details.

6.2.4 Major Repairs Reserve

Councils are required to maintain a Major Repairs Reserve to fund capital expenditure. The main credit to the reserve is an amount equal to the total depreciation charge for HRA Assets.

	Balance 31-Mar-20 £000	Transfer to Reserve £000	Capital Expenditure £000	Debt Repayment £000	**Balance 31-Mar-21 £000**
Analysis of the Movement	(7,741)	(7,664)	8,342	651	(6,412)

6.2.5 Capital Expenditure and Funding Statement

2019-20 £000		**2020-21 £000**
	HRA Capital Expenditure	
5,151	Dwellings & garages	3,793
4,333	New build	8,744
9,484	**Total**	**12,537**
	Financed by:	
4,860	Major Repairs Reserve	8,342
187	Capital receipts - Right to Buy, Affordable Housing & other	0
4,437	Contributions & Grants	3,695
0	Revenue Funding	500
9,484	**Total**	**12,537**

6.2.6 Capital Receipts

Under the Local Government and Housing Act 1989 a proportion of receipts relating to housing disposals is payable to the Government. The balance can be used for new capital investment, construction of replacement housing or set aside to reduce the Council's underlying need to borrow.

Further details are provided in note 5.22.1.

6.2.7 Pensions (IAS 19)

The HRA is charged with its share of current and past service pension costs. To ensure there is no net effect on the HRA both entries are reversed out and replaced by employers' contributions payable via an appropriation to the Pension Reserve after net operating expenditure.

Further details are provided in note 5.38.

6.2.8 Housing Revenue Account Statistics

2019-20 Total	Housing Stock	Houses	Flats	Bungalows	2020-21 Total
105	4 or more bedrooms	101	2	2	**105**
1,349	3 bedrooms	1,239	103	1	**1,343**
1,444	2 bedrooms	537	836	26	**1,399**
1,925	1 bedroom	3	1,760	134	**1,897**
4,823	LBH managed stock as at 31 March	1,880	2,701	163	**4,744**
743	Garages				**743**
1,201	Leaseholders				**1,156**
	Summary of change in stock				
4,762	Stock as at 1 April				**4,823**
	Add/ (Less)				
(25)	Sales				**(21)**
0	Demolitions				**(62)**
15	New builds & Acquisitions				**3**
71	Transfer from General Fund				**1**
4,823	**Total HRA stock at 31 March**				**4,744**
	Measures of performance & information for disclosure notes to HRA				
£56.83	Average weekly costs per dwelling of management and maintenance				£57.03
£1.830m	Rent arrears (current and former tenants)				£1.569m
97.41%	Rent collection rate (BVPI 66a)				96.43%
2.04%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				2.58%
0.70%	Rent loss through voids				0.77%
£96k	Write offs in year				£151k
£747k	Provision for bad debts				£684k

6.2.9 Statement of Movement on the HRA Balance

2019-20 £000		2020-21 £000
	Adjustment between accounting basis and funding basis under regulations	
45	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	**45**
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
3,143	Gain (Loss) on sale of HRA fixed assets	**2,729**
3,188		**2,774**
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
(646)	Net charges made for retirement benefits in accordance with IAS19	**(348)**
	Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code	
	Transfer to / (from) the Capital Adjustment Account	
111	Impairment	**(79)**
0	Capital expenditure funded from revenue balances	**500**
8	Minimum revenue provision	**9**
7,523	Capital grants and contributions	**3,718**
(7,659)	Depreciation transfer	**(7,677)**
7,647	Transfer to the Major Repairs Reserve	**7,664**
	Transfers to/from Capital Reserves	
(3,882)	Pooling payments to MHCLG financed through capital reserves	**(5,178)**
88	Other	**913**
3,190		**(478)**
6,378		**2,296**

7 Collection Fund

This Collection Fund is an agent's statement that reflects the statutory obligations for the London Borough of Harrow, as billing authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from tax payers and distribution to Local Authorities (London Borough of Harrow and the GLA).

7.1 Statement of Income and Expenditure

2019-20		2020-21		
		Business Rates & Crossrail	Council Tax	Total
£000		£000	£000	£000
	Income			
(158,621)	Income from Council Tax	0	(165,216)	(165,216)
(55,839)	Income Collectable from Business Ratepayers	(25,063)	0	(25,063)
(1,083)	Income Collectable from Business Ratepayers - BRS	(1,071)	0	(1,071)
(215,543)	**Total Income**	(26,134)	(165,216)	(191,350)
	Expenditure			
	Apportionment of Previous year surplus / deficit			
29	Central Government	45	0	45
2,224	Harrow Council	53	2,059	2,112
212	Greater London Authority	30	451	481
	Precepts, demands and shares			
12,935	Central Government	16,437	0	16,437
151,131	Local Demand (Harrow)	14,942	133,492	148,434
42,691	Greater London Authority	19,499	29,112	48,611
0	**Impairment of debts / appeals**			
7,664	Write offs of uncollectable amounts	3,280	504	3,784
1,213	Increase in bad debt provisions	3,845	5,344	9,189
(2,600)	Increase / (decrease) in provision for appeals	1,000	0	1,000
250	Costs of Collection	244	0	244
215,749	**Total Expenditure**	59,375	170,962	230,337
206	Movement on Fund balance: (Surplus) / Deficit for the year	33,241	5,746	38,987
(3,232)	(Surplus) / Deficit brought forward	(180)	(2,846)	(3,026)
(3,026)	**(Surplus) / Deficit carried forward**	33,061	2,900	35,961

Notes to the Collection Fund

7.1.1 Income from Council Tax

The Council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The council tax base, which is used in the tax calculations, is based on the number of dwellings in each band. This is adjusted for exemptions, discounts, disabled banding changes and council tax support. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2019-20 Band D Ratio	2019-20 Property Numbers	2019-20 Council Tax £		Valuation Bands	2020-21 Band D Ratio	2020-21 Property Numbers	2020-21 Council Tax £
6/9	358	1,189.86	A =	Not exceeding £40,000	6/9	**371**	**1,237.45**
7/9	1,901	1,388.18	B =	£40,001 - £52,000	7/9	**1,885**	**1,443.71**
8/9	14,448	1,586.49	C =	£52,001 - £68,000	8/9	**14,977**	**1,649.95**
1	24,872	1,784.80	D =	£68,001 - £88,000	1	**25,386**	**1,856.19**
11/9	23,931	2,181.42	E =	£88,001 - £120,000	11/9	**24,137**	**2,268.68**
13/9	10,619	2,578.05	F =	£120,001 - £160,000	13/9	**10,789**	**2,681.17**
15/9	9,559	2,974.66	G =	£160,001 - £320,000	15/9	**9,577**	**3,093.65**
2	2,324	3,569.60	H =	£320,001 +	2	**2,334**	**3,712.38**
	88,012			**Total**		**89,456**	
	(1,760)			Adjustment for non-collection		**(1,789)**	
	86,252			**Council tax base**		**87,667**	

7.1.2 Business Rates

Business Rates are levied on non-domestic properties with the charge based on the rateable value assessed for each property. The Council acts both as an agent, collecting business rates on behalf of the GLA, and also collecting business rates for itself. From 2018-19 the Council became part of the London Business Rates Pool. Business rates collected in the Borough are, for the year 2020-21, split between relevant preceptors at the following percentages: the Council (30%), the GLA (37%) and MHCLG (33%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £138.8m (£138.6m in 2019-20).The national non-domestic rate multiplier for 2020-21 was 51.2p (50.4p in 2019-20) with a lower multiplier for small businesses at 49.9p (49.1p in 2019-20).

7.1.3 Business Rate Supplement - Crossrail

The Business Rate Supplement (BRS) is levied by the Greater London Authority to help fund Crossrail. The levy has remained at 2p on non domestic properties since its introduction in April 2010. The rateable value of properties to which it applies is £70,000 or above.

8 Annual Governance Statement

8.1 Introduction

Members and staff working for Harrow Council strive to achieve the Council's vision, priorities and outcomes as outlined in the Harrow Borough Plan 2030. Arrangements are in place to ensure that the intended positive outcomes for residents are achieved. To ensure good governance these arrangements are agreed and documented and together form the authority's governance structure.

8.2 Responsibility

Elected Members are collectively responsible for the governance of the council. The full council's responsibilities include:

- agreeing the council's constitution, comprising the key governance documents including the executive arrangements and making major changes to reflect best practice
- agreeing the policy framework including key strategies and agreeing the budget
- appointing the chief officers
- appointing committees responsible for overview and scrutiny functions, audit and regulatory matters and also for appointing Members to them.

Under the *Local Government Act 2000* Harrow Council has adopted a leader and cabinet model and has established an overview and scrutiny function for Members outside the cabinet through which they can question and challenge policy and the performance of the executive and promote public debate.

The authority's governance structure is comprised of a number of key documents that aim to ensure that resources are directed in accordance with agreed policy and according to priorities as set out in the Harrow Borough Plan 2030, that there is sound and inclusive decision making and that there is clear accountability for the use of resources in order to achieve the desired outcomes for Harrow service users and local communities.

Covid-19 Impact on Governance

As a result of the COVID 19 (Coronavirus) crisis, the Government instituted 'lockdown' on Monday 23 March 2020. All Member level meetings including Cabinet were either postponed or cancelled and the Civic Centre was closed to all staff, with the exception of those delivering priority services. The Council implemented its emergency planning arrangements which included daily key Member briefings, a gold, silver and bronze command structure, and telephone briefings to staff.

Decision Making

Due to the COVID 19 crisis and the instructions and directions of the Government, the Council's usual governance arrangements were suspended and no Member meetings took place between 23 March 2020 and 21 May 2020 due to the 'lockdown' and the requirement to maintain social distancing. One Cabinet meeting was cancelled during this time and officers therefore took a number of operational decisions to deal with the local consequences of the crisis and Members were asked to ratify these at the first Cabinet meeting since the lockdown on 21 May 2020.

Whilst it was not possible to follow the Council's agreed decision making process the risk that decisions made by Chief Offices during this time would not be supported has been mitigated by these briefings to Members and by the Cabinet report to ratify these decisions.

Normal decision-making arrangements were back in place from 21 May 2020 and throughout the rest of 2020/21 via virtual (computer generated) meetings of the Cabinet and other committees. This was allowed under the *Coronavirus Act 2020* regulations and *The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020* that came into force in April 2020.

Risk Management
Risks relating to COVID 19 were included in the Corporate Risk Register since Quarter 4 2019/20 and throughout 2020/21. These risks changed throughout the year in response to the progress of the pandemic and covered the impact on the provision of services, the impact on the recovery of the Council's operations post pandemic, the impact on the Harrow Community and the financial impact on the Council.

Given the nature of the crisis, decisions needed to be made as a matter of urgency with risks being assessed on a daily basis by Chief Officers meeting via a gold, silver and bronze command structure with daily key Member briefings, weekly Cabinet briefings and a range of additional briefings with other Members.

Capacity & Capability
As the crisis developed, Harrow moved to ensure the resilience of its priority services to support vulnerable residents and to look after its staff. This response was influenced by concern about the impact of staff absences, the limitations of Harrow's IT system to allow staff to work remotely and its lean organisational capacity.

Managing the crisis, establishing the new services required by Government and ensuring priority service resilience absorbed considerable organisational capacity. Accordingly, non-priority activities or projects were halted or postponed and a 'Talent Hub' established to facilitate the voluntary redeployment of staff into priority areas. This strategy was successful and priority services were maintained throughout the pandemic to date.

Residents and Members were advised that responses to service queries and complaints might be delayed. On average 771 complaints per month were received throughout 2020/21 made online or through the Contact Centre with over 50% of these relating to Council Tax and missed bins due to telephone lines relating to these services being closed as staff were diverted to support critical services.

Financial Impact
The Covid-19 emergency had a significant financial impact on the Council's financial position both for 2020/21. Given the size and scale of the potential impact on the Council's finances this will remain a key focus for the organisation going forward as without adequate short and medium term financial support from the Government the impact on the Council's ability to deliver services in an ongoing way will be severely compromised. Prior to the Covid-19 crisis the Council was already facing substantial financial challenges as a result of ongoing annual reductions in funding received from Central Government as well as additional spending pressures caused by the increase in the cost of living and an increased demand for services in Adult Social Care as a result of having an ageing population. The Council responded to these pre-Covid-19 challenges by identifying efficiencies and looking at ways to innovate service delivery in accordance with a savings programme agreed by Full Council in February 2020 for the Financial Years 2020-21 to 2022-23. Over this period, further savings of £12.2m have been included in the Medium-Term Financial Strategy (MTFS).

Covid-19 has been shown to disproportionately affect older people and people from BME communities. Both these groups are more likely to become ill from Covid-19, require admission to hospital and subsequent support, and both these groups are more highly represented in Harrow than many other London Boroughs. The high number of 57 residential and care homes in Harrow, and outbreaks within them have certainly contributed to the high number of cases of Covid-19 in Harrow.

The disproportionate impact felt by Harrow has not been matched by a proportionate share of funding. Analysis shows that, over the four tranches of Emergency Funding received, Harrow ranked in 108th position nationally (out of 339) and across London in 26th position (out of 33, which is 8th lowest).

Full Council approved the Medium Term Financial Strategy (2021/22 to 2023/24) in February 2021 which achieved a balanced budget position for 2021/22 and budget gaps of £24.651m and £5.098m for 2022/23 and 2023/24 respectively.

The monitoring of financial performance during 2020/21 was separated between business as usual and Covid-19. This was to ensure the impact of the pandemic is fully understood on the current and future years and business as usual budget is robustly managed to ensure no unfunded pressures.

8.3 Effectiveness of Key Elements of the Governance Framework

Since 2005/06 the Council has undertaken an annual review of its governance arrangements to ensure the delivery of good governance in accordance with the requirements of the Accounts and Audit Regulations 2015 and in accordance with Delivering Good Governance in Local Government: Framework 2016 published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (Solace). In the early years this approach helped us to identify a number of significant governance gaps, however in more recent years the majority of significant gaps have been identified by Internal Audit work and/or senior management input, with the framework only helping to identify minor governance gaps, many of which are ongoing. Essentially the framework provides a very granular approach to the review of governance and is useful in confirming that the basic building blocks of governance are in place.

Bearing this in mind and taking into account the ongoing impact of the pandemic on resources the approach to the annual review process for 2020/21 was revised with a higher-level approach being taken generally with some deep dives into a few specific known risk areas, utilising work already undertaken or planned wherever possible.

The effectiveness of key elements during 2020/21 is covered below:

8.3.1 Behaviour of Members and Staff

Codes of Conduct that define standards of behaviour for Members and staff have been developed and are included in the Council's Constitution. Mechanisms are in place to deal with Member and staff transgressions from these codes and policies are also in place for dealing with whistleblowing and conflicts of interest.

The Council values are incorporated into the staff induction programme as well as the performance appraisal process.

During the year there were 19 formal staff disciplinary cases undertaken, 8 of which were within schools. There were 6 cases looking into Member conduct however no breaches of the Member Code of Conduct were upheld.

There were 5 induction sessions run during 2020/21, 2 of which were in person and 3 were remote. In total 77 new staff were inducted, 40 in person and 37 remotely via Microsoft Teams.

During 2020/21, in light of the impact of the covid-19 pandemic on the council, a simplified appraisal form was introduced (to review and plan staff performance and development objectives) and pending review of the staff appraisal and development system as part of the people strategy. Appraisals were however unable to be recorded corporately due to the implementation phase of the new accounting, procurement and HR system (Dynamics 365).

2020/21 was the first year of the newly in-housed Human Resource and Organisational Development (HROD) service and KPIs were still in development during the establishment of the service in this year with the focus being the COVID 19 response. HR KPIs and a service plan have now been introduced with monthly and quarterly performance reporting to the Corporate Strategic Board.

8.3.2 Compliance with Laws and Regulations

Responsibility to comply with relevant laws and regulations and internal policies and procedures rests with the Council's managers some of whom have specific statutory obligations e.g. the Head of Paid Service, Director of Children's Services, Director of Adult Social Services, the Chief Finance Officer (Section 151 Officer), the Monitoring Officer and the Director of Public Health which are outlined in Article 12 of the Council's constitution. The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law and the Chief Finance Officer is responsible for identifying any proposal, decision or course of action that will involve incurring unlawful expenditure.

A major new piece of legislation, the Coronavirus Act 2020, came into force on 25 March 2020.

Amongst other things the Act:

- allowed council meetings and court hearings to be held virtually;
- removed the requirement to hold an Annual Council meeting – where one is not held all appointments made in May 2019 'roll over' until an annual meeting is held;
- provides that in the event that a councillor vacancy arises, no by election can be held until 6th May 2021 (to coincide with the postponed Greater London Authority (GLA elections);
- made provision to speed up hospital discharges into care;
- allowed registration of deaths by telephone; and
- allowed ministers to close schools and other premises.

In response to this the Council has:

- held all council meetings virtually from 21 May 2020 to date;
- postponed its Annual Council Meeting due on 14 May 2020 and subsequently did not hold an Annual Council Meeting for 2020/21;
- held the 2021/22 Annual Council Meeting virtually on 05 May 2021;
- not had any councillor vacancies arise during 2020/21;
- successfully dealt with hospital discharges into care;
- successfully introduced a system to deal with the registration of deaths by telephone;
- complied with the requirement to close schools in accordance with government instructions.

8.3.3 Acting in the Public Interest

During 2020/21 the Council can demonstrate a commitment to openness and acting in the public interest. This has been achieved via the implementation of a governance structure which includes codes of conduct, a Standards Committee (GARMS), registers of interests, gifts and hospitality, a whistleblowing policy, a corporate complaints process, a Corporate Anti-fraud & Corruption Strategy, Financial Regulations and Contract Procedure Rules and a Scrutiny Function.

The Constitution was updated during 2020/21 in respect of the following:

- May 2020 – members allowance scheme;
- Nov 2020 – Amendment to remit of Portfolio Holders for Regeneration, Planning and Employment to Business and for Property and Leisure.

8.3.4 Communication and Consultation

During 2020/21 as Covid-19 became the primary focus for the Council's Communications Team much of the communications and engagement was more reactive based around monthly plans and more specific communications required (rather than the more strategic campaigns of the past). The Communications Team worked with key officers (including the Gold and Silver groups) and Members, on a weekly or monthly basis, as well as all parts of the Council and a range of partner organisations to communicate and engage on some of the more immediate issues around the public health messages, the Council being open for business as usual, support for businesses etc to keep residents and businesses informed and engaged.

Thus, a Communications Strategy or Plan was not in place for 2020/21 although the intention for the future is to develop a more strategic approach (e.g. plans for the modernisation programme, Build a Better Harrow etc).

8.3.5 The Harrow Borough Plan 2020-2030

The Borough Plan 2020-2030 was developed during 2019/20 using feedback from the 2019 resident's survey and consultation with Cabinet Members (individually and collectively) and key partners. It replaced the Harrow Ambition Plan. The Borough Plan provides a longer-term vision and clarity around the top priorities or actions to be undertaken over this longer term. The intention was that the Borough Plan would be supported by a Corporate Plan Delivery Plan setting out the Council's shorter-term contribution to the delivery of the Borough Plan and the initial performance measures against which progress would be measured. The Borough Plan 2020-2030 was approved by Cabinet in February 2020 for consultation with the Council with the intention of Cabinet approving the Corporate Plan Delivery Plan by June 2020.

Along with an overarching priority to address socio-economic inequality and disadvantage in order to continue to make Harrow a better place for all residents and businesses, 8 key priorities have been identified. These have been structured as 3 foundation areas where we wish to continue with current good performance whilst making incremental improvements and 5 areas where there are significant challenges and we are seeking, with partners, to make a step change improvement over the decade. This is illustrated below: -

Following the death of George Floyd and the inequalities that it highlighted and the reports that people from Black, Asian and Multi Ethnic groups have been disproportionately impacted by Covid-19 it was felt appropriate for the Borough Plan, our blueprint for how we want Harrow to move forwards over the next 10 years, to be amended to explicitly take account of both these issues. Accordingly, an additional new overarching priority on tackling racial disproportionality was added to the Plan in November 2020.

8.3.6 Putting the Vision into Practice

It had originally been planned to use 2020 as the year of engagement however this was not possible due to the pandemic, the lockdown and the practical implications of social distancing rules. The development of a Corporate Plan Delivery Plan (as mentioned above) was also delayed as organisational capacity was re-prioritised and re-directed towards dealing with the emergency, setting up new services and restarting services that had been stopped. Despite this, work on actually delivering against the Borough Plan priorities continued throughout 2020/21 and progress was made in all areas. A report detailing the progress was presented to Cabinet in November 2020.

8.3.7 Decision-making

The Council's decision-making framework, including delegation arrangements, is outlined in the Constitution. Report templates are in use to ensure appropriate information is provided to decision makers including options considered, why a change is needed, implications of recommendations as well as risk management, legal, finance, and equalities implications. Decision reports are cleared by, or on behalf of, the Council's Monitoring Officer (legal) and the Chief Financial Officer and also by the relevant Corporate Director before they are presented to the decision makers (Council, Cabinet, Committees). From December 2020 a sign-off of the Risk Management Implications section of Cabinet reports by the Head of Internal Audit was introduced to strengthen the risk management element of the decision-making process (see section 8.3.15).

8.3.8 Measuring Performance and External Assurance

Corporate performance reporting was put on hold during the pandemic and remains so. Performance monitoring has continued at service level e.g. social care, education, housing, environment to ensure that service standards and quality were maintained. All services were affected by Covid so part of this monitoring was to understand changes in demand, pressures, areas of capacity that could be redeployed. Additional Covid related monitoring was put in place e.g. Gold reporting, a wide range of Public Health data - testing, vaccination, building occupancy, school attendance for children in need and key workers and much more.

Capital and revenue financial performance was however reported quarterly to the Corporate Strategic Board, Cabinet and all Members with the Treasury Management outturn 2019/20 and the mid-year Review 2020/21 being reported to Cabinet together in January 2021 and annual Treasury Management report being reported in February 2021.

Additionally the Management Assurance exercise confirmed that performance was monitored locally across the Council although in some services whilst National Indicators were monitored and reported on in accordance with government requirements some non-statutory indicators were relaxed due to the pandemic.

No statutory external assurance reviews of the Council were undertaken during 2020/21 however Ofsted undertook an interim visit of the Learn Harrow service in September 2020 looking at how the needs of students and apprentices' needs were being met, a descriptive rather than assurance report was issued. Also within the IT service a number of self-assessments were submitted to demonstrate compliance with key requirements to enable the Council to connect with a number of key services e.g. the DWP, the NHS and to continue to process credit card payments.

The Council has taken on board the implications and the significance of the murder of George Floyd and resurgence of Black Lives Matter in the UK in the context of its workforce and as a service provider and commissioned an independent review to explore the issue of structural racism. The review took place between September 2020 and March 2021 and consisted of face-to-face structured interview and focus group sessions along with a staff survey to which 573 staff responded. Key findings included that the majority of staff surveyed do not believe that the Council is institutionally or structurally racist; whilst the majority reported that they had not experienced racism nearly half reported witnessing racial discrimination against colleagues; the majority of staff believe that there are inconsistencies in practice in relation to racial discrimination, bullying and harassment and believe that the Council should have a specific policy on this; and nearly half of staff surveyed felt there should be a specific network for protected equalities groups.

Thirty one recommendations were made in the review's report covering: acknowledging and recognising the journey of 'righting the wrongs'; recruitment and retention of staff; changing the organisation's culture and behaviour through leadership, training and development; creation of safe spaces for dialogues and understanding and governance and accountability.

The Council has welcomed the findings of the report and is developing an action plan for the implementation of the recommendations which will be taken to Cabinet in due course putting the organisation on a journey towards becoming an anti-racist council.

8.3.9 External Audit

During 2020/21 the authority provided timely support, information and responses to the Council's external auditors, Mazars. The deadline for the publication of the final 2019/20 accounts was 30 November 2020. This deadline was not met as the external auditors did not complete their audit and signed-off the accounts until 15 October 2021 providing an unqualified opinion on both the financial statements and value for money conclusion. The final accounts have now been published.

Whilst such delays were an issue during 2020/21 across many local authorities and was not unique to Harrow Council the Director of Finance & Assurance and the Governance, Audit, Risk Management & Standards Committee of the Council challenged the external auditors on the delay.

The audit of the 2020/21 accounts is progressing in a timelier fashion and the external auditors are expecting to sign off the accounts at the beginning of December 2021 just missing this year's deadline of 30 November.

8.3.10 Roles and Responsibilities

The roles and responsibilities of Members, the most senior managers and statutory officers have been defined and documented in the constitution. After the local elections in May 2018 the new Leader of the Council made a number of changes to the roles and responsibilities of the Portfolio Holders and these were updated and included in the Constitution in May 2018. The roles and responsibilities of other managers and staff are defined and documented in Role Profiles attached to each post.

8.3.11 Financial Management

The Council's financial management arrangements during 2020/21 conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). During 2020/21 the Council delivered its services within the approved budget of £175m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in a balanced outturn position after contributing just under £15.3m into corporate reserves, £2m of which has been carried forward to support the 2021/22 budget and £8.9m which relates to funding to cover the Collection Fund deficit for 2021/22.

The Council has maintained its General Fund Balances at just over £10m in 2020-21. This maintains the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further changes to Central Government funding. Earmarked Reserves have increased from £46.5m to £66.9m in 2020-21.

An assessment of the organisation's compliance with the principles of the CIPFA Financial Management Code is in progress and an action plan will be developed to deal with any gaps identified.

8.3.12 Monitoring Officer Function

The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law. The duties of the Monitoring Officer are outlined in Article 12 of the Council's constitution and are undertaken by the Council's Director of Legal and Governance Services. Effective arrangements were in place during 2020/21 to discharge these duties and the Monitoring Officer has confirmed that there were no reports made on any contraventions of law during 2020/21.

8.3.13 Head of Paid Service Function

The requirements of the Head of Paid Service function are also outlined in Article 12 of the Council's constitution and effective arrangements were in place for the discharge of these duties by the Chief Executive throughout 2020/21.

8.3.14 Development Needs

Following the local government elections in May 2018, new Members received a Members Induction pack and a welcome evening was arranged for all elected Members on 8 May, to cover Council values, conduct and Member interests plus a Members Marketplace was held on the 15 May to explain key Council services together with a programme of Member training in May/June 2018. During 2019/20 member training was conducted on how to use social media, homelessness and rough sleeping and EU settled status and in 2020/21 two training sessions were offered to Members on the Use of Microsoft Teams to support remote working and enable virtual (computer generated) meetings of the Cabinet and other committees.

The People Strategy for the Council is being developed through the Modernisation programme called Great People Great Culture. This is one of the four pillars of the modernisation agenda. Progress with this during 2020/21 has been slowed by Covid-19.

There are six pillars to this strategy of: -

- Great Leadership
- Great place to learn and grow
- Great employer
- Great engagement
- Great Organisation and ways of working
- Great Equality, Diversity and Inclusion.

The Organisational Development Plan is being built around these pillars and for 2021/22 will reflect CSB identified early priorities. This strategy is currently in the process of being developed and articulated into a 5- year vision and plan.

8.3.15 Managing Risks

The framework for identifying and managing risks consists of a series of Directorate Risk Registers that feed into an overarching Corporate Register that clearly identifies the owner of each risk. The Corporate Risk Register was reviewed and updated three times during 2020/21 for Q1/Q2 in July/September 2020, for Q3 in November 2020 and for Q4 in February 2021. Each update was presented to the Corporate Strategic Board (CSB) for review and challenge and were presented to the Governance, Audit, Risk Management & Standards (GARMS) Committee to assist the Committee in monitoring progress on risk management in accordance with their Terms of Reference.

As a result of an Internal Audit recommendation in December 2020 the risk management implications section of Cabinet reports was reviewed and made more robust by requiring risks to decisions to be identified along with mitigations and red, amber, green (RAG) assurance ratings to be included in all Cabinet reports from January 2021 onwards. This was further strengthened and supported by updated guidance for report authors and a requirement for this section of the reports to be reviewed and signed-off by the Head of Internal Audit who is operationally responsible for the Corporate Risk Management function. In April 2021 the template of decision reports for all other Committees was changed to the updated risk management implications section to provide consistency of approach to all decisions made by Members.

The Management Assurance exercise has confirmed that Risk Registers were in place for 2020/21 in each of the Council's Directorates (People, Communities and Resources) and that these were reviewed and updated throughout the year.

8.3.16 Counter Fraud and Anti-corruption Arrangements

The Council has a Corporate Anti-Fraud Strategy 2016-19 outlining its approach to tackling fraud that is reviewed annually. The refreshed Local Government Fighting Fraud & Corruption Locally Strategy (FFCL) was published online on 26th March 2020 and during 2020-21 the intention was for the authorities' own strategy to be reviewed and updated to reflect any changes and best practice that the new FFCL Strategy recommended. However this was not achieved and will be rolled forward to 2021/22 along with an assessment against the checklist contained within the strategy outlining best practice for dealing with fraud and corruption in local authorities. An action plan will be developed for any improvements required.

8.3.17 Scrutiny

The scrutiny function comprises an Overview and Scrutiny Committee (O&S), a Performance and Finance Scrutiny Sub-Committee (P&F), a Health and Social Care (H&SC) Scrutiny Sub-Committee and lead scrutiny councillors for:

- Health
- Community
- People
- Resources

The function is driven by the need to hold the Council and our partners to account for their performance and the establishment of the performance and finance sub- committee as the driver of scrutiny is a key component in ensuring that the function is focused on the issues of the greatest importance to the Council. The lead Members ensure that expertise to tackle particular areas of service delivery is maintained.

The structure is subject to regular review and is supported by meetings of the scrutiny leadership group, comprising the leads and the chairs and vice chairs of the committees, which considers agenda and review programmes, provides strategic direction for the function and overall co-ordination between the leads and committees.

During 2020/21 O&S met 6 times, P&F 3 times and H&SC 3 times, overall 3 times less than in 2019/20 owing to the pandemic.

8.3.18 Internal Audit

A new Statement on the Role of the Head of Internal Audit was issued by CIPFA in 2019. It states that '*The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.'* The Statement contains 5 principles with organisational and HIA responsibilities attached to each one. Overall throughout 2020/21 these principles were complied with however the need to clarify and strengthen a small number of the organisational responsibilities identified in 2019/20 have yet to be addressed. The Internal Audit Service is also required to comply with the Public Sector Internal Audit Standards and to be reviewed externally against these standards every five years and internally on a regular basis. An external peer review in June 2017 confirmed that the service 'generally complies' with the Public Sector Internal Audit Standards and the 2019 internal review against these standards confirmed this assessment.

2020/21 has been a year like no other for the Council and Internal Audit with work being disrupted at the beginning of the year due to the requirement for all staff to work from home. New ways of working needed to be developed to enable audit reviews to be undertaken remotely requiring the adaptation of audit programs/approaches and the use of new and unfamiliar IT software. The Governance, Audit, Risk Management & Standards Committee did not meet in April 2020 or July 2020 as a result of the disruption and thus the Internal Audit Plan for 2020/21, which would usually have been presented to the Committee in the April, was not presented until the October meeting. This was a revised plan that took into account the disruption and the change in Internal Audit resources.

The Internal Audit Plan 2020/21 was based on a level of internal audit input of 564 days, of which 603 days were delivered. This reflects additional work undertaken in various areas of the plan including Business Grants and Professional Advice as result of the pandemic.

Internal audit work was performed in conformance with the Public Sector Internal Audit Standards.

8.3.19 Audit Committee

The Governance, Audit, Risk Management and Standards Committee is a key component of Harrow Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the committee is to provide independent assurance to the members of the adequacy of Harrow Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. It also acts as the Standards Committee.

The GARMS Committee's Annual Report 2019/20 was presented to Council in February 2020 confirming that the committee had successfully fulfilled its purpose/role and responsibilities as outlined in its agreed Terms of Reference. The 2020/21 annual report has yet to be drafted.

The Governance, Audit, Risk Management & Standards Committee did not meet in April 2020 or July 2020 as a result of the disruption caused by Covid 19 however remote meetings were instigated from September 2020 and further meetings took place in October and December 2020 and January 2021.

8.3.20 Joint Working/Council Trading Companies

Joint working, working in partnership with other local authorities and other bodies, and the use of alternative delivery vehicles has increased over recent years as local government generally, and Harrow Council specifically, has coped with less resources.

Throughout 2020/21 the Council's trading structure consisted of five separate legal entities as shown in the table below:

Harrow Council Trading Structure		
Name	**Legal Structure**	**Date Started Trading**
Concilium Group Limited (Holding Company)	UK Limited Company	November 2015
Concilium Business Services Limited	UK Limited Company	November 2015
Sancroft Community Care Limited	UK Limited Company	January 2018
Concilium Assets LLP	Limited Liability Partnership	January 2019
HB Public Law Limited	UK Limited Company	April 2015 (dissolved January 21)

These entities have been set up to provide a financial or other benefit to the Council whilst enabling it to undertake specific commercial activities. Harrow Council therefore either directly or indirectly holds a 100% controlling interest in each of the trading entities.

Concilium Group Ltd. Is a wholly owned commercial subsidiary of the Council, set up with the dual purpose of consolidating the financials of its subsidiaries and to act as the minority partner in a Council controlled Limited Liability Partnership (Concilium Assets LLP). In effect, Concilium Group is a Council owned holding vehicle.

Concilium Business Services Ltd (CBS - previously trading as Smart Lettings) is a wholly owned subsidiary of Concilium Group Ltd. with the principal aim of providing private lettings, property management, property administration and a tenant referencing service. Until February 2019 its principal source of revenue came from the property management of 100 homes, managed on behalf of Harrow Council. During 2019/20 CBS Ltd has undergone a strategic change of direction and as a result, CBS Ltd. is now only responsible for the legal ownership of 6 homes. CBS Ltd. shall retain 5% of the income collected from these tenants, distributing the remaining 95% back to the council.

Sancroft Community Care Ltd. Is another wholly owned subsidiary of Concilium Group Ltd. and was set up to take over the operation of the now 62 bed residential care home for the elderly. 45 of these beds are block contracted with the London Borough of Harrow under a five-year contract.

Concilium Assets LLP (The LLP) is a Limited Liability Partnership owned 95% by Harrow and 5% by Concilium Group Ltd. and was set up to enable direct private rental sector (PRS) property investment activities. 53 PRS units on Gayton Road were transferred to the LLP in July 2019 on a 10-year lease for rent to the private market.

The formation of HB Public Law Ltd. was formally approved by Cabinet on 13th November 2014 (began trading in 2015) and is set up as a council owned company which has been granted an Alternative Business Structure (ABS) licence from the Solicitor’s Regulatory Authority. This was in order to be able to carry out legal work which the Legal shared service, as a local authority, is prevented from undertaking by professional conduct rules. There was however minimal work going through the ABS in 2019/20, hence there were no board meetings, policies etc. and therefore the decision was taken to wind it up as the volumes of work did not justify the additional costs that running the ABS entailed. No work was undertaken through the ABS during 2020/21 and it formally ceased to exist on 12th January 2021.

The Council also runs a shared legal services (HBPL) for which it is the lead authority.

The importance of good governance within these arrangements is recognised and as part of the 2019/20 annual review of governance the governance arrangements for the shared legal service (HBPL), Concilium Business Services and Sancroft Community Care Ltd were reviewed and updated and assurance obtained that reasonable governance arrangements are in place. Governance arrangements have not been reviewed for Concilium Group Limited as it is merely a holding company and the governance arrangements for Concilium Assets LLP were reviewed in 2020/21 and again it was confirmed that reasonable governance arrangements are in place.

In January 2019 the Committee on Standards in Public Life published its report on local government ethical standards and made a number of best practice recommendations**. Best practice recommendation 14 states that:** Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place.

The paragraphs above outline the separate bodies set up by the Council and their relationship with the Council however the annual review of governance 2019/20 highlighted that these bodies are not yet publishing their board agenda, minutes and annual reports. The intention was to address this during 2020/21 however this was nor achieved and will be rolled over to 2021/22 to implement.

8.4 Level of Assurance

The analysis of assurances from the annual review of governance 2020/21 indicates that **a reasonable level of governance is in place across the Council** despite the challenges presented by the Covid 19 pandemic. A number of minor governance gaps that should have been closed in 2020/21 were not closed and will be rolled forward to 2021/22. Whilst it could be argued that the lack of corporate performance monitoring and reporting is a significant gap in governance this is compensated for by financial performance monitoring, the monitoring and reporting of progress against the Corporate Plan and performance monitoring in service areas being in place throughout 2020/21. Other areas such as risk management arrangements to support decision making have been strengthened during 2020/21 and financial management remains robust.

The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2020/21 is: **Good with some significant improvements required in a few areas**: The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is generally good with 98% of reports issued being amber, green/amber or green assurance. Improvements have been recommended in areas where weaknesses were identified of which 98% have been agreed by management and 87% of agreed management actions followed-up during 2020/21 were implemented/substantially implemented. One red assurance report has been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in this area at risk (this relates to the significant governance gap identified in the 2019/20 AGS) and one significant governance gap have been identified as part of the 2020/21 annual review of governance process.

8.5 Previous Significant Governance Issues

8.5.1 Depot Redevelopment Project

A significant governance gap was identified during 2019/20 in relation to the Depot Redevelopment Project as a significant overspend has been projected along with the identification of several breaches of the Council's Financial Regulations and Contract Procedure Rules. Poor governance contributed to the overspend and the delay in reporting it corporately. Initial action was taken by management and Finance to identify the extent of the overspend and it was established that it can be contained within the approved Capital Programme funding. An Internal Audit review was undertaken and a red assurance report on the full extent of the governance issues was issued and presented to the GARMS Committee in October 2020. Eight recommendations (5 high risk and 3 medium risk) were made to improve the governance weaknesses and were agreed by management.

A follow-up of the implementation of the recommendations confirmed that 6 (75%) of the report's recommendations have been implemented, 1 has been partially implemented and 1 is planned (as the situation has not yet occurred) and as such this is no longer considered to be a significant governance gap.

8.6 Significant Governance Issue 2020/21

In August 2021 the Council were alerted to a significant governance gap by a third party. This gap involves allegations of fraud and corruption that are currently subject to a Police criminal investigation and as such no detailed information can be provided at this time.

The Chief Executive has commissioned an independently led review, to ensure appropriate challenge and rigour, to establish what happened and what lessons should be learned which is being supported internally by work undertaken by the Internal Audit Service, the Corporate Anti-Fraud Team, Human Resources and the Council's Legal Team.

The output of the independent review and the Internal Audit reviews of the systems along with the resulting action plans will be presented to the GARMS Committee in due course and fed into the 2021/22 annual review of governance.

Any governance gaps/shortcoming identified as the work progresses will be addressed by management.

8.7 Conclusion

The annual review of governance 2020/21 confirmed that overall appropriate governance arrangements were in place in the majority of areas of the Council during this unusually challenging year with only one significant governance gap being identified.

8.8 Declaration

The Leader and the Chief Executive are signing the Annual Governance Statement on behalf of the authority having gained assurance from the annual review of the authority's governance arrangements supported by evidence provided by management including the Chief Finance Officer, the Monitoring Officer, from Corporate Directors and independent assurance provided by the Head of Internal Audit.

……………………………………	…………………………………………..
Graham Henson	Sean Harriss
Leader	Chief Executive
Date:	Date:

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2020-21

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31st March 2021 and its income and expenditure for the year.

D. Calvert

Dawn Calvert CPFA
Director of Finance
30th November 2021

Harrow Pension Fund Account as at 31 March 2021

2019-20 £'000		Notes	2020-21 £'000
	Dealings with members, employers and others directly involved in the fund		
(34,229)	Contributions	7	(34,661)
(1,366)	Transfers in from other pension funds	8	(2,027)
(70)	Other income		(89)
(35,665)			**(36,777)**
35,905	Benefits	9	35,592
2,470	Payments to and on account of leavers	10	3,908
0	Other Expenditure		0
38,375			**39,500**
2,710	**Net (additions)/withdrawals from dealings with members**		**2,723**
5,405	Management expenses	11	5,155
8,115	**Net (additions)/withdrawals including fund management expenses**		**7,878**
	Return on investments		
(9,059)	Investment income	12	(6,745)
74,518	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(191,359)
65,459	**Net return on investments**		**(198,104)**
73,574	**Net (increase)/decrease in the net assets available for benefits during the year**		(190,226)
(851,332)	**Opening net assets of the scheme**		(777,758)
(777,758)	**Closing net assets of the scheme**		**(967,984)**

Net Assets Statement as at 31 March 2021

31 March 2020		Notes	31 March 2021
£'000			£'000
	Investment assets		
749,955	Investments	14	933,374
1,092	Derivative contracts	14	9,083
28,153	Cash with investment managers	14	20,675
779,200			**963,132**
2,641	Cash deposits	14	4,399
781,841			**967,531**
	Investment liabilities		
(5,852)	Derivative contracts	14	(947)
775,989			**966,584**
2,005	Current assets	21	1,662
0	Long Term Debtors	21A	140
777,994			**968,386**
(236)	Current liabilities	22.00	(402)
777,758	**Net assets of fund available to fund benefits at the period end**		**967,984**

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
30th November 2021

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2021

NOTE 1: DESCRIPTION OF FUND

The Harrow Pension Fund ('the Fund') is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme designed to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Membership

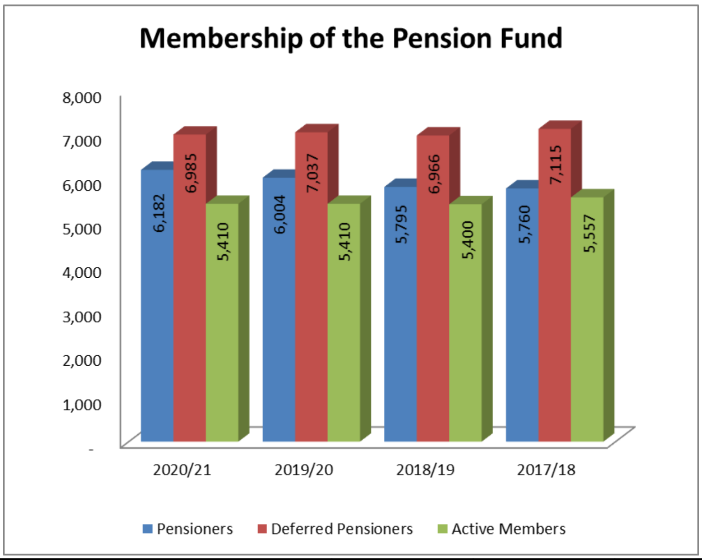
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff, are automatically entitled to be members of the Fund.

- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

There are 43 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5797	5764	3605	15,166	81.63
Stanmore College	Scheduled Body	91	154	78	323	1.74
Nower Hill High School	Scheduled Body	27	149	141	317	1.70
Heathland and Whitefriars	Scheduled Body	11	81	182	274	1.47
Hatch End High School	Scheduled Body	31	134	68	233	1.25
Rooks Heath College	Scheduled Body	22	98	109	229	1.23
Park High School	Scheduled Body	12	84	103	199	1.07
Canons High School	Scheduled Body	16	75	98	189	1.02
Bentley Wood School	Scheduled Body	9	91	59	159	0.86
Harrow High School	Scheduled Body	13	58	64	135	0.73
St Dominics College	Scheduled Body	41	37	55	133	0.72
Aylward Primary School	Scheduled Body	7	33	70	110	0.59
Salvatorian Academy	Scheduled Body	21	52	18	91	0.49
Priestmead School	Scheduled Body	3	5	79	87	0.47
Pinner High Academy	Scheduled Body	0	7	73	80	0.43
St Georges Primary	Scheduled Body	3	6	67	76	0.41
St John Fisher	Scheduled Body	2	4	60	66	0.36
St Josephs Primary	Scheduled Body	2	4	55	61	0.33
Earlsmead Academy	Scheduled Body	6	9	40	55	0.30
Welldon Park School	Scheduled Body	2	4	43	49	0.26
St Bernadettes	Scheduled Body	5	5	31	41	0.22
Alexandra Academy	Scheduled Body	2	16	22	40	0.22
Sacred Heart High School	Scheduled Body	2	6	31	39	0.21
Avanti House Secondary School	Scheduled Body	0	3	35	38	0.20
St Jerome	Scheduled Body	1	1	33	35	0.19
Avanti House Primary School	Scheduled Body	1	12	21	34	0.18
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Moriah Jewish School	Scheduled Body	9	5	7	21	0.11
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	6	6	0.03
NLCS	Community Admission Body	40	46	50	136	0.73
Busy Bee	Admitted Body	0	0	1	1	0.01
Evergreen Aylward	Admitted Body	0	0	3	3	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
PSC Ltd	Admitted Body	0	0	4	4	0.02
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
SOS Ltd	Admitted Body	0	0	7	7	0.04
Sopria Steria	Admitted Body	4	4	4	12	0.06
ISS Catering	Admitted Body	1	1	13	15	0.08
Evergreen	Admitted Body	0	0	20	20	0.11
Total		6,182	6,985	5,410	18,577	100

c) Funding
Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2019 and showed that the Fund was 94% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 18.0% to 26.5% of pensionable pay with the largest employers paying between 19.3% and 20.1%.

d) Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

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

From 1 April 2014, the Scheme became a career average (CARE) scheme, whereby members accrue benefits based on their pensionable pay in each year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the 'Brief Guide to the Local Government Pension Scheme' attached as Appendix 5.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2020-21 financial year and its position as at 31 March 2021. The Accounts have been prepared on a going concern basis in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020-21' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the financial year to which they relate.

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

b) Transfers to and from other schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

Fund account – Expense items

a) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

b) Taxation

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

c) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

Where an investment manager's fee invoice or fee information has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2020-21.

Net Assets Statement

a) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)'*

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

b) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (See note 15)

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

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

d) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

f) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance, Clerical Medical and Equitable Life Assurance Society as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

g) Contingent Liabilities

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

h) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2020-21 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented in 2022-23;
- Definition of a Business: Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7;
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20. These actuarial revaluations are used to set the future employer contributions rates and underpin the Fund’s most significant management policies.

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £124.56m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £8.78m • a 0.5% increase in Pension benefits would increase the liability by approximately £113.41m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £7m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Fair value – basis of valuation (Note 16)	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets, although there was a recovery during the second half of 2020 which has continued in the quarter to 31 March 2021. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. Whilst there is some evidence of economic recovery, at the current time, it is not possible to predict accurately the long term impact of Covid-19, particularly on property investments in some locations and sectors of the economy. Values have been based on the situation prior to Covid-19 on the assumption that values will be restored once global markets recover.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
Pooled Property Fund	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. The outbreak of Covid-19 has impacted global markets and therefore our fund managers have advised that valuations have been reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight can be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – should be attached to valuations of pooled property fund assets than would normally be the case.	The total property pooled investments in the financial accounts are £61.56m. There is a risk that these investments may be understated or overstated in the accounts. A 5% decrease in value would decrease the total valuation by £3.078m.

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2020-21.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2019-20		2020-21
£'000		£'000
(7,162)	**Employees' contributions**	**(7,402)**
	Employers' contributions:	
(18,643)	Normal contributions	(18,995)
(8,211)	Deficit recovery contributions	(8,192)
(213)	Pension strain contributions	(72)
(27,067)	**Total employers' contributions**	**(27,259)**
(34,229)	**Total contributions receivable**	**(34,661)**

By type of employer

2019-20		2020-21
£'000		£'000
(26,159)	Administering Authority	(26,336)
(7,131)	Scheduled bodies	(7,385)
(777)	Community admission body	(796)
(162)	Transferee admission bodies	(144)
(34,229)		**(34,661)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2019-20		2020-21
£'000		£'000
0	Group transfers	0
(1,366)	Individual transfers	(2,027)
(1,366)		**(2,027)**

NOTE 9: BENEFITS PAYABLE

By category

2019-20		2020-21
£'000		£'000
29,973	Pensions	30,791
4,999	Commutation and lump sum retirement benefits	4,097
933	Lump sum death benefits	704
35,905		**35,592**

By type of employer

2019-20 £'000		2020-21 £'000
33,753	Administering Authority	33,505
1,906	Scheduled bodies	1,711
202	Community admission body	313
44	Transferee admission bodies	63
35,905		**35,592**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019-20 £'000		2020-21 £'000
125	Refunds to members leaving service	43
0	Group transfers	228
2,345	Individual transfers	3,637
2,470		**3,908**

NOTE 11: MANAGEMENT EXPENSES

2019-20 £'000		2020-21 £'000
721	Administrative costs	713
4,050	Investment management expenses	3,840
634	Oversight and governance costs	602
5,405		**5,155**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2020-21	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	2,012	1,767	245
Pooled Investments - Alternatives	926	848	78
Pooled Investments - Other	841	771	70
Derivatives	51	51	0
Custodian	10	0	10
	3,840	**3,437**	**403**

2019-20	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	2,059	1,653	406
Pooled Investments - Alternatives	1,025	927	98
Pooled Investments - Other	904	825	79
Derivatives	52	52	0
Custodian	10	0	10
	4,050	**3,457**	**593**

NOTE 12: INVESTMENT INCOME

2019-20 £'000		2020-21 £'000
(3,882)	Pooled Investments - Private equity	(2,899)
(2,026)	Pooled Investments - Property	(859)
(3,151)	Pooled investments - Other	(2,987)
(9,059)		**(6,745)**

NOTE 13: EXTERNAL AUDIT COSTS

2019-20 £'000		2020-21 £'000
(16)	Payable in respect of external audit	(19)
(16)		**(19)**

NOTE 14: INVESTMENTS

Market value 31 March 2020 £'000		Market value 31 March 2021 £'000
	Investment assets	
394,247	Pooled equities investments	525,161
111,463	Pooled bonds investments	122,361
171,230	Pooled alternative investments	201,053
700	Pooled infrastructure	16,099
677,640		**864,674**
64,140	Pooled property investments	61,561
150	Equity in London CIV	150
8,025	Private equity	6,989
1,092	Derivative contracts: forward currency	9,083
28,153	Cash with investment managers	20,675
779,200		**963,132**
2,641	Cash deposits	4,399
781,841	**Total investment assets**	**967,531**
	Investment liabilities	
(5,852)	Derivative contracts: forward currency	(947)
(5,852)	**Total investment liabilities**	**(947)**
775,989	**All investments**	**966,584**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	394,247	68,000	(75,447)	138,361	**525,161**
Pooled bonds investments	111,463	2,937	(70)	8,031	**122,361**
Pooled alternative investments	171,230	0	(4,271)	34,094	**201,053**
Pooled property investments	64,140	0	(258)	(2,321)	**61,561**
Pooled infrastructure	700	16,227		(828)	**16,099**
Equity in London CIV	150	0		0	**150**
Private equity	8,025	0	(303)	(733)	**6,989**
Derivative contracts: forward currency	(4,760)	6,069	(7,928)	14,755	**8,136**
	745,195	**93,233**	**(88,277)**	**191,359**	**941,510**
Cash with investment managers	28,153				**20,675**
Cash deposits	2,641				**4,399**
	30,794				**25,074**
Net investment assets	**775,989**				**966,584**

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	467,263	0	(33,102)	(39,914)	**394,247**
Pooled bonds investments	108,159	3,062	(39)	281	**111,463**
Pooled alternative investments	191,029	95,000	(96,850)	(17,949)	**171,230**
Pooled property investments	68,171		(426)	(3,605)	**64,140**
Pooled infrastructure	0	700			**700**
Equity in London CIV	150				**150**
Private equity	11,522		(249)	(3,248)	**8,025**
Derivative contracts: forward currency	756	7,932	(3,365)	(10,083)	**(4,760)**
	847,050	**106,694**	**(134,031)**	**(74,518)**	**745,195**
Cash with investment managers	45				**28,153**
Cash deposits	3,068				**2,641**
	3,113				**30,794**
Net investment assets	**850,163**				**775,989**

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2020	Percentage of Fund	Manager	Investment assets	Market value 31 March 2021	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
91,705	12	LCIV - Longview	Developed world equities-active	120,618	12
80,816	10	LCIV - CQS	Multi Asset Credit	101,226	10
0	0	LCIV - RBC	Sustainable Equities	67,238	7
700	0	LCIV	Infrastructure	16,099	2
177,589	23	BlackRock	Global equities-passive	247,574	26
350,810	45		Total LCIV	552,755	57
Investments managed outside of the London CIV					
64,140	8	LaSalle	Pooled property	61,561	6
25,128	3	BlackRock	Cash with investment managers	12,726	1
87,635	11	BlackRock	Fixed interest securities	97,538	10
23,828	3	BlackRock	Index-linked securities	24,823	3
2,641	0	Cash Deposits	Cash with Banks	4,399	1
67,577	9	GMO	Emerging markets equities-active	89,731	9
90,414	12	Insight	Diversified growth fund	99,827	10
3,025	0	JP Morgan	Cash with investment managers	7,949	1
150	0	LCIV	UK equities-passive	150	0
57,376	7	Oldfield	Developed world equities-active	0	0
8,025	1	Pantheon	Private equity	6,989	1
(4,760)	(1)	Record	Forward currency contracts	8,136	1
425,179	55		Total - Managers	413,829	43
775,989	**100**		**Total Investments**	**966,584**	**100**

NOTE 14C: INVESTMENTS MORE THAN 5% of the net assets of the Fund:

Market value 31 March 2020	% of total fund	Investment assets	Market value 31 March 2021	% of total fund
£'000			£'000	
90,414	12	Insight Broad Opportunities Fund	99,827	10
91,705	12	LCIV LV Global Equity Fund (Longview)	120,618	12
80,816	10	LCIV Multi Asset Credit (CQS)	101,226	10
87,635	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	97,538	10
67,577	9	GMO Emerging Domestic Opportunities Equity Fund	89,731	9
64,140	8	LaSalle Investors UK Real Estate Fund of Funds	61,561	6
57,376	7	Overstone Global Equity CCF (USD Class A1 Units)	0	0
177,589	23	Blackrock Equity Beta Portfolio	247,574	26
0	0	LCIV Sustainable Equity Fund (RBC)	67,238	7
717,252	**92**	**Total over 5% holdings**	**885,312**	**90**

NOTE 14D: STOCK LENDING

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the Blackrock Portfolio.

The Blackrock lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from Blackrock pursuant to its Securities Lending Authorisation Agreement

Value of Stock on Loan as at 31 March 2021 £24.4m (6.60%) compared to £23.8m (8.24%) as at 31 March 2020.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Analysis of Open forward currency contracts:-

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	HKD	59,575	GBP	(5,546)	9	
Up to one month	NOK	2,176	GBP	(185)	0	
Up to one month	SGD	632	GBP	(341)	0	
One to six months	GBP	4,509	AUD	(8,056)	60	
One to six months	GBP	3,281	CAD	(5,689)	1	
One to six months	GBP	9,718	CHF	(12,174)	330	
One to six months	GBP	1,395	EUR	(1,540)	83	
One to six months	CAD	2,038	GBP	(1,151)	24	
One to six months	GBP	4,564	HKD	(47,982)	90	
One to six months	GBP	743	JPY	(104,200)	59	
One to six months	GBP	187	NOK	(2,176)	2	
One to six months	GBP	189	NZD	(364)	4	
One to six months	GBP	2,094	SEK	(24,146)	84	
One to six months	GBP	369	SGD	(663)	12	
One to six months	GBP	7,769	USD	(10,574)	104	
Over six months	GBP	37,757	EUR	(42,267)	1,686	
Over six months	GBP	20,731	JPY	(2,930,800)	1,489	
Over six months	GBP	190,907	USD	(256,467)	5,046	
Up to one month	NZD	182	GBP	(93)		(0)
Up to one month	CAD	5,689	GBP	(3,282)		(1)
Up to one month	SEK	12,073	GBP	(1,005)		(1)
Up to one month	CHF	5,591	GBP	(4,310)		(3)
Up to one month	AUD	4,028	GBP	(2,234)		(9)
Up to one month	EUR	12,418	GBP	(10,594)		(13)
Up to one month	JPY	790,200	GBP	(5,209)		(24)
Up to one month	USD	96,379	GBP	(70,065)		(200)
One to six months	CAD	192	GBP	(111)		(1)
One to six months	CHF	992	GBP	(830)		(66)
One to six months	EUR	5,684	GBP	(4,917)		(70)
One to six months	GBP	4,567	CAD	(7,919)		(1)
One to six months	GBP	6,602	HKD	(71,168)		(34)
One to six months	GBP	185	NOK	(2,176)		(1)
One to six months	GBP	341	SGD	(632)		(1)
One to six months	GBP	15,609	USD	(22,096)		(406)
One to six months	JPY	664,400	GBP	(4,425)		(64)
One to six months	SGD	31	GBP	(17)		(1)
Over six months	EUR	869	GBP	(792)		(51)
Open forward currency contracts at 31 March 2021					**9,083**	**(947)**
Net forward currency contracts at 31 March 2021						**8,136**
Prior year comparative						
Open forward currency contracts at 31 March 2020					**1,092**	**(5,852)**
Net forward currency contracts at 31 March 2020						**(4,760)**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset it set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investment - Multi asset credit	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Not required
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2021 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	7.47%	6,989	7,511	6,467
Pooled investments - Infrastructure	7.11%	16,099	17,243	14,954
Pooled investments - property funds	2.20%	61,561	62,913	60,209
		84,649	87,667	81,630

	Assessed valuation range (+/-)	Valuation at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	9.10%	8,025	8,755	7,295
Pooled investments - property funds	1.90%	64,140	65,359	62,921
		72,165	74,114	70,216

NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	525,161			525,161
Pooled bonds investments	122,361			122,361
Pooled alternative investments	99,827	101,226		201,053
Pooled property investments			61,561	61,561
Pooled infrastructure			16,099	16,099
Private equity			6,989	6,989
Derivative contracts: forward currency		8,136		8,136
Cash Deposits / Other	25,074	150		25,224
Total	**772,423**	**109,512**	**84,649**	**966,584**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	394,247			394,247
Pooled bonds investments	111,463			111,463
Pooled alternative investments	90,414	80,816		171,230
Pooled property investments			64,140	64,140
Pooled infrastructure			700	700
Private equity			8,025	8,025
Derivative contracts: forward currency		(4,760)		(4,760)
Cash Deposits / Other	30,794	150		30,944
Total	**626,918**	**76,206**	**72,865**	**775,989**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2020/21	**Market Value 31 March 2020**	**Transfers into level 3**	**Transfers out of level 3**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Gains/ (losses)**	**Market Value 31 March 2021**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Private Equity	8,025	0	0	0	(303)	(733)	**6,989**
Pooled - Infrastructure	700	0	0	16,227	0	(828)	**16,099**
Pooled - property	64,140	0	0	0	(258)	(2,321)	**61,561**
	72,865	0	0	16,227	(561)	(3,882)	**84,649**

Period 2019/20	**Market Value 31 March 2019**	**Transfers into level 3**	**Transfers out of level 3**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Unrealised gains/(losses)**	**Market Value 31 March 2020**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Private Equity	11,522	0	0	0	(249)	(3,248)	**8,025**
Pooled - Infrastructure	0	0	0	700	0	0	**700**
Pooled - property	68,171	0	0	0	(426)	(3,605)	**64,140**
	79,693	**0**	**0**	**700**	**(675)**	**(6,853)**	**72,865**

NOTE 17: FINANCIAL INSTRUMENTS

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

31 March 2020				31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
394,247	0	0	Pooled equities investments	525,161	0	0
111,463	0	0	Pooled bonds investments	122,361	0	0
171,230	0	0	Pooled alternative investments	201,053	0	0
700	0	0	Pooled Infrastructure	16,099	0	0
64,140	0	0	Pooled property investments	61,561	0	0
150	0	0	Equity in London CIV	150	0	0
8,025	0	0	Private equity	6,989	0	0
1,092	0	0	Derivative contracts	9,083	0	0
0	32,083	0	Cash	0	26,109	0
0	716	0	Debtors	0	767	0
751,047	**32,799**	**0**		**942,457**	**26,876**	**0**
			Financial liabilities			
(5,852)	0	0	Derivative contracts	(947)	0	0
0	0	(236)	Creditors	0	0	(402)
(5,852)	**0**	**(236)**		**(947)**	**0**	**(402)**
745,195	**32,799**	**(236)**		**941,510**	**26,876**	**(402)**
	777,758		**Grand Total**		**967,984**	

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on a regular basis.

Market risk

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

The objective of the Fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

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

Price risk

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

The Fund’s investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund’s advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Equities	14.20
Bonds	7.70
Alternatives	7.10
Pooled Property	2.20
Private Equity	7.50

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	533,297	14.20	609,025	457,569
Pooled bond investments	122,361	7.70	131,783	112,939
Pooled alternative investments	201,053	7.10	215,328	186,778
Pooled property investments	61,561	2.20	62,915	60,207
Private Equity	6,989	7.50	7,513	6,465
Pooled Infrastructure	16,099	7.10	17,242	14,956
Equity - London CIV	150	0.00	150	150
Total	**941,510**		**1,043,956**	**839,064**

Asset type	Value as at 31 March 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	389,487	12.00	436,225	342,749
Pooled bond investments	111,463	6.90	119,154	103,772
Pooled alternative investments	171,230	6.30	182,017	160,443
Pooled property investments	64,140	1.90	65,359	62,921
Private Equity	8,025	9.10	8,755	7,295
Pooled Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
Total	**745,195**		**812,360**	**678,030**

Interest rate risk

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

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	25,074	0	25,074	25,074
Fixed interest securities	97,538	975	98,513	96,562
Total change in assets available	**122,612**	**975**	**123,587**	**121,636**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		**£'000**	**£'000**
Cash and cash equivalents	30,794	0	30,794	30,794
Fixed interest securities	87,635	876	88,511	86,759
Total change in assets available	**118,429**	**876**	**119,305**	**117,553**

This analysis demonstrates that changes in interest rates do not impact on the value of cash and cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.1%

A 7.1% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

The Fund is now invested in the LCIV Global Bond. The underlying manager hedges currency exposure within its mandate.

Currency Exposure - asset type	Asset Value as at 31 March 2021	Change to net assets	
		+7.1%	**-7.1%**
	£'000	**£'000**	**£'000**
Overseas Pooled Equities	496,012	531,229	460,795

Currency Exposure - asset type	Asset Value as at 31 March 2020	Change to net assets	
		+7.4%	**-7.4%**
	£'000	**£'000**	**£'000**
Overseas Pooled Equities	367,462	394,655	340,270

Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria

The Council believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2021 was £25.1m (31 March 2020: £30.8m). This was held with the following institutions.

Summary	Balances at 31 March 2020	Balances at 31 March 2021
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	2,641	4,399
JP Morgan	3,025	7,949
BlackRock	25,128	12,726
	30,794	**25,074**

Liquidity risk

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

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of illiquid assets was £84.6m. This represented 8.76% of the total Fund assets (31 March 2020: £72.9m).

Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation takes place as at 31 March 2022.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (74% at the March 2016 valuation). This corresponded to a deficit of £52m (2016 valuation: £228m).

Contribution increases are being phased in over the 3 years' ending 31 March 2023.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions

Other financial assumptions	2016 %	2019 %
Price inflation (CPI)	2.1	2.3
Salary increases	2.4	3.0
Pension increases	2.1	2.3
Funded basis discount rate	3.8	4.3

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.

The average future life expectancy at age 65 based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0	24.3
Future pensioners (assumed to be aged 45)	23.1	26.3

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2020		31 March 2021
£m		£m
(1,104)	Present value of promised retirement benefits	(1,389)
697	Fair value of scheme assets	871
(407)	**Net Liability**	**(518)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2019-20	2020-21
	% pa	% pa
Inflation/pensions increase rate assumption	1.9	2.9
Salary increase rate	2.6	3.6
Discount rate	2.3	2.0

NOTE 21: CURRENT ASSETS

31 March 2020		31 March 2021
£'000		£'000
	Short Term Debtors:	
661	Contributions due - employers	561
55	Sundry debtors	66
1,289	Cash owed to Fund	1,035
2,005		**1,662**

NOTE 21A: LONG TERM DEBTORS

31 March 2020		31 March 2021
£'000		£'000
0	Lifetime Tax Allowances	140
0		**140**

NOTE 22: CURRENT LIABILITIES

31 March 2020		31 March 2021
£'000		£'000
(156)	Sundry creditors	(119)
(80)	Benefits payable	(283)
(236)		**(402)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2020		Market value 31 March 2021
£'000		£'000
2,268	Prudential Assurance	2,676
553	Clerical Medical	617
224	Utmost (Previously Equitable Life)	237
3,045		**3,530**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However, to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled monthly and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2020		31 March 2021
£'000		£'000
(20,634)	Employer's Pension Contributions to the Fund	(20,663)
906	Administration expenses paid to the Council	908
1,289	Cash held by the Council	1,035

Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Councils' Director of Finance (S151 Officer) and the Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2020		31 March 2021
£'000		**£'000**
91	Short-term benefits	105
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2021 totalled £53.3m (31 March 2020: £65.8m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and LCIV Infrastructure Fund.

NOTE 27: CONTINGENT ASSETS

One admitted body employer in the Fund holds an insurance bond/guarantee to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

London Borough of Harrow Pension Fund ("the Fund") Actuarial Statement for 2020/21

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

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

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

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

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

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

GESefton

Gemma Sefton FFA

06 May 2021

For and on behalf of Hymans Robertson LLP

Appendices

Glossary of Terms

The glossary's definitions are intended to provide a clear and concise explanation of the technical terms used in this publication.

Accounting Standards: By law Local Authorities are required to follow "proper accounting practices" which are set out both in Acts of Parliament and in professional Codes including the Code of Practice on Local Authority Accounting in the United Kingdom.

Accrual: a sum included in the financial statements to cover income and expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made by the end of the period.

Active Member: A Pension Fund member who is paying contributions into the fund.

Actuarial Valuation: a valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Actuary: an independent professional who advises on the financial position of the Pension Fund.

Agency Services: the provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

Amortised Cost: a method by which a financial asset or liability is measured in the balance sheet after deducting any repayments and after adding or subtracting cumulative amortisation calculated using the effective interest rate method. The amortisation adjusts the carrying value of the instrument from its initial value to its value at maturity over the life of the contract.

Bad Debt Provisions: amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Capital Expenditure: expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads etc.

Capital Grants: money received from government departments and other statutory bodies towards the Council's capital expenditure.

Community Assets: assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal, such as parks and open spaces, and historic buildings.

Contingency: money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Liability: is either; a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or b) present obligation that arises from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core: comprises all activities that a local Council engage in specifically because they are an elected, multipurpose organisation. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. It includes costs relating to the corporate management and democratic representation.

Council Tax: a locally determined taxation charge based on domestic property values set by both the billing and precept authorities at a level determined by the council tax base for the area

Creditors: amounts owed by the Council for goods and services received where payment has not been made at the end of the financial year.

Current Asset: an asset held, which will be consumed or cease to have value within the next financial year. Examples are stocks and debtors.

Current Liability: an amount which will become payable or could be called in within the next financial year. Examples are creditors and cash overdrawn.

Current Service Cost: the increase in the present value of Pension Fund liabilities expected to arise from current year service.

Debtors: amounts owed to the authority for goods and services provided but not received at the end of the financial year.

Dedicated Schools Grant (DSG): a specific grant for the funding of schools and which is ring fenced to the Schools Budget.

Deferred Member: A Pension Fund member who had left employment, or who has ceased to be an active member of the pension scheme whilst remaining in employment, but retains an entitlement to a pension from the Fund.

Depreciated Replacement Cost (DRC): the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Depreciation: the measure used to determine the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves: amounts set aside for a specific purpose or a particular service or type of service.

Fair Value: the price at which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Finance Leases: a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the leasee.

General Fund: the account that covers the net cost of all services other than the provision of Council housing for rent.

Housing Revenue Account (HRA): a statutory account which contains all expenditure and income relating to the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund. Local Council's are not allowed to make up any deficit on the HRA from the General Fund.

Impairment: a reduction in the carrying value of a non-current asset below it's previously assessed carrying value due to obsolescence, damage or adverse change in the statutory environment.

Infrastructure Assets: a classification of non-current assets which have no market value, and which exist primarily to facilitate transportation and communication requirements (e.g. highways and footpaths) and similar environmental works.

Levies: payments to London-wide bodies, e.g. Environment Agency, Lee Valley Regional Park and West London Waste Authority. The cost of these bodies is borne by the local Council in the area concerned, based on their Council tax base, and is met from the General Fund.

Minimum Revenue Provision (MRP): the minimum amount which must be charged to the Council's revenue account and set aside as provision for credit liabilities.

Net Realisable Value: the amount at which an asset could be sold after the deduction of any direct selling costs.

Non-Distributable Cost: these include overheads for which no user benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members past service.

Non-Domestic Rate (NDR): a flat rate in the pound set by Central Government and levied on businesses in the borough. NDR is now shared between the Council (30%), Central Government (33%) and the Greater London Authority (37%).

If the Council's baseline is greater than its funding baseline, it pays tariff payments to the Government. If the Council's NDR baseline is less than its funding baseline it receives top-up payments from the Government.

Operating Lease: a lease under which the asset can never become the property of the lessee.

Precepts: a charge on the Collection Fund by another public body (a precepting authority), determined by legislation.

Pension Fund: the Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer, employees and from investment income.

Post Balance Sheet Events: are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

Prior Year Adjustments: those material adjustments applicable to prior years arising from changes in accounting policies or correction of fundamental errors.

Property, Plant and Equipment: tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Provisions: monies set aside for liabilities and losses which are likely to be incurred but where exact amounts or dates are uncertain.

Private Finance Initiative (PFI): PFI is the procurement of public services and assets by a public body where the private sector is responsible for the design, construction, finance and operation of an asset or service for a specified time after which it is transferred back into the public sector.

Public Works Loan Board (PWLB): a government agency that provides long term and medium term loans to Local Authorities at interest rates only slightly higher than those at which the government itself can borrow.

Related Party: the relationship between a senior officer, elected Member, and their families, with another body that has, or might develop a business relationship with the Council.

Revenue Expenditure: the day-to-day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. These costs would include salaries and wages, premises and the costs of supplies and services.

Revenue Support Grant: the main grant received from central government to support the Council's revenue expenditure.

Taxbase: the number of Band D equivalent properties in a local authority's area. The council tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

Trust Funds: money held in trust by the Council for a specified purpose.

The Code of Practice (The Code): aims to specify the principles and practices of accounting required to prepare a Statement of Accounts which presents fairly the financial position and transactions of the Council.

Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
BCF	Better Care Fund
BRS	Business Rate Supplement
CCG	Clinical Commissioning Group
CFR	Capital Financing Requirement
CIES	Consolidated Income & Expenditure Statement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance and Accountancy
CSB	Corporate Strategic Board
DSG	Dedicated Schools Grant
DRC	Depreciated Replacement Cost
EFA	Expenditure Funding Analysis
EUV	Existing Use Value
EUV-SH	Existing Use Value – Social Housing
GARMS	Governance, Audit, Risk Management and Standards Committee
HRA	Housing Revenue Account
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LIBID	London Interchange Bid Rate
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MiRS	Movement in Reserves Statement
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NPV	Net Present Value
PFI	Private Finance Initiative
PPE	Property, Plant & Equipment
PWLB	Public Works Loan Board
RCCO	Revenue Contribution to Capital Outlay
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
VAT	Value Added Tax
WLWA	West London Waste Authority

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London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2021

Harrow COUNCIL
LONDON

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INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund (‘the Fund’) for the financial year to 31 March 2021. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Appointed Actuary on page 48/49.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee regularly reviews the Fund’s investment strategy seeking to achieve appropriate returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the Fund to meet future liabilities.

The Fund is a shareholder of the London LGPS Collective Investment Vehicle Ltd (LCIV) (the organisation set up to run pooled LGPS investments in London in 2015) and holds £150,000 of regulatory capital in the company in the form of unlisted UK equity shares The Pension Fund Committee has committed to investing in LCIV as and when suitable pool investment solutions in become available through The Pension Fund Committee has been active in the required transfer of assets under management to LCIV to gain efficiencies and fee reductions.

During 2020-21, the Pension Fund Committee continued its review of the Fund’s Investment strategy. It made some decisions which will reduce significantly the carbon footprint of the Fund’s investments. It agreed to sell those equity investments held by Oldfield Partners, investing the proceeds in the LCIV Sustainable Equity Fund (managed by RBC). This change was completed in Q1 of 2021. It has also agreed to move its passive equity holdings managed by Blackrock into a Low Carbon passive equity fund – that realignment is in progress. It has also agreed to realign the Fund’s bond portfolio – that work is also being done in 2021-22. There were further drawdowns against the commitment to invest £68m of fund assets in the LCIV Infrastructure Fund, with a total of £16.1m being invested at 31 March 2021. Further investments will be made in 2021-22.

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. During 2020-21, the Pension Board met three times and considered a range of reports on pension administration performance and pension fund governance arrangements, as well as reviewing the Communications Policy.

Pension Board and Pension Fund Committee have attended training courses and seminars during the year to meet the knowledge and skills requirements of their respective roles.

Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) with effect from 3 January 2018, the Pension Fund Committee elected to opt up to professional client status with all its fund managers. This status has been maintained in 2020-21.

The net assets of the Fund as at 31 March 2021 were £968.0m compared to £777.8m as at 31 March 2020. The Fund’s overall investment return for the year was 24.9%, reflecting the recovery following market turbulence in March 2020 arising from the Covid-19 pandemic.

D. Calvert

Dawn Calvert - CPFA
Director of Finance
30th November 2021

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Keith Ferry (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Dean Gilligan Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	vacant Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon
Investment Managers	LaSalle Global Partner Solutions BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Pantheon Ventures Record Currency Management Limited London LGPS CIV Ltd
AVC Providers	Clerical Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan
Auditor	Mazars
Performance Measurement	Pensions and Investment Research Consultants
Bankers	The Royal Bank of Scotland

GOVERNANCE ARRANGEMENTS

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee met three times during the year. It comprises four Councillors with full voting rights and a non-voting co-optee. Representatives from the trade unions are able to participate as observers of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. In particular it oversees:

a) the effectiveness of the decision-making process
b) the direction of the Fund and its overall objectives
c) the level of transparency in the conduct of the Fund's activities
d) the administration of benefits and contributions

The dates of the Pension Board meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1336

PENSION SCHEME ADMINISTRATION AND PERFORMANCE

Pension Section overview

The Pensions Team acts as the main point of contact for any membership enquiries. The team is responsible for all aspects of Local Government Pension Scheme administration; setting up new members, monitoring and maintenance of pension member records, employer contributions payment of benefits, transfer payments and Additional Voluntary Contributions. The team is also responsible for monitoring and cleansing members' data to ensure it is fit for purpose and meets the requirements imposed on the Fund by the regulators, the Fund Actuary and HMRC. The team produces annual benefits statements, newsletters and maintains the pensions website https://www.harrowpensionfund.org

The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2020-21 all Annual Benefit Statements were issued on time.

Performance Monitoring 2020-21

Service	National Benchmarking Target	Harrow Actual Performance %
Issue letter notifying of dependent's benefit	5 days	82.76
Calculation and notification of ill health estimate	10 days	100
Calculation and notification of retirement benefits estimate	10 days	94.87
Issue letter to new pension provider detailing transfer-out quote	10 days	100
Calculation and notification of deferred benefits	10 days	92.42
Calculation and notification of retirement benefits	5 days	100
Process refund and issue payment	5 days	100
Calculation and notification of ill health benefits	5 days	100
Issue statutory notification on receipt of transfer funds	10 days	100

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. There were no new complaints referred through the internal procedure during the year.

The costs of running the Pension Fund are shown below:

Process	2018-19	2019-20	2020-21
Investment management expenses			
Total Cost (£000)	4,509	4,050	3,840
Total Membership (No.)	18,161	18,451	18,577
Sub Cost per member (£)	248	219	207
Administration costs			
Total Cost (£000)	656	721	713
Total Membership (No.)	18,161	18,451	18,577
Sub Cost per member (£)	36	39	38
Oversight & governance costs			
Total Cost (£000)	566	634	602
Total Membership (No.)	18,161	18,451	18,577
Sub Cost per member (£)	32	34	32
Total cost per member (£)	**316**	**292**	**277**

Investment management costs include fund manager fees and the additional costs of fund transition on restructuring and fund re-balancing. The reduction in total management expenses reflects the benefit of fee reductions negotiated by the London Collective Investment Vehicle, as more of the Fund is now invested in the LCIV or in passive funds at rates negotiated by LCIV.

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs

Oversight and governance costs include staff salaries for pension fund manager performance monitoring and committee support and external costs for investment advisers, actuarial review and external audit. The increase in these costs in 2019-20 reflected the fact that the work required for the triennial valuation as at 31 March 2019 was largely carried out in 2019-20.

INVESTMENT POLICY AND PERFORMANCE

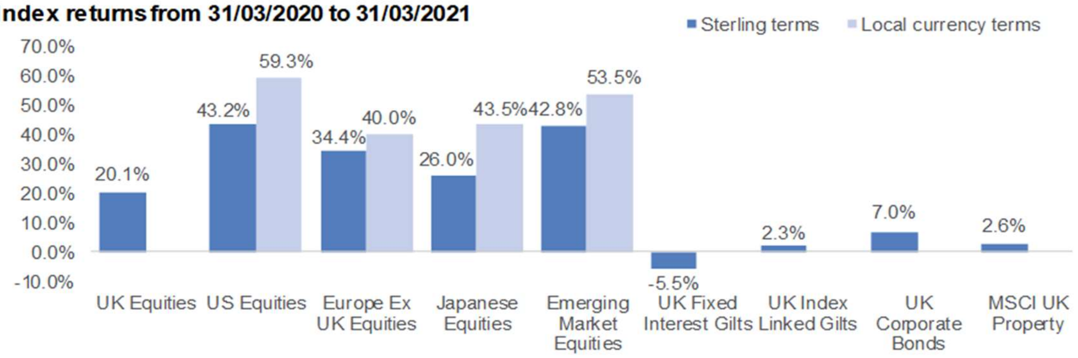
Investment Market Commentary (provided by Aon, April 21)

- After severe disruption in global markets in early 2020 from the Coronavirus pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over Covid-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations. Heightened political uncertainty around November's US presidential election provided some drag on risk sentiment, but increased expectations of expanded fiscal spending following Democrat Joe Biden's victory boosted markets.
- Global Covid-19 cases continued to surge in Q1 2021, with many countries going back into lockdown as new virus variants became more virulent. Health concerns also halted the vaccine rollout in some countries whilst supply constraints led to a slower than expected rollout in Europe. However, improving economic data over the quarter in most countries and global vaccination rollouts boosted economic recovery optimism. The MSCI AC World Index rose by 51.1% in local currency terms over the past twelve months and by 38.9% in sterling terms.
- US equities posted the strongest return over the year, helped by their high exposure to large technology companies. The $1.9tn US economic relief package was approved by the Senate soon after Democrat Joe Biden was sworn in as US President in January 2021 which fed market expectations of stronger US growth and inflation. In contrast to the US, UK equities performed poorly as the UK economy struggled with a high virus death rate and Brexit worries over 2020. Emerging markets held up well as they were supported by the low global interest rate backdrop and the weak dollar. The risk of a reversal in both of these drivers, led to weaker EM equity performance in Q1 2021, however.
- On a global sector level, Consumer Discretionary (75.0%) and Information Technology (69.8%) were the best performers in local currency terms. These sectors were bolstered by Coronavirus-driven lockdowns. Utilities (19.3%) was the worst-performing sector, followed by Consumer Staples (20.7%) and Health Care (27.9%).
- Governments across major economies announced swift and significant fiscal support for businesses and individuals. The US government approved several stimulus packages and have proposed a new infrastructure bill worth $1.9tn. The European Union (EU) promised a recovery package which was increased to €1.8tn and passed in late 2020.
- Central banks loosened monetary policy with quantitative easing (QE) programs. The US Federal Reserve (Fed) even began buying individual corporate bonds directly from the secondary market for the first time in Q2 2020. The Fed then announced a major policy shift in Q3 2020 by adopting an "average inflation targeting" approach which implies a higher tolerance towards inflation. In Q4 2020 and Q1 2021, the Fed maintained its guidance surrounding keeping interest rates near zero until at least 2024 and continuing to buy $120bn of debt per month until "substantial further progress has been made" towards its employment and inflation targets.
- In Q3 2020, the Bank of England (BOE) reported in its meeting minutes that it was examining how negative interest rates could be implemented effectively should this be required. However, deputy governor Dave Ramsden later suggested that the current base rate represented the "effective lower bound" for interest rates.
- The European Central Bank (ECB) launched a €1.9tn pandemic emergency purchase program (PEPP) which will continue until March 2022.
- After years of negotiations, the UK and the European Union (EU) reached a historic Brexit trade deal. The deal was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. The agreement allows most goods to be traded between the UK and the EU without tariffs or quotas. Meanwhile, EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.
- Sterling ended the twelve months 5.7% higher on a trade-weighted basis. Sterling depreciated in Q2 2020 due to the deteriorating UK coronavirus situation, Brexit uncertainty and a poor economic outlook. However,

in Q3 2020, the weak US dollar led to sterling gains against the dollar. Sterling continued to more broadly appreciate in Q4 2020 in anticipation that a Brexit deal would be reached. The relief rally in sterling in Q1 2021, in the wake of the Brexit deal was boosted by the launch of a successful UK vaccination program.

- Brent crude oil prices rose by 179.4% over the last twelve months to $63/BBL. After Q1's sharp fall oil prices recovered in Q2 2020, rising by 81%, supported by record-setting production cuts by OPEC+ and the easing of lockdown measures in major economies, leading to expectations of higher oil demand. Optimism over vaccine approval and the start of vaccinations supported oil prices later in the year, even though OPEC and Russia agreed to increase oil production by 500,000 barrels per day from January 2021. OPEC also cut its forecast for 2021 growth in oil demand, citing continued virus uncertainty and weak labour markets. In Q1 2021, crude oil prices were again boosted by positive vaccine developments and easing lockdowns. OPEC+ decided to maintain a production rate at 7mb/d, slightly down from the previous quarter's 7.2 m barrels per day.
- Inflation expectations rose globally over the last year on the back of liquidity expansion and growth optimism. This rise in inflation expectations was a key driver of rising global bond yields from record low levels reached in the first half of 2020. The rise in inflationary expectations was most significant in the US given the shift in Fed strategy and the massive US fiscal spending program.
- UK gilt yields fell to extreme lows in summer 2020 on the back of the pandemic, Brexit uncertainty and increased expectations of a BOE rate cut to negative levels. However, yields started to edge up across maturities in Q3 as global risk sentiment improved. In Q1 2021, gilt yields rose sharply on the back of economic optimism in the light of several vaccine discoveries, further fuelled by the new US stimulus package. According to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.5%, whilst index-linked gilts returned 2.3% over the last twelve months.
- Credit markets benefited from risk-on investor sentiment over the year, with credit spreads continuing to contract to ever tighter levels. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 111bps lower at 106bps.
- UK commercial property returned 2.6% over the period as the income return of 5.6% offset the 2.9% fall in capital values. Virus pressure on the already struggling retail sector meant it returned -5.8% over the. The office sector returned -0.8% over the year, whilst industrials outperformed with a return of 13.9%.

Index returns from 31/03/2020 to 31/03/2021



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Corporate Bonds)

Investment Policy

The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

The assets of the Fund are invested with the primary objective of being to achieve a return that is sufficient to meet the funding objective, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks, including currency fluctuations.

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

The cumulative cost of pooling for the Pension Fund to 31 March 2021 is £0.468m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2021 to the agreed allocation

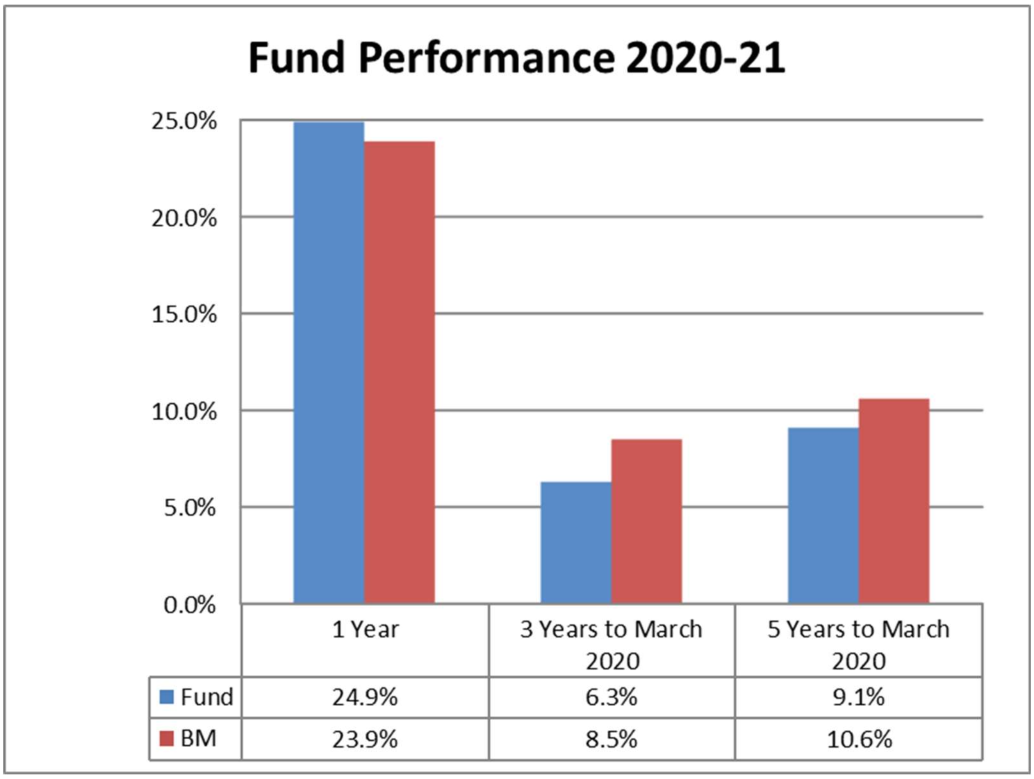
Investment assets	**Actual Percentage of Fund**	**Agreed Allocation**
	%	**%**
Global equities-passive	26	24
Developed world equities-active	19	18
Emerging markets equities-active	9	8
Fixed interest securities	10	10
Index linked securities	3	3
Private equity	1	2
Cash	3	0
Forward currency contracts	1	0
Diversified growth funds	10	6.5
Multi Asset Credit	10	11
Pooled property	6	10
Infrastructure	2	7.5
Total	**100**	**100**

The investment style is to appoint fund managers with appropriate performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's managers are appointed to give diversification of investment approach and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and through performance related fees.

Fund performance

The Fund uses Pensions and Investment Research Consultants (PIRC) as its independent investment performance measurement consultant.

Investment returns over 1, 3, and 5 years at 31st March 2021 are shown below.



The Fund's return of 24.9% during 2020-21 reflects the recovery in asset values from the "low point" of 31 March 2021 which was the result of a significant fall in asset prices experienced during the last two months of 2019-20 as the Covid-19 pandemic impacted across all asset classes. Since March 2020, asset process have increased to a level above their "pre-pandemic" level.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 1.

https://www.harrowpensionfund.org/resources/governance-compliance-statement-march-2021/

Communications Policy Statement

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 2.

https://www.harrowpensionfund.org/resources/communications-policy-statement-march-2021/

Funding Strategy Statement

Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund;
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement as approved by the Pension Fund Committee on 18 December 2019, and was updated to reflect the changes in Regulations which came into force in March 2020. It can be found as Appendix 3.

https://www.harrowpensionfund.org/resources/funding-strategy-statement-march-2020/

Investment Strategy Statement

Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS Funds'.

The current Statement as approved by the Pension Fund Committee on 13 September 2021 can be found as Appendix 4.

https://www.harrowpensionfund.org/resources/investment-strategy-statement-september-2021/

Local Government Pension Scheme Guide

A brief guide to the Local Government Pension Scheme can be found as Appendix 5

https://www.harrowpensionfund.org/resources/brief-guide-to-the-lgps-2021/

RISK MANAGEMENT

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and are operating effectively. The aim of risk management is to limit risks to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

Governance and Regulatory Risk

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Advisers and Investment Consultant and from officers;
- Regular reviews of the Investment Strategy Statement and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are required from some of the Admitted employers.

Investment Risk

The Fund is invested in a range of asset classes as detailed in Note 14 to the accounts. This is done in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk. The largest asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

Pricing Risk

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments decreased in value by 8.1% in 2019-20, largely due to the Covid-19 pandemic in the last quarter of the year, but has increased by 24.9% in 2020-21. Changes of a similar magnitude are possible in future, and this risk cannot be eliminated.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes, economic sectors and geographical areas to include equities, fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers with different styles and one passive manager to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non-Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

Liquidity Risk

Investments in some asset classes e.g. private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Around 9% of Harrow's Funds are in illiquid assets. This is deemed appropriate for the fund even though it has a slightly negative Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently readily accessible without notice.

Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

Actuarial Risk

The value of the liability for future benefits is affected by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Changes to the benefits structure in 2014 had reduced some of these risks, although the recent "McCloud Judgement" is likely to have an adverse impact. These risks are all monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each manager together with annual assessments of the control environment including reviews of internal controls reports certified by reporting auditors.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

INTERNAL CONTROLS

To mitigate the risks regarding investment management, the Council obtains independent internal controls assurance reports from the reporting accountants of the relevant Investment manager.

These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported to the Pension Committee.

The results of the latest reviews are summarised below.

Fund Manager	Type of report	Assurance obtained	Reporting Accountant
Blackrock Inv Man UK Ltd	ISAE 3402	Reasonable assurance	Deloitte LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402/AT-C 320	Reasonable assurance	RSM Risk Assurance Services LLP
LCIV MAC Fund	Internal Controls Report	Reasonable assurance	Deloitte LLP
LCIV Global Equity Focus Fund	Internal Controls Report	Reasonable assurance	EY
LCIV Infrastructure	Internal Controls Report	Reasonable assurance	EY

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8424 1186 Website: www.harrowpensionfund.org
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Pensions Help line: 0800 011 3797 Website: www.pensionsadvisoryservice.org.uk The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW Telephone Number: 0345 600 1011 Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU Telephone Number: 0800 917 4487 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service Telephone Number: 0800 731 0193 Website: www.gov.uk/find-lost-pension

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the Financial Statements.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2021 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
30th November 2021

Harrow Pension Fund Account as at 31 March 2021

2019-20		Notes	2020-21
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
(34,229)	Contributions	7	(34,661)
(1,366)	Transfers in from other pension funds	8	(2,027)
(70)	Other income		(89)
(35,665)			**(36,777)**
35,905	Benefits	9	35,592
2,470	Payments to and on account of leavers	10	3,908
0	Other Expenditure		0
38,375			**39,500**
2,710	**Net (additions)/withdrawals from dealings with members**		**2,723**
5,405	Management expenses	11	5,155
8,115	**Net (additions)/withdrawals including fund management expenses**		**7,878**
	Return on investments		
(9,059)	Investment income	12	(6,745)
74,518	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(191,359)
65,459	**Net return on investments**		**(198,104)**
73,574	**Net (increase)/decrease in the net assets available for benefits during the year**		(190,226)
(851,332)	**Opening net assets of the scheme**		(777,758)
(777,758)	**Closing net assets of the scheme**		**(967,984)**

Net Assets Statement as at 31 March 2021

31 March 2020		Notes	31 March 2021
£'000			£'000
	Investment assets		
749,955	Investments	14	933,374
1,092	Derivative contracts	14	9,083
28,153	Cash with investment managers	14	20,675
779,200			**963,132**
2,641	Cash deposits	14	4,399
781,841			**967,531**
	Investment liabilities		
(5,852)	Derivative contracts	14	(947)
775,989			**966,584**
2,005	Current assets	21	1,662
0	Long Term Debtors	21A	140
777,994			**968,386**
(236)	Current liabilities	22.00	(402)
777,758	**Net assets of fund available to fund benefits at the period end**		**967,984**

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
30th November 2021

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2021

NOTE 1: DESCRIPTION OF FUND

The Harrow Pension Fund ('the Fund') is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme designed to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Membership

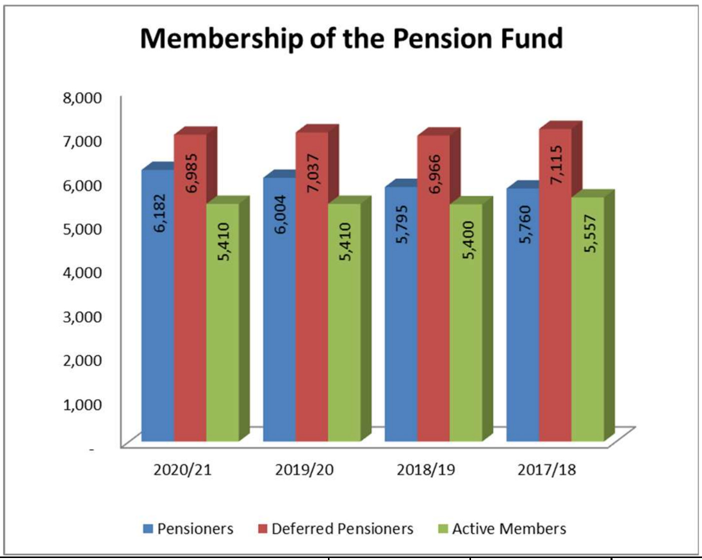
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff, are automatically entitled to be members of the Fund.

- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

There are 43 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5797	5764	3605	15,166	81.63
Stanmore College	Scheduled Body	91	154	78	323	1.74
Nower Hill High School	Scheduled Body	27	149	141	317	1.70
Heathland and Whitefriars	Scheduled Body	11	81	182	274	1.47
Hatch End High School	Scheduled Body	31	134	68	233	1.25
Rooks Heath College	Scheduled Body	22	98	109	229	1.23
Park High School	Scheduled Body	12	84	103	199	1.07
Canons High School	Scheduled Body	16	75	98	189	1.02
Bentley Wood School	Scheduled Body	9	91	59	159	0.86
Harrow High School	Scheduled Body	13	58	64	135	0.73
St Dominics College	Scheduled Body	41	37	55	133	0.72
Aylward Primary School	Scheduled Body	7	33	70	110	0.59
Salvatorian Academy	Scheduled Body	21	52	18	91	0.49
Priestmead School	Scheduled Body	3	5	79	87	0.47
Pinner High Academy	Scheduled Body	0	7	73	80	0.43
St Georges Primary	Scheduled Body	3	6	67	76	0.41
St John Fisher	Scheduled Body	2	4	60	66	0.36
St Josephs Primary	Scheduled Body	2	4	55	61	0.33
Earlsmead Academy	Scheduled Body	6	9	40	55	0.30
Welldon Park School	Scheduled Body	2	4	43	49	0.26
St Bernadettes	Scheduled Body	5	5	31	41	0.22
Alexandra Academy	Scheduled Body	2	16	22	40	0.22
Sacred Heart High School	Scheduled Body	2	6	31	39	0.21
Avanti House Secondary Scho	Scheduled Body	0	3	35	38	0.20
St Jerome	Scheduled Body	1	1	33	35	0.19
Avanti House Primary School	Scheduled Body	1	12	21	34	0.18
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Moriah Jewish School	Scheduled Body	9	5	7	21	0.11
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	6	6	0.03
NLCS	Community Admission Body	40	46	50	136	0.73
Busy Bee	Admitted Body	0	0	1	1	0.01
Evergreen Aylward	Admitted Body	0	0	3	3	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
PSC Ltd	Admitted Body	0	0	4	4	0.02
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
SOS Ltd	Admitted Body	0	0	7	7	0.04
Sopria Steria	Admitted Body	4	4	4	12	0.06
ISS Catering	Admitted Body	1	1	13	15	0.08
Evergreen	Admitted Body	0	0	20	20	0.11
Total		6,182	6,985	5,410	18,577	100

c) Funding

Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to “opt out” if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member’s full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2019 and showed that the Fund was 94% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 18.0% to 26.5% of pensionable pay with the largest employers paying between 19.3% and 20.1%.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

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

From 1 April 2014, the Scheme became a career average (CARE) scheme, whereby members accrue benefits based on their pensionable pay in each year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 5.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2020-21 financial year and its position as at 31 March 2021. The Accounts have been prepared on a going concern basis in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020-21' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the financial year to which they relate.

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

b) Transfers to and from other schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

Fund account – Expense items

a) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

b) Taxation

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

c) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

Where an investment manager's fee invoice or fee information has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2020-21.

Net Assets Statement

a) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)'*

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

b) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (See note 15)

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

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

d) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

f) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance, Clerical Medical and Equitable Life Assurance Society as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

g) Contingent Liabilities

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

h) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2020-21 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented in 2022-23;
- Definition of a Business: Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7;
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future employer contributions rates and underpin the Fund's most significant management policies.

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £124.56m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £8.78m • a 0.5% increase in Pension benefits would increase the liability by approximately £113.41m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £7m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Fair value – basis of valuation (Note 16)	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets, although there was a recovery during the second half of 2020 which has continued in the quarter to 31 March 2021. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. Whilst there is some evidence of economic recovery, at the current time, it is not possible to predict accurately the long term impact of Covid-19, particularly on property investments in some locations and sectors of the economy. Values have been based on the situation prior to Covid-19 on the assumption that values will be restored once global markets recover.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
Pooled Property Fund	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. The outbreak of Covid-19 has impacted global markets and therefore our fund managers have advised that valuations have been reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight can be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – should be attached to valuations of pooled property fund assets than would normally be the case.	The total property pooled investments in the financial accounts are £61.56m. There is a risk that these investments may be understated or overstated in the accounts. A 5% decrease in value would decrease the total valuation by £3.078m.

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2020-21.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2019-20		2020-21
£'000		£'000
(7,162)	**Employees' contributions**	**(7,402)**
	Employers' contributions:	
(18,643)	Normal contributions	(18,995)
(8,211)	Deficit recovery contributions	(8,192)
(213)	Pension strain contributions	(72)
(27,067)	**Total employers' contributions**	**(27,259)**
(34,229)	**Total contributions receivable**	**(34,661)**

By type of employer

2019-20		2020-21
£'000		£'000
(26,159)	Administering Authority	(26,336)
(7,131)	Scheduled bodies	(7,385)
(777)	Community admission body	(796)
(162)	Transferee admission bodies	(144)
(34,229)		**(34,661)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2019-20		2020-21
£'000		£'000
0	Group transfers	0
(1,366)	Individual transfers	(2,027)
(1,366)		**(2,027)**

NOTE 9: BENEFITS PAYABLE

By category

2019-20		2020-21
£'000		£'000
29,973	Pensions	30,791
4,999	Commutation and lump sum retirement benefits	4,097
933	Lump sum death benefits	704
35,905		**35,592**

By type of employer

2019-20		2020-21
£'000		£'000
33,753	Administering Authority	33,505
1,906	Scheduled bodies	1,711
202	Community admission body	313
44	Transferee admission bodies	63
35,905		**35,592**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019-20		2020-21
£'000		£'000
125	Refunds to members leaving service	43
0	Group transfers	228
2,345	Individual transfers	3,637
2,470		**3,908**

NOTE 11: MANAGEMENT EXPENSES

2019-20		2020-21
£'000		£'000
721	Administrative costs	713
4,050	Investment management expenses	3,840
634	Oversight and governance costs	602
5,405		**5,155**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2020-21	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	2,012	1,767	245
Pooled Investments - Alternatives	926	848	78
Pooled Investments - Other	841	771	70
Derivatives	51	51	0
Custodian	10	0	10
	3,840	**3,437**	**403**

2019-20	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	2,059	1,653	406
Pooled Investments - Alternatives	1,025	927	98
Pooled Investments - Other	904	825	79
Derivatives	52	52	0
Custodian	10	0	10
	4,050	**3,457**	**594**

NOTE 12: INVESTMENT INCOME

2019-20		2020-21
£'000		£'000
(3,882)	Pooled Investments - Private equity	(2,899)
(2,026)	Pooled Investments - Property	(859)
(3,151)	Pooled investments - Other	(2,987)
(9,059)		**(6,745)**

NOTE 13: EXTERNAL AUDIT COSTS

2019-20		2020-21
£'000		£'000
(16)	Payable in respect of external audit	(19)
(16)		**(19)**

NOTE 14: INVESTMENTS

Market value 31 March 2020 £'000		Market value 31 March 2021 £'000
	Investment assets	
394,247	Pooled equities investments	525,161
111,463	Pooled bonds investments	122,361
171,230	Pooled alternative investments	201,053
700	Pooled infrastructure	16,099
677,640		**864,674**
64,140	Pooled property investments	61,561
150	Equity in London CIV	150
8,025	Private equity	6,989
1,092	Derivative contracts: forward currency	9,083
28,153	Cash with investment managers	20,675
779,200		**963,132**
2,641	Cash deposits	4,399
781,841	**Total investment assets**	**967,531**
	Investment liabilities	
(5,852)	Derivative contracts: forward currency	(947)
(5,852)	**Total investment liabilities**	**(947)**
775,989	**All investments**	**966,584**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	394,247	68,000	(75,447)	138,361	**525,161**
Pooled bonds investments	111,463	2,937	(70)	8,031	**122,361**
Pooled alternative investments	171,230	0	(4,271)	34,094	**201,053**
Pooled property investments	64,140	0	(258)	(2,321)	**61,561**
Pooled infrastructure	700	16,227		(828)	**16,099**
Equity in London CIV	150	0		0	**150**
Private equity	8,025	0	(303)	(733)	**6,989**
Derivative contracts: forward currency	(4,760)	6,069	(7,928)	14,755	**8,136**
	745,195	**93,233**	**(88,277)**	**191,359**	**941,510**
Cash with investment managers	28,153				**20,675**
Cash deposits	2,641				**4,399**
	30,794				**25,074**
Net investment assets	**775,989**				**966,584**

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	467,263	0	(33,102)	(39,914)	**394,247**
Pooled bonds investments	108,159	3,062	(39)	281	**111,463**
Pooled alternative investments	191,029	95,000	(96,850)	(17,949)	**171,230**
Pooled property investments	68,171		(426)	(3,605)	**64,140**
Pooled infrastructure	0	700			**700**
Equity in London CIV	150				**150**
Private equity	11,522		(249)	(3,248)	**8,025**
Derivative contracts: forward currency	756	7,932	(3,365)	(10,083)	**(4,760)**
	847,050	**106,694**	**(134,031)**	**(74,518)**	**745,195**
Cash with investment managers	45				**28,153**
Cash deposits	3,068				**2,641**
	3,113				**30,794**
Net investment assets	**850,163**				**775,989**

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2020	Percentage of Fund	Manager	Investment assets	Market value 31 March 2021	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
91,705	12	LCIV - Longview	Developed world equities-active	120,618	12
80,816	10	LCIV - CQS	Multi Asset Credit	101,226	10
0	0	LCIV - RBC	Sustainable Equities	67,238	7
700	0	LCIV	Infrastructure	16,099	2
177,589	23	BlackRock	Global equities-passive	247,574	26
350,810	45		Total LCIV	552,755	57
Investments managed outside of the London CIV					
64,140	8	LaSalle	Pooled property	61,561	6
25,128	3	BlackRock	Cash with investment managers	12,726	1
87,635	11	BlackRock	Fixed interest securities	97,538	10
23,828	3	BlackRock	Index-linked securities	24,823	3
2,641	0	Cash Deposits	Cash with Banks	4,399	1
67,577	9	GMO	Emerging markets equities-active	89,731	9
90,414	12	Insight	Diversified growth fund	99,827	10
3,025	0	JP Morgan	Cash with investment managers	7,949	1
150	0	LCIV	UK equities-passive	150	0
57,376	7	Oldfield	Developed world equities-active	0	0
8,025	1	Pantheon	Private equity	6,989	1
(4,760)	(1)	Record	Forward currency contracts	8,136	1
425,179	55		Total - Managers	413,829	43
775,989	**100**		**Total Investments**	**966,584**	**100**

NOTE 14C: INVESTMENTS MORE THAN 5% of the net assets of the Fund:

Market value 31 March 2020	% of total fund	Investment assets	Market value 31 March 2021	% of total fund
£'000			£'000	
90,414	12	Insight Broad Opportunities Fund	99,827	10
91,705	12	LCIV LV Global Equity Fund (Longview)	120,618	12
80,816	10	LCIV Multi Asset Credit (CQS)	101,226	10
87,635	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	97,538	10
67,577	9	GMO Emerging Domestic Opportunities Equity Fund	89,731	9
64,140	8	LaSalle Investors UK Real Estate Fund of Funds	61,561	6
57,376	7	Overstone Global Equity CCF (USD Class A1 Units)	0	0
177,589	23	Blackrock Equity Beta Portfolio	247,574	26
0	0	LCIV Sustainable Equity Fund (RBC)	67,238	7
717,252	**92**	**Total over 5% holdings**	**885,312**	**90**

NOTE 14D: STOCK LENDING

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the Blackrock Portfolio.

The Blackrock lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from Blackrock pursuant to its Securities Lending Authorisation Agreement

Value of Stock on Loan as at 31 March 2021 £24.4m (6.60%) compared to £23.8m (8.24%) as at 31 March 2020.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund’s equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Analysis of Open forward currency contracts:-

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	HKD	59,575	GBP	(5,546)	9	
Up to one month	NOK	2,176	GBP	(185)	0	
Up to one month	SGD	632	GBP	(341)	0	
One to six months	GBP	4,509	AUD	(8,056)	60	
One to six months	GBP	3,281	CAD	(5,689)	1	
One to six months	GBP	9,718	CHF	(12,174)	330	
One to six months	GBP	1,395	EUR	(1,540)	83	
One to six months	CAD	2,038	GBP	(1,151)	24	
One to six months	GBP	4,564	HKD	(47,982)	90	
One to six months	GBP	743	JPY	(104,200)	59	
One to six months	GBP	187	NOK	(2,176)	2	
One to six months	GBP	189	NZD	(364)	4	
One to six months	GBP	2,094	SEK	(24,146)	84	
One to six months	GBP	369	SGD	(663)	12	
One to six months	GBP	7,769	USD	(10,574)	104	
Over six months	GBP	37,757	EUR	(42,267)	1,686	
Over six months	GBP	20,731	JPY	(2,930,800)	1,489	
Over six months	GBP	190,907	USD	(256,467)	5,046	
Up to one month	NZD	182	GBP	(93)		(0)
Up to one month	CAD	5,689	GBP	(3,282)		(1)
Up to one month	SEK	12,073	GBP	(1,005)		(1)
Up to one month	CHF	5,591	GBP	(4,310)		(3)
Up to one month	AUD	4,028	GBP	(2,234)		(9)
Up to one month	EUR	12,418	GBP	(10,594)		(13)
Up to one month	JPY	790,200	GBP	(5,209)		(24)
Up to one month	USD	96,379	GBP	(70,065)		(200)
One to six months	CAD	192	GBP	(111)		(1)
One to six months	CHF	992	GBP	(830)		(66)
One to six months	EUR	5,684	GBP	(4,917)		(70)
One to six months	GBP	4,567	CAD	(7,919)		(1)
One to six months	GBP	6,602	HKD	(71,168)		(34)
One to six months	GBP	185	NOK	(2,176)		(1)
One to six months	GBP	341	SGD	(632)		(1)
One to six months	GBP	15,609	USD	(22,096)		(406)
One to six months	JPY	664,400	GBP	(4,425)		(64)
One to six months	SGD	31	GBP	(17)		(1)
Over six months	EUR	869	GBP	(792)		(51)
Open forward currency contracts at 31 March 2021					**9,083**	**(947)**
Net forward currency contracts at 31 March 2021						**8,136**
Prior year comparative						
Open forward currency contracts at 31 March 2020					**1,092**	**(5,852)**
Net forward currency contracts at 31 March 2020						**(4,760)**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset it set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investment - Multi asset credit	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Not required
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation* (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2021 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	7.47%	6,989	7,511	6,467
Pooled investments - Infrastructure	7.11%	16,099	17,243	14,954
Pooled investments - property funds	2.20%	61,561	62,913	60,209
		84,649	87,667	81,630

	Assessed valuation range (+/-)	Valuation at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	9.10%	8,025	8,755	7,295
Pooled investments - property funds	1.90%	64,140	65,359	62,921
		72,165	74,114	70,216

NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	525,161			525,161
Pooled bonds investments	122,361			122,361
Pooled alternative investments	99,827	101,226		201,053
Pooled property investments			61,561	61,561
Pooled infrastructure			16,099	16,099
Private equity			6,989	6,989
Derivative contracts: forward currency		8,136		8,136
Cash Deposits / Other	25,074	150		25,224
Total	**772,423**	**109,512**	**84,649**	**966,584**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	394,247			394,247
Pooled bonds investments	111,463			111,463
Pooled alternative investments	90,414	80,816		171,230
Pooled property investments			64,140	64,140
Pooled infrastructure			700	700
Private equity			8,025	8,025
Derivative contracts: forward currency		(4,760)		(4,760)
Cash Deposits / Other	30,794	150		30,944
Total	**626,918**	**76,206**	**72,865**	**775,989**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2020/21	Market Value 31 March 2020	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Private Equity	8,025	0	0	0	(303)	(733)	**6,989**
Pooled - Infrastructure	700	0	0	16,227	0	(828)	**16,099**
Pooled - property	64,140	0	0	0	(258)	(2,321)	**61,561**
	72,865	0	0	16,227	(561)	(3,882)	**84,649**

Period 2019/20	Market Value 31 March 2019	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Private Equity	11,522	0	0	0	(249)	(3,248)	**8,025**
Pooled - Infrastructure	0	0	0	700	0	0	**700**
Pooled - property	68,171	0	0	0	(426)	(3,605)	**64,140**
	79,693	**0**	**0**	**700**	**(675)**	**(6,853)**	**72,865**

NOTE 17: FINANCIAL INSTRUMENTS

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

31 March 2020				31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
394,247	0	0	Pooled equities investments	525,161	0	0
111,463	0	0	Pooled bonds investments	122,361	0	0
171,230	0	0	Pooled alternative investments	201,053	0	0
700	0	0	Pooled Infrastructure	16,099	0	0
64,140	0	0	Pooled property investments	61,561	0	0
150	0	0	Equity in London CIV	150	0	0
8,025	0	0	Private equity	6,989	0	0
1,092	0	0	Derivative contracts	9,083	0	0
0	32,083	0	Cash	0	26,109	0
0	716	0	Debtors	0	767	0
751,047	**32,799**	**0**		**942,457**	**26,876**	**0**
			Financial liabilities			
(5,852)	0	0	Derivative contracts	(947)	0	0
0	0	(236)	Creditors	0	0	(402)
(5,852)	**0**	**(236)**		**(947)**	**0**	**(402)**
745,195	**32,799**	**(236)**		**941,510**	**26,876**	**(402)**
	777,758		**Grand Total**		**967,984**	

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on a regular basis.

Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

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

Price risk

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

The Fund's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Equities	14.20
Bonds	7.70
Alternatives	7.10
Pooled Property	2.20
Private Equity	7.50

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	533,297	14.20	609,025	457,569
Pooled bond investments	122,361	7.70	131,783	112,939
Pooled alternative investments	201,053	7.10	215,328	186,778
Pooled property investments	61,561	2.20	62,915	60,207
Private Equity	6,989	7.50	7,513	6,465
Pooled Infrastructure	16,099	7.10	17,242	14,956
Equity - London CIV	150	0.00	150	150
Total	**941,510**		**1,043,956**	**839,064**

Asset type	Value as at 31 March 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	389,487	12.00	436,225	342,749
Pooled bond investments	111,463	6.90	119,154	103,772
Pooled alternative investments	171,230	6.30	182,017	160,443
Pooled property investments	64,140	1.90	65,359	62,921
Private Equity	8,025	9.10	8,755	7,295
Pooled Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
Total	**745,195**		**812,360**	**678,030**

Interest rate risk

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

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund’s direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	25,074	0	25,074	25,074
Fixed interest securities	97,538	975	98,513	96,562
Total change in assets available	**122,612**	**975**	**123,587**	**121,636**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,794	0	30,794	30,794
Fixed interest securities	87,635	876	88,511	86,759
Total change in assets available	**118,429**	**876**	**119,305**	**117,553**

This analysis demonstrates that changes in interest rates do not impact on the value of cash and cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.1%

A 7.1% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

The Fund is now invested in the LCIV Global Bond. The underlying manager hedges currency exposure within its mandate.

Currency Exposure - asset type	Asset Value as at 31 March 2021	Change to net assets	
		+7.1%	-7.1%
	£'000	£'000	£'000
Overseas Pooled Equities	496,012	531,229	460,795

Currency Exposure - asset type	Asset Value as at 31 March 2020	Change to net assets	
		+7.4%	-7.4%
	£'000	£'000	£'000
Overseas Pooled Equities	367,462	394,655	340,270

Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria

The Council believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2021 was £25.1m (31 March 2020: £30.8m). This was held with the following institutions.

Summary	Balances at 31 March 2020	Balances at 31 March 2021
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	2,641	4,399
JP Morgan	3,025	7,949
BlackRock	25,128	12,726
	30,794	**25,074**

Liquidity risk

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

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of illiquid assets was £84.6m. This represented 8.76% of the total Fund assets (31 March 2020: £72.9m).

Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation takes place as at 31 March 2022.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (74% at the March 2016 valuation). This corresponded to a deficit of £52m (2016 valuation: £228m).

Contribution increases are being phased in over the 3 years' ending 31 March 2023.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions

Other financial assumptions	2016 %	2019 %
Price inflation (CPI)	2.1	2.3
Salary increases	2.4	3.0
Pension increases	2.1	2.3
Funded basis discount rate	3.8	4.3

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.

The average future life expectancy at age 65 based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0	24.3
Future pensioners (assumed to be aged 45)	23.1	26.3

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2020		31 March 2021
£m		£m
(1,104)	Present value of promised retirement benefits	(1,389)
697	Fair value of scheme assets	871
(407)	**Net Liability**	**(518)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2019-20	2020-21
	% pa	% pa
Inflation/pensions increase rate assumption	1.9	2.9
Salary increase rate	2.6	3.6
Discount rate	2.3	2.0

NOTE 21: CURRENT ASSETS

31 March 2020		31 March 2021
£'000		£'000
	Short Term Debtors:	
661	Contributions due - employers	561
55	Sundry debtors	66
1,289	Cash owed to Fund	1,035
2,005		**1,662**

NOTE 21A: LONG TERM DEBTORS

31 March 2020		31 March 2021
£'000		£'000
0	Lifetime Tax Allowances	140
0		**140**

NOTE 22: CURRENT LIABILITIES

31 March 2020		31 March 2021
£'000		£'000
(156)	Sundry creditors	(119)
(80)	Benefits payable	(283)
(236)		**(402)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2020		Market value 31 March 2021
£'000		£'000
2,268	Prudential Assurance	2,676
553	Clerical Medical	617
224	Utmost (Previously Equitable Life)	237
3,045		**3,530**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However, to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled monthly and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2020		31 March 2021
£'000		£'000
(20,634)	Employer's Pension Contributions to the Fund	(20,663)
906	Administration expenses paid to the Council	908
1,289	Cash held by the Council	1,035

Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Councils' Director of Finance (S151 Officer) and the Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2020		31 March 2021
£'000		£'000
91	Short-term benefits	105
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2021 totalled £53.3m (31 March 2020: £65.8m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and LCIV Infrastructure Fund.

NOTE 27: CONTINGENT ASSETS

One admitted body employer in the Fund holds an insurance bond/guarantee to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

London Borough of Harrow Pension Fund ("the Fund") Actuarial Statement for 2020/21

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

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

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

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

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

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

Gemma Sefton FFA

06 May 2021

For and on behalf of Hymans Robertson LLP

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Harrow COUNCIL LONDON

Summary Statement of Accounts 2020-2021

This document contains summarised information from the Council's 2020-21 Statement of Accounts, providing information on where the Council's money is spent, where the money comes from and the summary of the Council's assets and liabilities.

Financial Review

During the year the Council delivered its services within the approved budget of £174.8m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures.

The Council's General Fund Balances remains at £10.008m with £15.3m being taken to the balance of usable reserves. This gives the Council the capacity needed to implement future savings and organisational transformation, to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further changes to Central Government funding.

Examples of the Council's key achievements over the last year are summarised below:

- Provided pandemic support for businesses and for those isolating or vulnerable.
- Successful roll-out of a new-strengths based approach to supporting existing Adult Social Care clients.
- Despite the challenges of the pandemic, successful intervention in 84% of new requests for Adult Social Care support from residents, with three quarters being from new clients.
- Delivery of statutory and commissioned services to schools, supporting children with SEND.
- The Building Control Service undertook 8,034 site inspections (mostly during lockdowns) and dealt with 978 building control applications.
- Learn Harrow has delivered learning, engagement and Information, Advice and Guidance to 3287 individuals to date.

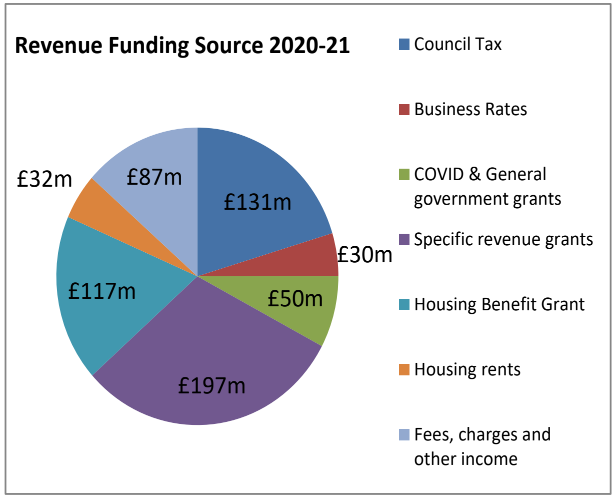
The full Statement of Accounts has been prepared in accordance with accounting policies applicable to local authorities and is available on the Council's website (www.harrow.gov.uk). The Audit opinion is due to be issued in December 2021.

Dawn Calvert CPFA
Director of Finance 30th November 2021

Expenditure and Funding Analysis (EFA)

The EFA shows how expenditure in the year is applied and funded as per the outturn report, and compares this with the true economic cost valued in accordance with proper accounting practices shown in the Consolidated Income and Expenditure Statement (CIES). The true economic cost is different from the outturn report because amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes are specified by regulations.

2019-20 £000 Net Expenditure in Outturn Report		2020-21 £000 Net Expenditure in Outturn Report	2020-21 £000 Adj between Funding and Accounting Basis	2020-21 £000 Net Expenditure in CIES
66,356	People - Adult Services & Public Health	**70,963**	**(3,085)**	**67,878**
42,469	People - Children & Families	**43,901**	**(10,183)**	**33,718**
49,095	Community	**72,155**	**(9,707)**	**62,448**
9,214	Resources & Commercial	**(12,259)**	**42,599**	**30,340**
167,134	Net Cost of Services	**174,760**	**19,624**	**194,384**
(167,134)	Other Income & Expenditure	**(174,760)**	**11,124**	**(163,636)**
0	(Surplus) or Deficit	**0**	**30,748**	**30,748**
(10,008)	Opening General Fund Balance	**(10,008)**		
0	Plus Surplus on General Fund in Year	**0**		
(10,008)	Closing General Fund Balance as at 31st March	**(10,008)**		



The graph shows the various sources of general Council income. 25% of income comes from Council Tax and Business Rates, 49% from grants for specific revenue purposes and the other 26% from general grants, fees, charges, tenant rents and investment income etc.

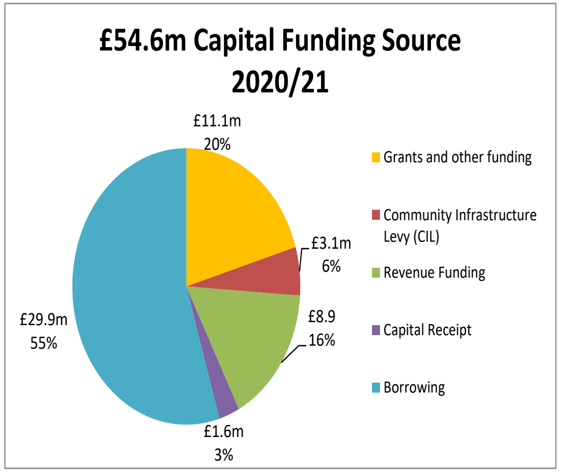
Balance Sheet

	2020-21	2019-20
	£000	£000
Land, Buildings and Other Assets *	**1,367,100**	1,303,600
Other Long Term Assets	**15,700**	16,017
Cash & Cash Equivalents	**61,468**	38,606
Current Assets	**81,669**	61,274
Current Liabilities	**(134,683)**	(90,031)
Long term Liabilities **	**(975,959)**	(859,928)
Net Assets	**415,295**	469,538
Usable Reserves	**(159,071)**	(136,517)
Unusable Reserves	**(256,224)**	(333,021)
Total Reserves	**(415,295)**	(469,538)

* **Land, Buildings and Other Assets**: This includes assets owned by the Council such as housing stock, schools, office buildings, roads, bridges, etc.

** **Long term Liabilities**: This includes borrowing (£422m) to fund investments in buildings and other assets and Pensions liability of (£518m) for the accrued cost of retirement benefits. This liability will be funded from future pension contributions and pension investment returns.

Capital Expenditure



Capital expenditure is expenditure that provides long term benefit to the council such as the buying, improvement or construction of buildings, road improvements, IT equipment purchases etc. During 2020-21, the Council invested £54.6m in new Council housing stock, improvements to existing housing stock, highways and street lighting etc. etc.

The capital programme is mainly funded from borrowing, government grants, revenue contributions and sale proceeds from disposal of assets.

Housing Revenue Account

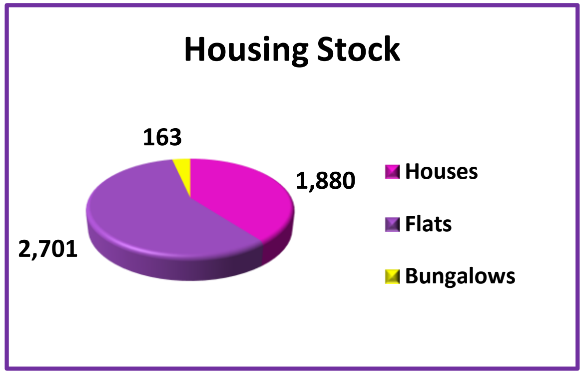
The Council owns and manages 4,744 properties which it lets for the purpose of social housing. The income and expenditure relating to these properties is required by legislation to be accounted for separately in a ring-fenced Housing Revenue Account.

	2020-21	2019-20
HRA	**£000**	£000
Income		
Council House Rents	**(28,310)**	(28,002)
Other Income	**(10,244)**	(14,639)
	(38,554)	(42,641)
Expenditure		
Repairs & Maintenance	**8,025**	8,428
Supervision & Management	**9,500**	9,289
Capital Charges	**7,743**	7,647
Financing Expenditure	**6,422**	6,380
Other Costs	**5,820**	4,467
	37,510	**36,211**
Surplus for the year	**(1,044)**	(6,430)
Transfers to/from reserves	**2,296**	6,378
HRA balance b/f	**(7,526)**	(7,474)
Balance c/f	**(6,274)**	(7,526)

What happens to the rents paid by council tenants?

Tenant rents can only be used to manage, repair and maintain the properties and pay interest on the borrowings taken out to build and improve them.

Unused income is carried forward to future years as the Housing Revenue Account balance.

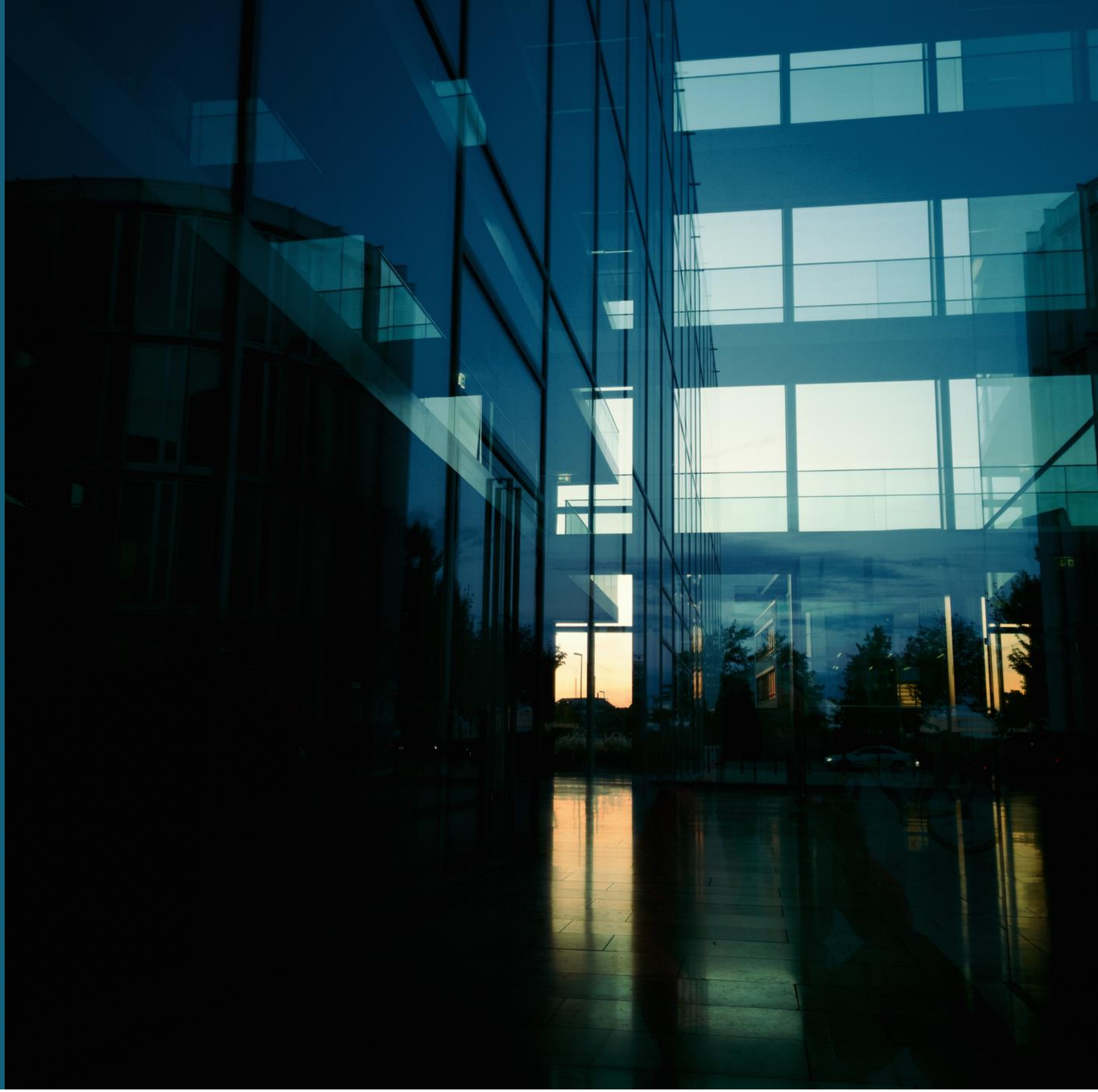


- At 31st March 2021 0.77% of available properties were vacant.
- There was a net decrease of 79 properties during the year. 83 properties were sold to tenants or demolished during the year while 4 properties were built or acquired.
- Average weekly rents were £113.56 per week in 2020-21.

Audit Completion Report

London Borough of Harrow
Year ended 31 March 2021

November 2021



mazars

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Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

mazars

Governance, Audit, Risk Management and Standards Committee
Harrow Council
Civic Centre
Station Road
Harrow
HA1 2XY

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

30 November 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 13 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment (including investment property valuations)
- Net defined benefit liability valuation
- Grant accounting
- Management override of controls; and
- Revenue recognition.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £797,000. Section 7 outlines our work on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, significant matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, with the addition of an 'emphasis of matter' paragraph with respect to material valuation uncertainties attached to investment properties in the councils property portfolio and pooled property investments included within the London Borough of Harrow Pension fund. This is not a modification of opinion. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money
We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.

Whole of Government Accounts (WGA)
We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. No such correspondence from electors has been received.

02

Section 02:

Status of the audit

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2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Closure procedures and review		Our final reviews and completion work needs to be performed, including a further technical review of the financial statements and consideration of post balance sheet events until the date of sign-off.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report
Review and closure procedures		Completion of audit file documentation and audit closure procedures. Final Engagement Lead file review
Whole of Government Accounts		Completion of audit procedures supporting the WGA return to the NAO.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

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3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum date 13th July 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum

Materiality

Our provisional materiality at the planning stage of the audit was set at £9.1m using a benchmark of 1.5% of gross revenue expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £9.0m using the same benchmark. We also set a performance materiality of £6.3m based on 70% of financial statement materiality. Specific, lower, materiality levels were applied to certain disclosures such as related party transactions and Officer's remuneration.

Reliance on internal audit

We have not placed formal reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

We have made use of two auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.
- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.

04

Section 04:

Significant findings

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 27 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion We have no significant findings to report as a result of our work on areas subject to potential management override of controls.

4. Significant findings

Revenue recognition	Description of the risk
	The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure. In particular we can rebut the revenue recognition risk for income derived from Council Tax, main revenue Grants and NNDR due to the low inherent risk associated with these amounts. For the Council we deem the risk to relate specifically to material income streams within the Council, where the level of inherent risk is higher.
	How we addressed this risk
	We addressed this risk by obtaining a detailed understanding of the Council's processes by which it ensures that revenue is materially recognised in the correct accounting year. We have performed: • detailed testing of transactions within the 2020/21 financial statements to confirm they are accounted for in the correct year; • testing from receipts around the year-end to provide assurance that there are no material unrecorded items of income in the 2020/21 accounts.

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Revenue recognition	Audit conclusion
	Initial audit testing identified a small error which further work identified as having a potentially trivial effect on the income recorded in the financial statements. We have no significant findings to report as a result of our work on revenue recognition.

4. Significant findings

Property, plant and equipment valuation (including investment property valuation)

Description of the risk

The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.

In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.

Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.

How we addressed this risk

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and considered the robustness of that approach. We will also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we will:

- assess the valuer's qualifications;
- assess the valuer's objectivity and independence;
- review the methodology used; and
- perform testing of the associated underlying data and assumptions.

Property, plant and equipment valuation (including investment property valuation)

Audit conclusion

During our review of the Council's valuations we have identified a number of errors on individual valuations and the processing within the Councils records. Our work identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This resulted in the net overstatement of valuations in the financial statements by an amount over our performance materiality level. Management have adjusted the financial statements for these errors, which have been summarised in the schedule of misstatements detailed in section 5 of this report.

In addition, our testing of investment property confirmed the existence of material valuation uncertainty statements (MVU) due to the impact of covid-19 in the work of the valuers. The MVU on the properties were included where the property is of a specialised nature (golf courses and retail units) and work had been carried out earlier in the financial period. All of the valuations where MVU was included, which total value of £19.65m, have been performed by the council's external valuers and are part of the councils investment property portfolio totalling £77.16m.

The council has included a disclosure of material uncertainty in the notes to the financial statements. We consider this to be fundamental to users understanding of the financial statements so intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure.

There are no other significant matters arising from our audit work on the valuation of property, plant and equipment and investment properties

4. Significant findings

Net defined benefit pension scheme liability valuation	**Description of the management judgement**
	The latest triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021. The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.
	How our audit addressed this area of management judgement
	As the Council is the Fund administrator, we have addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson. We have also: • assessed the skill, competence and experience of the Fund's actuary; • challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; • carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

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Net defined benefit pension scheme liability valuation	**Audit conclusion**
	There have been no significant findings arising from our audit procedures to review the defined benefit pension scheme liability valuation. We are satisfied the balances and associated disclosures are materially accurate. London Borough of Harrow Pension Fund's financial statements intend to include disclosures regarding material valuation uncertainty of its level 3 investments in pooled property funds. The Harrow pension fund holds £61.6m in pooled property funds, of which the majority (88%) relates to the council as the largest participant in the scheme. This value is material to the London Borough of Harrow. The Council intends to make a disclosure of material valuation uncertainty of its share of the pension fund assets in note 5.4 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.

4. Significant findings

Other key areas of management judgement and enhanced risks

Grant accounting	**Description of the management judgement** As a result of the impact of the pandemic on the financial demands on the council, in terms of reduced income and increased and new expenditure patterns and the overall impact on the financial position of the council, there has been a provision of material revenue grant funding by Central Government. The funding has been through a number of separate grants and in respect of different areas of lost income or increased expenditure, with some of the grants having specific conditions for use or being directed as funding for specific items of expenditure. As a result individual grants will, under the requirements of the CIPFA code, have different accounting requirements and as such each will require separate analysis to ensure the accounting treatment is appropriate.
	How our audit addressed this area of management judgement We discussed the Council’s approach to considering the terms and conditions associated with each of the grants received, and the proposals for accounting, ensuring these accounting proposals were in line with the requirements set out in the CIPFA code.
	Audit conclusion There have been no significant findings arising from our audit procedures to review grant accounting. We are satisfied the balances and associated disclosures are materially accurate and appropriately accounted for within the financial statements.

4. Significant findings

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances. The accounts have been prepared on the correct (continued provision of service) going concern basis.

Draft accounts were provided by the authority on 15 July 2021 and were of a high quality. Supporting working papers were made available prior to the commencement of the audit and were of a high quality. Staff members were timely and extremely thorough in response to evidence requests and audit enquiries.

Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of Covid-19 on the council and the associated impacts this may have on the risks of material misstatement to the valuation of property, plant and equipment, the assessed provision for expected credit losses and the potential overall impact on the council's financial position.
- The impact of the forthcoming changes to the main accounting system used by the Council and the timelines for implementation and the associated impacts on the preparation and finalisation of the 2020-21 financial statements.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and cabinet finance papers to support the judgement.

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

4. Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

Modifications required to our audit report

We have not identified any issues which would result in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.

As described within our response to the significant risks surrounding the valuation of the council's property, plant and equipment (including investment property) and the net defined benefit pension scheme liability valuation, our draft auditor's report set out in Appendix B includes 'Emphasis of Matter' paragraphs with respect to the disclosure of material valuation uncertainties on investment property valuations and material valuation uncertainties attached to pooled property funds held by the Pension Fund. Our opinion on the financial statements is not qualified in respect of these matters.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Recommendations
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	5
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Significant weaknesses identified to internal controls

IT logical security – Level 1

Description of deficiency

During the course of the IT audit we found the following issues surrounding logical security:

- 20 leavers could have accessed accounts post leaving, of which 11 had direct access to SAP
- Within SAP, 106 users were identified as having access to SU01, the ability to create and remove users
- A number of users had access to critical SAP profiles giving them unrestricted access to all areas
- SAP password parameters did not align with best practice.

Potential effects

The above findings have a number of potential impacts:

- Employees who have left the authority may still have access to financial data and the ability to process transactions, resulting in financial loss.
- Excessive use of SU01 access rights increases the risk of 'ghost users', which may enable individuals to misappropriate funds and data.
- Access to all elements of SAP profiles removes effective segregation of duties and increases the potential for misappropriation of funds and inappropriate accessing of areas.
- The use of weak passwords increases the authorities susceptibility to cyber attacks.

Recommendation

We are aware that the authority is in the process of moving to a new accounting system. We recommend that the following are implemented as soon as possible:

- Processes are put in place to ensure access rights for all leavers are rescinded on the final day of service and a periodic review of access rights is undertaken to identify any users with access rights that aren't appropriate.
- Privileged access rights such as SU01 are reviewed to ensure their use and issue are kept to a minimum.
- Standard users should be reviewed to ensure no staff are allocated unrestricted access rights.
- The Council's password policies should be updated to ensure they align with generally accepted best practice.

Management response

A review of internal controls will ensure that once an officer has been made a leaver and after their last day of service, they are removed from the SAP system (Dynamics going forward). In addition, there are strict controls over the returning of LBH laptops on the last day of an employee's service. Officers will regularly test that these controls are working correctly.

Only LBH staff who either work in IT or the SAP / Dynamics Support Team plus specific external consultants who support the Harrow system will have access to SU01.

All user permissions are based on least privilege and the Role-Based Access Control model and password policies are in line with industry best practice (8+ characters, complex). Officers will ensure that all system password requirements meet industry best practice.

Officers will review and periodically check that the access control policy procedures are working effectively to prevent any unauthorised access to all areas of a system.

5. Internal control recommendations

Other weaknesses identified to internal controls

IT operations – Level 2

Description of deficiency

During the course of our detailed IT audit work we noted the following issues:

- While the IT system back up policies and procedures were documented, these were last reviewed and updated in February 2016 and a number of the provisions under the guidance were outdated.
- Although an IT business continuity plan was documented, this had not been reviewed and updated since July 2018 and a number of the provisions under the guidance were outdated.

Potential effects

The reliance on outdated backup policies and procedures will result in a lack of understanding and policy compliance and could ultimately result in a loss of data for the Council

Further, the existence of an outdated business continuity plan may result in a lack of staff understanding of policies and processes, and may give rise to a lack of productivity and functionality during periods of IT disruption.

Recommendation

The council should ensure the relevant policies are updated to reflect current business software and practises as part of the current system upgrade and then be subject to regular periodic review, update and testing.

Management response

The move to outsourced cloud services has fundamentally altered the Council's data backup / recovery processes. Assurance of Council data is now largely achieved through the contractual provisions with a range of cloud service providers, IT will consolidate these arrangements into an updated business continuity plan by the end of March 2022 and will update quarterly.

Approach to Valuations – Level 2

Description of deficiency

Our audit work has highlighted that the council made use of multiple external valuers to assist in the year end valuation of the investment property portfolio. We noted that 4 separate external valuers have been used across the councils investment property portfolio.

Potential effects

The use of a range of valuers may give rise to issues surrounding the consistency of approach that is employed whilst valuing properties. Whilst we noted no significant findings as a result of our investment property valuations testing, we consider the council may be able to achieve some economies of scale by using fewer valuers.

Recommendation

Given the above, we would recommend the council reviews the list of properties for which external valuation experts are required and reviews its approach to the appointment of external valuers.

Management response

The Covid-19 pandemic meant no site visits could be undertaken to inspect and value the investment properties. For this reason, the Council used valuers who had both knowledge and the specialist experience of these assets. The investment properties are sited around different parts of the country and some are of a specialist nature (i.e. golf course / hotel).

Going forward officers will consider the procurement of all such investment property valuations through one valuer.

5. Internal control recommendations

IFRS 16 readiness – Level 2

Description of deficiency

Our audit work highlighted leases, where the council is the lessor, that had been recognised within the operating leases disclosure. Review of the lease terms concluded that these items should have been disclosed as finance lease arrangements, with the affected assets to be excluded from the balance sheets and future commitments disclosed separately. As the affected lease is trivial we have agreed with management that the disclosure in respect of the issue will not be amended in the current year.

However, in identifying this issue we have also identified a small number of leases that will fall within the scope of IFRS16, but not the current leasing standard. These leases will therefore require to be brought onto the balance sheet for the first time in 2022-23.

Potential effects

Council will require to quantify the financial impact on the balance sheet of the implementation of IFRS n their 2021-22 financial statements. Without a full review of all leases held, including those at peppercorn rentals, there is a risk that this disclosure could be materially misstated.

Recommendation

Given the authority has sufficient time available prior to the mandatory implementation deadline, we recommend that the Council performs a thorough review of leases held and their value to quantify the overall impact of implementation of IFRS16 for disclosure in the 2021-22 accounts and beyond.

Management response

In preparation for the 2022-23 Statement of Accounts (comparatives required for 2021-22) the Council has carried out a thorough review of leases held for which the Council is lessee. An estimate of the impact of IFRS16 on the balance sheet has been calculated. On the basis of the estimate the impact on the accounts of IFRS16 is not expected to be material. A detailed IFRS16 calculation will be prepared for inclusion in the 2022-23 accounts.

PPE valuations process – Level 2

Description of deficiency

Our audit identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This was due to issues in the valuations process resulting in incorrect balances being provided to the fixed asset register gatekeeper. This resulted in the overstatement of valuations in the financial statements, which have been corrected by management.

Potential effects

The misstatement of property valuations in source documentation will lead to the balance sheet being incorrect.

Recommendation

Management should make the best use of all of the available information to them. In order to minimise the occurrence of such errors, we recommend:

- In order to ensure management are using all information provided by the valuers, management should perform reconciliations between valuations input spreadsheet and fixed asset register
- Greater challenge of the valuation provided to management to be input into the accounts.

Management response

Officers acknowledge that human error allowed several individual file valuations not to be updated on the summary schedule that was forwarded for inclusion in the fixed asset register.

Going forward Corporate Estates will carry out sample checks to confirm all updated valuations have been included on the summary schedule and will insert an additional check column within the workbook to acknowledge that all valuations have been correctly incorporated.

5. Internal control recommendations

Migration to Dynamics accounting system – Level 2

Description of deficiency

We have noted the Authority plans a hard close of the finance side of the current SAP system at the end of November 2021 following a full migration of the finance side to Dynamics. Payroll will remain in SAP for the immediate future.

Potential effects

2021-22 will be the first year end on the new accounting system. Given the year end close will require the ‘splicing’ together of data from two systems and first close of a new accounting system, there is scope for considerable delays and ‘teething’ issues.

Recommendation

We would recommend the council run a ‘dress rehearsal’ of the year end closure. This process will help the Authority to understand its new system and identify any close down issues prior to the year end. This will allow work arounds to be implemented before the full year end close down.

Management response

Officers within Finance have already started on reconciliation checks to ensure closing balances from SAP are carried forward as the opening balances in the Dynamics system. Officers will ensure all data and reconciliations are up to date and year end reports tested to allow a dry run of an accounts closedown under Dynamics by the end of February 2022.

06

Section 06:

Summary of misstatements

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6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold of £272k for adjustment of £10.9m. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: General Fund			292	
	Cr: Expenditure		292		
	Adjustment for a prior year cut-off error where a proportion of an HRA invoice relating to 2019-20 had been incorrectly recorded in 2020-21				
2	Dr: Creditors			388	
	Cr: General Fund		388		
	Adjustment required to remove the historic imbalance that exists between the collection fund creditors in the collection fund statement and balance sheet as a result of an error made in the recording of transactions in previous years				
3	Dr: Revenue	409			
	Cr: General Fund				409
	Prior year cut-off errors identified where income relating to 2019-20 had been recorded in 2020-21 as information was unavailable at the completion of the draft financial statements for the prior year.				
	Total unadjusted misstatements	**409**	**680**	**680**	**409**

Disclosure amendments

We also identified an issue with the operating lease disclosure. A trivial (balance sheet impact) finance lease had been disclosed as an operating lease within the operating lease disclosure. The authority have elected to not amend for the issue given the trivial nature.

6. Summary of misstatements

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£’000)	Cr (£’000)	Dr (£’000)	Cr (£’000)
1	Dr: Creditors			301	
	Cr: Debtors				301
	Both debtors and creditors were initially overstated. This was in respect of a credit adjustment relating to adult social care client monies held as at the end of 2019-20 processed through debtors. The adjustment was not removed at the start of the period, overstating both debtors and creditors. As such both have been reduced.				
2	Dr: Impairment charge	10,607			
	Cr: Revaluation Reserve				3,392
	Cr: Property plant and equipment				7,215
	Dr: Capital Adjustment account			10,607	
	Cr: General Fund				10,607
	Adjustment made as a result of the inclusion of incorrect valuations within the fixed asset register resulting in a number of over and under valuations or PPE within the financial statements. The adjustments as detailed are the net movements and impacts on the revaluation reserve and impairment charge.				
	Total adjusted misstatements	10,607		10,908	21,515

Disclosure amendments

During our testing we identified one significant disclosure amendment. We identified that the council had incorrectly restated prior year comparatives in relation to DSG balances in the draft 2020/21 accounts. The regulation did not come into force until 2020/21 and so the amendment should not have been made. Upon request the Authority made the required amendment. Other disclosure adjustments made have no impact on the substance of the financial statements.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report within 3 months of the financial statements.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report within 3 months of the financial statements.

Appendices

A: Draft management representation letter

Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Dear Lucy

London Borough of Harrow - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance and Assurance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

Appendix A: Draft management representation letter

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council’s financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value; and
- provision for NNDR Appeals.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance and Assurance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts

I confirm I consider where any of the Council’s subsidiary companies and / or joint ventures have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

Unadjusted misstatements

All unadjusted misstatements above triviality have been listed in the appendix to this letter.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Public Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Yours sincerely

Dawn Calvert

Director of Finance and Assurance, Section 151 Officer

Date:

Appendix A: Draft management representation letter

Appendix – Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	Dr: General Fund			292	
	Cr: Expenditure		292		
	Adjustment for a prior year cut-off error where a proportion of an HRA invoice relating to 2019-20 had been incorrectly recorded in 2020-21				
2	Dr: Creditors			388	
	Cr: General Fund				388
	Adjustment required to remove the historic imbalance that exists between the collection fund creditors in the collection fund statement and balance sheet as a result of an error made in the recording of transactions in previous years				
3	Dr: Revenue	409			
	Cr: General Fund				409
	Prior year cut-off errors identified where income relating to 2019-20 had been recorded in 2020-21 as information was unavailable at the completion of the draft financial statements for the prior year.				
	Total unadjusted misstatements	**797**	**292**	**292**	**797**

Appendix B: Draft audit report

Independent auditor's report to the Members of London Borough of Harrow

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Harrow "the Council" for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Housing Revenue Account, Collection Fund Account 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council 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.

Emphasis of Matter – the valuation of land, buildings and, investment property and pension fund pooled property investments

We draw attention to Note 5.3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land, buildings and investment property, and the valuation of the Council's share of the Harrow Pension Fund pooled property investments. As disclosed in Note 5.3 to the financial statements, the Council's and Pension Fund valuers included a 'material valuation uncertainty' declaration in their reports because of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council'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.

Appendix B: Draft audit report

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

Other information

The Director of Finance and Assurance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report 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 there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of the Director of Finance and Assurance’s Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance and Assurance is also responsible for such internal control as the Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

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

Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance and Assurance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance, Audit, Risk Management and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance, Audit, Risk Management and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance, Audit, Risk Management and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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 auditor's report.

Appendix B: Draft audit report

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

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

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Appendix B: Draft audit report

Use of the audit report

This report is made solely to the Members of London Borough of Harrow Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to:

- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

Lucy Nutley
For and on behalf of Mazars LLP

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date

Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Director of Finance and Assurance that the London Borough of Harrow will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

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Appendix D: Other communications

Other communication	Response
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and GARMS, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

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Mazars

Tower Bridge House
St Katharine's Way
London
E1W 1DD

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

*where permitted under applicable country laws.

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Audit Completion Report

London Borough of Harrow Pension Fund
Year ended 31 March 2021

November 2021

mazars

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03 Audit approach

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Appendix D: Independence

Appendix E: Other communications

mazars

Members of the Governance, Audit, Risk management and Standards Committee
London Borough of Harrow
Civic Centre,
Station Road
Harrow
HA1 2XY

Mazars LLP
Tower Bridge House
St. Katherine's Docks
London
E1W 1DD

30 November 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 13 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We identified the following significant risks/areas of management judgement:

- Management override of controls
- Valuation of unquoted investments

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052

Yours faithfully

Lucy Nutley
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Valuation of unquoted investments

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. There are no unadjusted misstatements.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, there are no significant matters outstanding.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, modified to include an 'emphasis of matter' paragraph surrounding the valuation of pooled property investments, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B. This is not a modification of opinion.

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of London Borough of Harrow Council. Our draft consistency report is provided in Appendix C.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No such correspondence from electors has been received.

02

Section 02:

Status of the audit

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2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Assurance provided for London Borough of Harrow audit		Completion of specific pension fund testing in areas that we provide assurance in respect of the London Borough of Harrow audit.
Closure procedures and review		Our final reviews and completion work needs to be performed, including consideration of post balance sheet events until the date of sign-off.
Review of Annual Report		Our review of the content of the detailed Pension Annual report to confirm consistency with the financial statements has yet to be completed.

- Likely to result in material adjustment or significant change to disclosures within the financial statements.
- Potential to result in material adjustment or significant change to disclosures within the financial statements.
- Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

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3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £14.5m using a benchmark of 1.5% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £3.6m at the planning stage of the audit using a benchmark of 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using and amended benchmark of 1.0% but no change to specific materiality benchmark was:

- Statement materiality £9.7m.
- Fund account specific materiality £3.5m.

Use of experts

Management makes use of experts in specific areas when preparing the Pension Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits	Hymans Robertson	NAO consulting actuary, PwC
Valuation of investments within level 3 of the fair value hierarchy and related disclosures	Investment managers engaged by the fund that prepare valuations	We have not engaged our own expert for the valuation of level 3 investments to support the valuation of unusual or complex level 3 investments.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information provided by the Pension Fund to fund managers.
Investment valuations and income and all related disclosures	Investment managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.
Investment valuations and income and all related disclosures	Custodian	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.

04

Section 04:

Significant findings

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report

Significant risks

Management override of controls	
	Description of the risk In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion We have no significant findings to report as a result of our work on areas subject to potential management override of controls.

4. Significant findings

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Valuation of unquoted investments	Description of the risk
	As at 31 March 2021, the Pension Fund held investments which were not quoted on an active market with a fair value of £68.550 million, accounting for 7.1% of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.
	How we addressed this risk
	We addressed this risk by completing the following additional procedures: • agreeing holdings from fund manager reports to the custodian's report; • agreeing the valuation to supporting documentation including investment manager valuation statements and cash-flows for any adjustments made to the investment manager valuation; • agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • where audited accounts are available, check that they are supported by a clear opinion.

Valuation of unquoted investments	Audit conclusion
	No significant matters arising. The Pension Fund intends to include a disclosure of material valuation uncertainty in note 5 to the financial statements with regard to pooled property fund valuations totalling £61.7m, in light of the continued impact of the Covid-19 pandemic have had a 'material valuation uncertainty' attached to their 31 March 2021 valuation. This is material to the Pension Fund. We consider this to be fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.

4. Significant findings

Qualitative aspects of the Fund’s accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

Draft accounts were received from the Fund on 14 July 2021 and were of a good quality. Supporting working papers were provided with the accounts and were also of a good quality.

Significant matters discussed with management

Examples of significant matters include:

- Investment Valuations. We discussed the impact of Covid-19 on the Pension Fund, including potential impact on risks of material misstatement. This included obtaining confirmation that investment valuations received were based as at 31 March 2021 and not based on estimates. All valuations were appropriately dated for 31 March 2021. Where estimates have ben applied, we have requested further information surrounding controls in place at fund managers in order to assess the reasonableness of such estimates.
- Uncertainty of property valuations. We discussed management’s assessment of their specific pooled property investment funds whose valuation at 31 March 2021 included a material valuation uncertainty clause due to Covid-19. The pension fund have previously accounted for the property fund investment as level 3 and therefore no reclassification was required.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

Modifications required to our audit report

We have identified the following issue(s) which has/have resulted in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.

As described within our response to the significant risk surrounding the valuation of the council’s unquoted investments surrounding pooled property funds, our draft auditor’s report set out in Appendix B includes and ‘Emphasis of Matter’ paragraph with respect to the disclosure of material valuation uncertainties. Our opinion on the financial statements is not qualified in respect of these matters.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have not identified any deficiencies that would give rise to further recommendations.

06

Section 06:

Summary of misstatements

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6. Summary of misstatements

Adjusted and unadjusted misstatements

During the audit we have not identified any unadjusted or adjusted misstatements above the triviality threshold of £290k.

Disclosure amendments

The following disclosure amendments were made:

- General: A number of minor presentational and typographical changes made to the financial statements that do not require individual analysis.
- Disclosure of AVC's: The authority originally included a 31/3/20 valuation with the disclosure note explaining that a more recent valuation wasn't available. This has since been updated in the accounts as more up to date valuation information has become available.

Appendices

A: Draft management representation letter

Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

Appendix A: Draft management representation letter

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Dear Lucy

London Borough of Harrow Pension Fund - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow Pension Fund ('the Fund') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance and Assurance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Fund and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Fund in making accounting estimates are reasonable, including:

- those measured at current or fair value

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance and Assurance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Unadjusted misstatements

I confirm that there were no uncorrected misstatements.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Dawn Calvert

Director of Finance and Assurance, Section 151 Officer

Date

Draft Independent auditor's report to the members of the London Borough of Harrow Pension Fund

Report on the financial statements

Opinion on the financial statements of the Harrow Pension Fund

We have audited the financial statements of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of Lincolnshire Pension Fund during the year ended 31 March 2021, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of pooled property fund assets

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's pooled property fund assets as at 31 March 2021. As disclosed at Note 5, these valuations have been reported by the valuers on the basis of 'material valuation uncertainty' in line with guidance from the Royal Institute of Chartered Surveyors (RICS). Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Appendix B: Draft audit report

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

Other information

The Director of Finance and Assurance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. 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 there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance and Assurance is also responsible for such internal control as the Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Appendix B: Draft audit report

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 auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

of the audit report

This report is made solely to the members of the London Borough of Harrow, as a body and as administering authority for the Harrow Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date

Appendix C: Draft consistency report

Independent auditor's statement to the members of London Borough Of Harrow on the pension fund financial statements included within the London Borough Of Harrow Pension Fund annual report

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2021 included within the London Borough of Harrow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of the London Borough of Harrow for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Respective responsibilities of the Director of Finance and Assurance and the auditor

As explained more fully in the Statement of the Director of Finance and Assurance's Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Harrow as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Harrow.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Harrow describes the basis of our opinions on the financial statements.

Appendix C: Draft consistency report

Use of this auditor's statement

This report is made solely to the members of London Borough of Harrow , as a body and as administering authority for the London Borough of Harrow Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of London Borough of Harrow those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Harrow and London Borough of Harrow's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

er Bridge House
atharine's Way
London
E1W 1DD

Date

Appendix D: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Director of Finance and Assurancer that The London Borough of Harrow Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Appendix E: Other communications

Other communication	Response
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Governance, Audit, Risk management and Standards committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Mazars

Tower Bridge House
St Katharine's Way
London
E1W 1DD

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

*where permitted under applicable country laws.

mazars

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