

Governance, Audit, Risk Management and Standards Committee Agenda

Date: Thursday 22 October 2020

Time: 6.30 pm

Venue: Virtual Meeting - Online

Membership (Quorum 3)

Chair: Councillor David Perry

Labour Councillors: Ghazanfar Ali
Peymana Assad
Kairul Kareema Marikar

Conservative Councillors: Philip Benjamin
Amir Moshenson
Kanti Rabadia (VC)

Labour Reserve Members:

1. Maxine Henson
2. Niraj Dattani
3. Antonio Weiss
4. Chloe Smith

Conservative Reserve Members:

1. Pritesh Patel
2. John Hinkley
3. Chris Mote

Contact: Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881 E-mail: daksha.ghelani@harrow.gov.uk

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Useful Information

Meeting details

This meeting is open to the press and public and can be viewed on www.harrow.gov.uk/virtualmeeting

Filming / recording of meetings

Please note that proceedings at this meeting may be recorded or filmed. If you choose to attend, you will be deemed to have consented to being recorded and/or filmed.

The recording will be made available on the Council website following the meeting.

Agenda publication date: Wednesday 14 October 2020

AGENDA - PART I

1. Attendance by Reserve Members

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. Declarations of Interest

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

3. Minutes (Pages 7 - 12)

That the minutes of the meeting held on 8 September 2020 be taken as read and signed as a correct record.

4. Public Questions *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, 19 October 2020. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. Petitions

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. Deputations

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. References from Council and other Committees/Panels

To receive references from Council and any other Committees or Panels (if any).

8. Statement of Accounts 2019-20 (Pages 13 - 242)

Report of the Director of Finance and Assurance.

9. Internal Audit and Corporate Anti-Fraud 2020/21 Annual Plans (Pages 243 - 272)

Report of the Director of Finance.

10. Any Other Urgent Business

Which cannot otherwise be dealt with.

11. Exclusion of the Press Public

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
12.	INFORMATION REPORT – Internal Audit Red Assurance Reports	Exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
13.	INFORMATION REPORT - Q1/Q2 2020/21 Corporate Risk Register	Exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

12. INFORMATION REPORT - Internal Audit Red Assurance Reports (Pages 273 - 302)

Report of the Director of Finance and Assurance.

13. INFORMATION REPORT - Q1/Q2 2020/21 Corporate Risk Register (Pages 303 - 328)

Report of the Director of Finance and Assurance.

*** Data Protection Act Notice**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[Note: The questions and answers will not be reproduced in the minutes.]

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Governance, Audit, Risk Management and Standards Committee

Minutes

8 September 2020

Present:

Chair: Councillor David Perry

Councillors: Ghazanfar Ali
Philip Benjamin
Amir Moshenson
Kanti Rabadia
Chloe Smith

Advisers: James Coyle

Absent: Dr J Kirkland
Councillor Kairul Kareema
Marikar

99. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Reserve Member

Councillor Peymana Assad

Councillor Chloe Smith

100. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Kanti Rabadia as Vice-Chair of the Governance, Audit, Risk Management and Standards Committee for the 2020/2021 Municipal Year.

101. Declarations of Interest

RESOLVED: To note that the Declarations of Interests published in advance of the meeting on the Council's website were taken as read and that no declarations were received at the meeting.

102. Minutes

RESOLVED: That the minutes of the meeting held on 21 January 2020 be taken as read and signed as a correct record.

103. Public Questions

RESOLVED: To note that no public questions were received.

104. Petitions

RESOLVED: To note that no petitions had been received.

105. Deputations

RESOLVED: To note that no deputations were received at the meeting under the provisions of Committee Procedure Rule 16.

106. References from Council and other Committees/Panels

RESOLVED: To note that no references were received.

Resolved Items

107. Annual Governance Statement 2019/20

Members received a report which set out the 2nd Draft Annual Governance Statement (AGS) for 2019/20.

The Head of Internal Audit outlined the content of the report and drew attention to the section on the impact of COVID 19 on governance, the level of assurance and her opinion, as Head of Internal Audit, which was broadly the same as the previous year, that is good with improvement required in some areas. She drew Members' attention to significant governance issues in relation to the Depot redevelopment project as a significant overspend had been projected and several breaches of the Council's Financial Regulations and Contract Procedure Rules identified. Initial action had been taken and there would be a further report to Committee in October.

In response to a Member's question about the financial gap of £11.2m, the Director of Finance advised that when the Medium Term Financial Strategy (MTFS) was submitted to Cabinet in February there had been a predicted overspend of £22m. Clearly, the COVID 19 emergency had had a major impact on the Council's financial position and there was concern in terms of the legacy impact of the pandemic. Detailed analysis/work was underway with Directorates to see if cost pressures could be reduced and there was on-going work with Cabinet. The Director expressed the view that

announcements from Government in terms of the Comprehensive Spending Review were likely to be received much later in the year and so the preparation of the draft budget would be challenging. A report on the MTFs would be submitted to Cabinet in October and would set out some scenarios in relation to the Council's financial position pending the Government's announcement.

A Member questioned the impact of the COVID 19 pandemic on the risk register and was advised that the last risk register had been for quarter 4 and that there had been a delay in terms of quarters 1 and 2. A report would be submitted to the next meeting of the Committee.

In terms of the conclusion in the report that there was good governance, a Member sought details of the work done in order to form this opinion and explained that his experience differed from the evidence provided (paragraph 6.16 on page 77) and undertook to forward his comments to the officer. The Member also requested that he be provided with the self-assessments undertaken for the bodies/trading companies.

A Member questioned the differing governance arrangements for bodies/ Trading companies such as Concilium Assets LLP. The Director of Finance undertook to forward the initial Cabinet report which established the LLP to the Member.

RESOLVED: That the Annual Governance Statement 2019/20 be recommended for approval by the Leader of the Council and Chief Executive.

108. Draft Statement of Accounts 2019-20

Members received a report which set out the draft Statement of Accounts 2019-20 and draft Pension Fund Annual Report 2019-20.

The Director of Finance introduced the report and advised that that the Accounts were currently being audited by the external auditors. A report would be submitted to Committee in October advising of the formal external audit opinion.

In response to a Member's question, officers explained the budget process and the link between the Budget and the Statement of Accounts. This covered the Narrative Report, the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MIRS), the Expenditure and Funding Analysis (EFA) and the breakdown of adjustments such as depreciation.

Members asked a number of detailed technical questions which were duly responded to as follows:-

- the officer explained that much higher fair value related to loans in note 5.14 (£427m carrying amount compared to £832m fair value) and was due to changes in interest rates since the loans had been taken out. Since interest rates were now very low, the Council would have to pay

a large premium if it wanted to sell the loans on the open market or redeem them early;

- a Member sought clarification in terms of the Council's increased level of borrowing, £76m, and whether this had been used to repay outstanding loans. The Director of Finance undertook to provide a written response;
- in terms of the valuation of assets and the impact of COVID-19, the officer advised that whilst provision was not made for the risk that the value of buildings and investments might decrease after the balance sheet date, the risk that this might happen was recognised in the accounts in note 5.3;
- the Pension Fund liabilities changed year on year and were calculated by an actuary. There was a funding strategy for the Pension Fund and the Council was required to set out how the pension fund would remain fully funded for 20 years. The Director acknowledged the Member's concern at the increasing liabilities in terms of the fund but reassured the Committee that the Council would meet its obligations;
- in response to a question in relation to the level of interest on borrowing and whether it would be possible to move to cheaper loans, the Director explained the breakdown of interest payments and Minimum Revenue Payments (MRP) and undertook to confirm the interest cost breakdown to the Member in writing;
- a Member sought reassurance that £43m (note 5.7) was a satisfactory level of earmarked reserves and was advised there was, in addition, a £10m General Fund usable reserve – the Council were at the lower level of General Fund reserves when compared with other London local authorities.

RESOLVED: That the draft Statement of Accounts 2019-20 and draft Pension Fund Annual Report 2019-20 be noted.

109. INFORMATION REPORT - Internal Audit and Corporate Anti-Fraud Year-End Reports 2019/20

Members received a report which set out the 2019/20 year end reports for Internal Audit and the Corporate Anti-Fraud Team and included the Head of Internal Audit's overall audit opinion on the control environment.

The Head of Internal Audit introduced the report and advised that she was pleased with the performance of the Audit and Corporate Anti-Fraud Teams. She drew attention to the Head of Internal Audit opinion and advised Members of a correction in that there was not one more significant governance gap identified last year; it was a different one. She explained that the COVID 19 pandemic had impacted on audit work and that there would be fewer audit days this year and that the Internal Audit Plan would be reported to Committee in October.

Members then considered the Internal Audit element of the report. In response to a Member's question in relation to the significant weaknesses reported on IR35, the Head of Internal Audit reported that this related to contractors/ temporary staff.

In response to a Member's question, the Head of Internal Audit confirmed that follow ups were undertaken until the reassessed assurance was at least Amber and that this was due to resources. She advised that whilst noting the Member's concern that some recommendations had not been implemented, the management team had accepted them and it might just be that, due to other understandable priorities this year, they had not been acted on at the time of the follow up.

Members considered the corporate anti-fraud element of the report. The officer explained that the data matching exercise was carried out by the Cabinet Office and any potential impacts of a match with another organisation would be raised with the relevant organisation. In terms of fraud referrals and savings, looking back to the risks identified in the previous year would lead officers to divert resources as appropriate. Potential impacts would feature in the Corporate Anti-Fraud Plan for the forthcoming year. This year, grants in relation to COVID 19 would feature in the Plan and fraud in relation to Housing and Right to Buy continued to be priorities.

The Chair welcomed the positive Audit opinion and direction of travel and acknowledged the transparency of the report in that it set out where the Council both did and did not achieve its targets/ implement recommendations.

RESOLVED: That the Internal Audit and Corporate Anti-Fraud Year-End Reports 2019/20 be noted.

110. Annual Health and Safety Report

Members agreed to consider an urgent report for the reasons set out on the supplemental agenda and which summarised the Council's health and safety performance for the year 1 April 2019 to 31 March 2020. The report also provided an update of activities and gave information on outcome measures – training, audits and accidents, information about Occupational Health, the Health & Safety Strategy, Corporate Health and Safety Plan and Policy.

The officer outlined the content of the report in detail and responded to Member's questions as follows:-

- The Council had only one new high rise building, built approximately two years ago, with no fire risk to cladding. If Members had concerns about a particular building they should contact the relevant Housing Officer;
- the Council's Assure system ensured that all health and safety information was captured/ recorded in one place;

- there was a statutory requirement to undertake asbestos surveys for all of the Council's buildings;
- a fall from height could be as little as one inch in terms of reporting but may more accurately be referred to as a slip or trip.

RESOLVED: That

- (1) the Accidents and Incidents report be noted;
- (2) the Health & Safety Strategy and corporate health and safety plan, as set out in Appendix 4 to the report, be noted;
- (3) the approved annual Health & Safety Policy, as set out in Appendix 6 to the report, be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.36 pm).

(Signed) Councillor David Perry
Chair

REPORT FOR: Governance, Audit, Risk Management and Standards Committee (GARMS)

Date of Meeting:	22 nd October 2020
Subject:	Statement of Accounts 2019-20
Responsible Officer:	Dawn Calvert, Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 Statement of Accounts 2019-20 Appendix 2 Pension Fund Annual Report 2019-20 Appendix 3 Summary Statement of Accounts 2019-20 (to follow) Appendix 4 Draft Audit Completion Reports on the Audit of the Statement of Accounts and the Harrow Pension Fund for the year ended 31 March 2020

Section 1 – Summary and Recommendations

This report presents the audited Statement of Accounts for 2019-20 subject to the issue of the audit opinion

Recommendations:

The GARMS Committee is requested to :-

1. Consider the draft Audit Completion Report of the External Auditor on matters arising from the audit of the Statement of Accounts 2019-20

- and the Pension Fund Annual Report 2019-20;
2. Approve the audited Statement of Accounts 2019-20 and authorise the signing thereof by the Chair;
 3. Note the Pension Fund Annual Report 2019-20;
 4. Authorise the Director of Finance and Assurance, following consultation with the Chair, to make any final amendments to the Statement of Accounts 2019-20 and Pension Fund Annual Report 2019-20 arising from the external audit prior to the signing by the auditor; and
 5. Note the Summary Statement of Accounts 2019-20.

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 September 2020 the GARMS committee received a report on the draft Statement of Accounts 2019-20. Today's report is on the audited Statement of Accounts 2019-20.
2. The Accounts and Audit Regulations 2015, which came into force on 1st April 2015, require Local Authorities to prepare Statement of Accounts in accordance with proper practices. Due to the corona virus pandemic the publication deadline for audited Statement of Accounts has been moved from 31st July 2020 to 30th November 2020 as permitted by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which came into force on 30th April 2020.
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 9th September 2020 and will be asked to consider the Pension Fund external Audit Completion Report and approve the Pension Fund Annual Report on 25th November 2020.
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. This 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.
7. This the second financial year that Mazars LLP have been the external auditors for this Authority, having taken over the role from KPMG LLP.

Accounts Summary and Audit Progress

8. The **Narrative Report** includes the performance of the Council and provides an outlook for the future. The revenue budget and the capital spend reported in the draft version of the accounts presented at the GARMS meeting in September remain unchanged.

9. The **Expenditure and Funding Analysis** compares the outturn shown in the Narration Report with true economic cost of providing services valued in accordance with proper accounting practices as shown in the Comprehensive Income and Expenditure Statement. The statement has not changed since the approval of the draft accounts.
10. The **Comprehensive Income and Expenditure Account (CIES)** shows the true economic cost of providing Council services. The surplus reported for the year was £37.6m. No changes have been made to the CIES since the draft accounts were presented to GARMS in September.
11. 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. The increase in the usable reserves balance of £2.4m and the increase in the unusable reserves of £35.2m have not changed since the September GARMS meeting.
12. The **Balance Sheet** sets out the financial position of the Council as at 31st March 2020. The statement shown at 4.3 has not changed from the draft accounts that were presented at the September GARMS committee.
13. The **Cash Flow** statement shows how the Council generates and uses cash.
14. The **Housing Revenue Account (HRA)** shows the true economic cost of providing housing services. The surplus reported for the year is £6.4m and is unchanged from the amount previously reported.
15. The **Collection Fund** statement shows a net carry forward surplus of £3m made up of Council Tax £2.8m and Business Rates £0.2m. The surplus is paid out as additional precepts to the Council, Central Government and the Greater London Authority in future years. This statement remains unchanged
16. The net assets of the **Pension Fund** at year end are £778m. This is a decrease of £73.6m against the previous year reflecting mainly the reduction in the market value of investments of £96m and an increase of £28m in cash held with investment managers. The Pension Fund figures remain the same as those presented in September to the GARMS committee.
17. Mazars LLP are currently conducting their external audit of the Statement of Accounts 2019-20 and the Pension Fund Annual Report 2019-20. As outlined in the paragraphs above and at the time of writing this report, there have been no changes to the main financial statements.

18. The draft **Audit Completion Report** contains matters raised by the auditor, their recommendations on those issues and the management response. A further update on the progress of the audit will be given verbally at the meeting.
19. 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.
20. The external auditors have made an initial reference in their Audit Completion Report for the need for a valuation uncertainty clause within the audited Statement of Accounts 2019-20. Further discussions between officers and the external auditors will be held over the next month, with Members being kept informed.

Legal Implications

21. 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

22. There are no direct financial implications arising from this report.

Risk Management Implications

23. There are no risk implications

Equalities implications / Public Sector Equality Duty

24. There are no equalities implications

Council Priorities

25. 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

Name: Dawn Calvert

Chief Financial Officer

Date: 12th October 2020

Name: Joane Mohan

on behalf of the
Monitoring Officer

Date: 9th October 2020

Name: Charlie Stewart

Corporate Director

Date: 8th October 2020

Ward Councillors notified:

No

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Section 4 - Contact Details and Background Papers

Contact: Paul Gower, Interim Technical Accounting Manager, e-mail paul.gower@harrow.gov.uk

Background Papers: None

Statement of Accounts

2019 - 2020

Subject to Audit

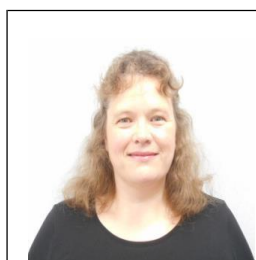


London Borough of Harrow
Statement of Accounts
2019 - 2020

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1. Narrative Report

Message from the Director of Finance



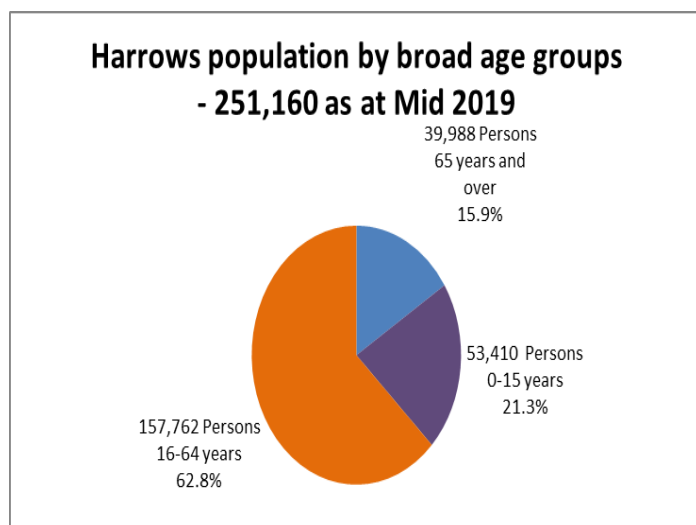
As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2019-20. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2019-20.

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 251,160 as at 30th June 2019. 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 15,215 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 2019/20 and comprises:

Chief Executive

Corporate Director - Community and Regeneration

Corporate Director - People's

Corporate Director - Resources

Director of Finance

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:

<p>Resources Directorate</p> <p>Revenues and Benefits</p> <p>Customer Services and IT</p> <p>Finance and Assurance</p> <p>Strategic Commissioning</p> <p>Procurement</p> <p>Human Resources</p> <p>Legal and Governance</p>	<p>People's Directorate</p> <p>Adult Social Care</p> <p>Public Health</p> <p>Commissioning and Schools</p> <p>Children and Young People's Services</p> <p>Community</p> <p>Environment and Culture</p> <p>Commissioning and Commercial</p> <p>Housing</p> <p>Regeneration, Enterprise and Planning</p>
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1.2 Summary of the Financial Performance of the Council

Revenue Budget

The outbreak of the Coronavirus has only had a minor impact upon the 2019-20 financial performance of the Council, with the main impact affecting 2020-21 and beyond as set out in section 1.3, the Financial outlook section.

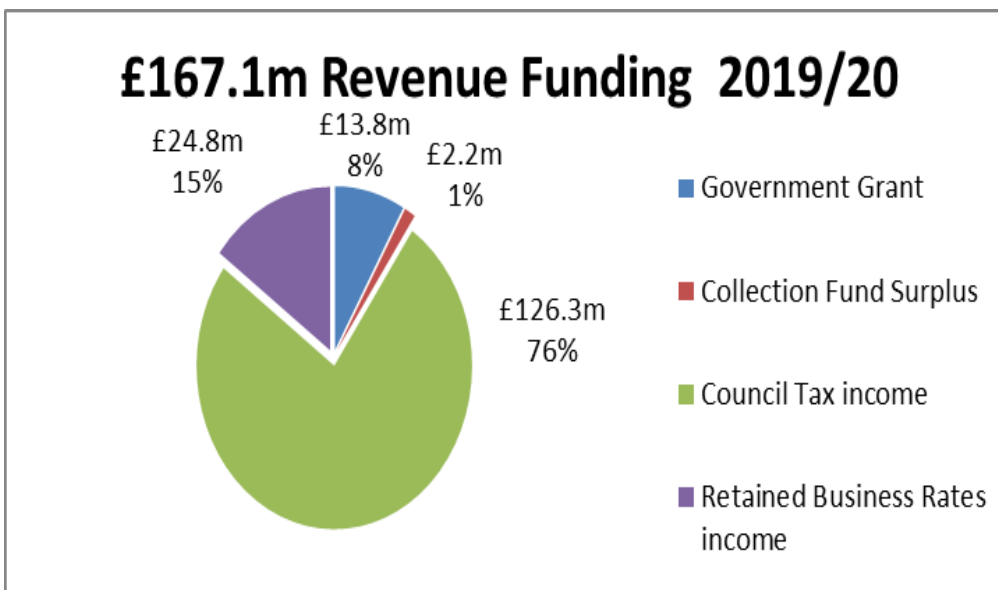
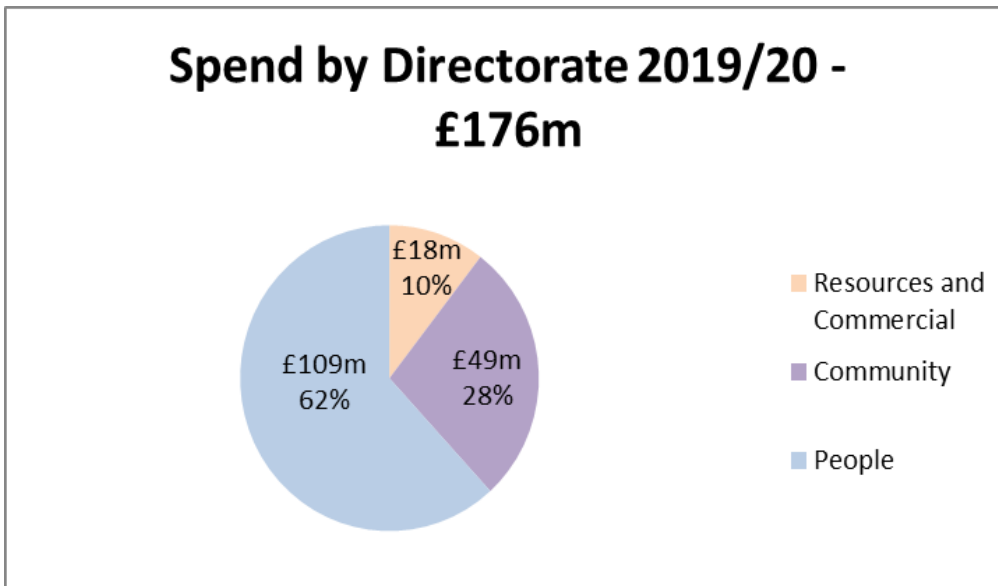
During the year the Council delivered its services within the approved budget of £167.1m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in a balanced outturn position after contributing just under £6.1m into reserves, which after allowing for £3.2m which has been carried forward to be spent in 2020-21, leaves the remainder of £2.9m earmarked to help fund the 2020-21 budget and to fund capacity needed to implement future savings and organisational transformation.

The Council has maintained its General Fund Balances at just over £10m in 2019-20. 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 decreased from £52.3m to £43.6m in 2019-20 as set out in note 5.7. The final outturn position for the year compared to the revised budget is set out below:

	Budget £000	2019-20 Actuals £000	Variation £000
Directorate costs			
People - Adult Services and Public Health	66,026	66,356	330
People - Children and Families	41,906	42,469	563
Community	44,510	49,095	4,585
Resources and Commercial	18,779	18,389	(390)
Total - Directorate	171,221	176,309	5,088
Other operating income			
Contingencies, Corporate Items and Non-service grants	(8,960)	(15,051)	(6,091)
Capital Financing and Interest	7,921	2,781	(5,140)
Net Expenditure	170,182	164,039	(6,143)
Use of Capital Receipts Flexibility	(3,100)	(3,100)	0
Net Expenditure	167,082	160,939	(6,143)
Transfer to Reserves:			
Unspent sums Carried Forward to 2020-21	0	3,171	3,171
Contribution to Reserves	0	2,972	2,972
Net Expenditure	167,082	167,082	0
Funded by :			
Government Grant	(13,753)	(13,753)	0
Collection Fund Surplus	(2,200)	(2,200)	0
Council Tax income	(126,295)	(126,295)	0
Business Rates income	(24,834)	(24,834)	0
Total	(167,082)	(167,082)	0
Surplus for the year		0	
General Fund balance at 31 March 2020		10,008	

The following pie charts break down actual total expenditure and revenue funding as per the final London Borough of Harrow Statement of Accounts 2019-20

outturn position:



Capital Programme 2019-20

During 2019-20 the Council invested £90.6m on developing or acquiring capital assets. This was mainly funded from £66m borrowing and the balance of £24.6m funded from external grants, section 106/CIL contributions, revenue contributions and capital receipts.

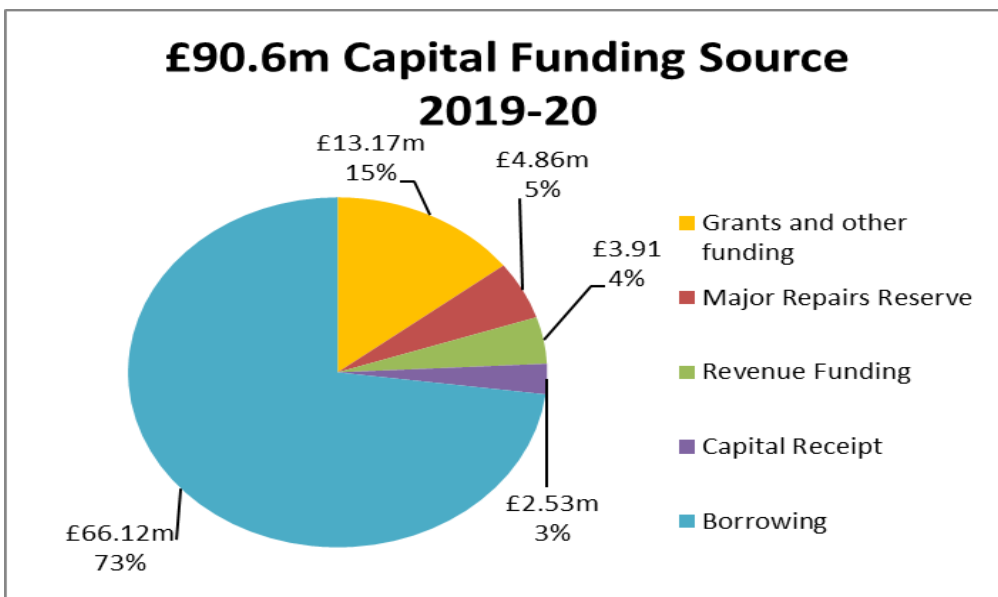
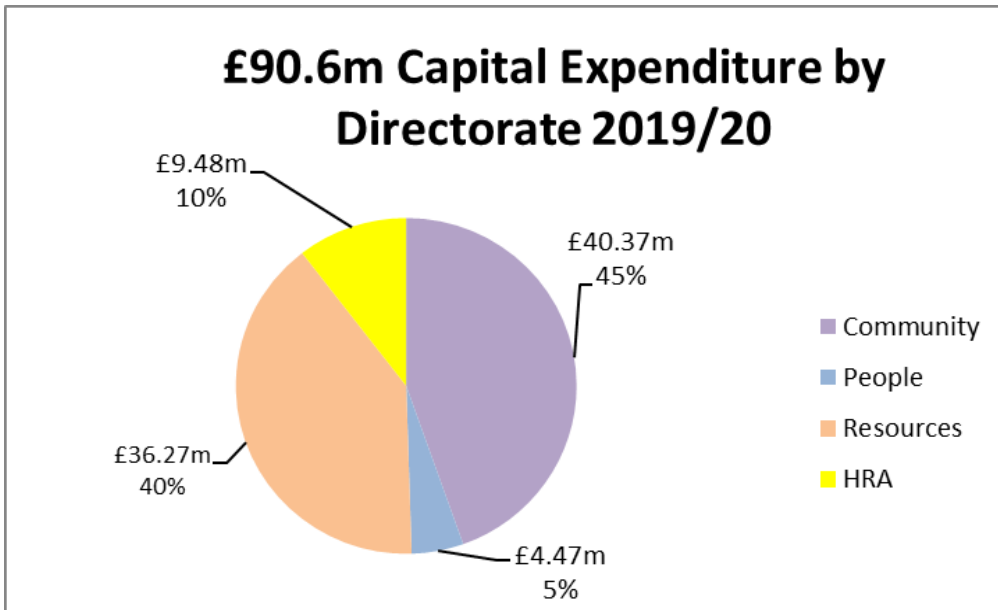
Major projects included in the capital programme were:

- Continued investment in new technology to improve Council Services;
- Acquisition of 1 Investment Property and an Office block in Central Harrow;
- Continuation of the Schools expansion programme including SEN provision;
- Highways improvement programme and Street Lighting Improvements;
- Continuation of the programme to redevelop the central depot;
- Redevelopment of Vernon Lodge and Atkins House;
- Improvements to parks and playgrounds;
- Upgrade of the CCTV Infrastructure;
- Purchase of new transport fleet;
- Provision of disabled facility grants to private sector tenants;
- Purchase of homes in Harrow for temporary accommodation;

London Borough of Harrow Statement of Accounts 2019-20

- Improvements to the Council's housing stock;
- Provision of new Council Homes

The following charts show how the £90.6m was spent by Directorate and also how the Capital Programme was funded:



Housing Revenue Account (HRA)

Housing supply from all providers increased by some 1,226 homes across Harrow in 2019-20. This is the highest increase in any year over the past 30 years and includes, for the first time in decades, a net increase in Council housing stock as a result of new house building in accordance with the Mayor of London's Building Council Homes for Londoners' Programme. 73% of the Heart of Harrow's new 2,800 homes have been completed within five years of the 15-year target. Contractors were also appointed to deliver Phase 1 of the Grange Farm regeneration, comprising 68 homes for social rent and 21 for shared ownership.

Collection Fund

The in-year Council tax collection rate for 2019-20 was 97.57% which compared favorably with the target of 97.25%. Business rate collection was 96.67% which was below the target of 97%. Collection of Business rates income is challenging due to the large number of small businesses in the borough. The overall position for the Collection Fund is a net surplus of £3.026m against an estimated surplus of £2.638m. This net variance of £0.388m was mainly as a result of slightly higher collection of council tax arrears.

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. The investment portfolio achieved an average return of 0.49% reflecting the short duration of investments held during the year.

During 2019-20, there was a net increase in borrowing of £76m. A £12m loan was repaid on maturity. £32m of short-term borrowing taken in 2018-19 was repaid on maturity. There was new borrowing of £120m mostly through PWLB. 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 costs.

Pensions

The Pension Fund is maintained at a level to meet the Council's long-term liability for pension benefits. The Fund's net assets decreased to £777.8m, almost entirely due to the decrease of £73.6m in the market value of investments. The Fund's investment performance for the year was -8.1%.

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 £407m at 31st March 2020. This is £1m more than the net liabilities of £406m twelve months earlier (see note 5.38.5).

The impact on council tax, however, is dependent on the actuarial valuation of the Pension Fund carried out every three years. The strategy is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by spreading 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 2019-20 was 16%, plus a cash contribution of £7.3m, which brought the overall contribution rate to 24.87% for the year.

Harrow's 2019-20 Achievements

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

Build a Better Harrow

Some 1,226 net housing completions were achieved in 2019-20 – the highest number of completions in any year over the past 30 years. 73% of the Heart of Harrow's new 2,800 homes completed within five years of the 15-year target. Contractors were appointed to deliver Phase 1 of the Grange Farm regeneration, comprising 68 homes for social rent and 21 for shared ownership.

Harrow is the lead commissioner for first Regional Adoption Agency in London and has been commended by the Minister of State for Children and Families at the Department for Education for achieving this important new configuration to maximise permanent positive outcomes for children and young people.

Demand for our successful cultural services continues to grow. Bookings for classes and workshops at Harrow Arts Centre saw a 13% increase compared with Q1 2018-19. The pantomime at the Arts Centre (Aladdin) was the most successful to date, with excellent audience feedback. New library opening hours were introduced and there has been an increase in physical and online visits, compared to last year.

Works on the installation of a full-size 3G Artificial Grass Pitch at Bannister Sports Centre will start in summer 2020, supported by a £407k grant from by the Premier League and the FA Facilities Fund received in 2019-20.

Substantial improvements in waste collection, including the extension of food waste collections to flats, were confirmed by reduced complaints levels. The garden waste service for 2020 has been simplified. Improved performance was also noted in the areas of street cleanliness and compliant food establishments.

Supporting Those Most in Need

A Peer Review focusing on Adolescent Safeguarding identified a number of areas of strength for the Council, and a positive Ofsted report was published on Special Educational Needs and Disabilities provision, which is an excellent achievement against a background of financial constraints and confirms the delivery of positive outcomes for service users of these complex services.

Despite the significant challenges in adult services as a result of rising costs and demand, there has been significant progress this year on the Transformation of Adult Services with continued progress made in the "Resilient Communities" programme which was initially launched in 2018-19.

The all-ages disability service was successfully launched; and the health visitors and the infant feeding coordinator gained a Unicef Baby Friendly award. Harrow welcomed its first two families under the Vulnerable Persons Resettlement Scheme.

Preserving Vital Public Services

The Council secured £1.1m from the Department for Education, principally to cover the emergency works in the excellent response that the Council led when chalk mines were discovered under Pinner Wood School.

Ofsted awarded the Children and Families service a judgement of Good, highlighting positive outcomes for children, strong leadership and good partnerships. Attainment in 2019 in schools and Early Years settings at all Key Stages has improved or been sustained at a high level overall and recent school inspections under the new framework have led to positive outcomes

The Council also continues to collaborate with Transport for London to improve transport access across the borough, which will see positive impacts on resident journeys in the borough.

A Strong Local Economy for All

A Business Skills Accelerator Programme was launched to support Harrow enterprises to grow and sustain their business through improving and developing their skills, knowledge and operations. Coupled with this, the Skills Escalator programme also started, to help residents earning less than the London Living Wage to increase their earnings through the provision of short accredited industry-recognised training courses. A record number of Harrow residents achieved a Skills for Life qualification in English and Maths with Adult Community Learning (Learn Harrow), with a 31% increase in achievements on last year.

Modernising Harrow Council

The Council's new transformation programme "Modernising How We Work" was launched. The HR team returned to direct employment by Harrow Council from the shared service with Buckinghamshire County Council in October 2019, and the Legal Services arrangement with the same Council also ended.

Building Control secured plan checking services on five major residential projects and the filming service more than achieved its planned income for the year.

The new Council Tax Support scheme, following the introduction of Universal Credit, was successfully consulted upon and was approved by Council in January 2020.

The Council's new website launched in October 2019, offering a personalised approach to accessing Council services online, and a further programme of work is ongoing.

1.3 Outlook for the Future

The Council, along with the rest of local government, is facing 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.

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 is having a significant financial impact on the Council's financial position both for 2020-21 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.

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). Even with these savings already identified, the Council faces budget gaps of £11.4m in 2021-22 and £11.2m in 2022-23. The financial impact of the Covid-19 emergency is being considered alongside the published MTFS and existing gaps totaling £22.6m.

In 2020-21 a Revenue budget of £174.8m was set along with a 3.99% increase in Council Tax which was approved by the Council in February 2020. The 3.99% increase reflected a 1.99% increase in respect of the traditional council tax increase and 2.0% for the Adult Social Care precept (ASC).

The General Fund Balance as at 31st March 2020 remains just above £10m (£10.008m) and the Earmarked Reserves are £43.6m at 31st March 2020, which compares with £52.3m at the 1st April 2019. 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 (2020-21 to 2022-23) 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.

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 2019-20;
- 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 2020, 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 London Borough of Harrow Statement of Accounts 2019-20

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.



Dawn Calvert CPFA
Director of Finance
xx November 2020

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 2020 and its income and expenditure for the year ended 31st March 2020.



Dawn Calvert CPFA
Director of Finance
xx November 2020

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 22nd October 2020.

Signed on behalf of London Borough of Harrow Council.

Councillor David Perry
Chairman (GARMSC)
22nd October 2020

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

xx November 2020

4 Presentation of Financial Statements

4.1 Comprehensive Income and Expenditure Statement

2018-19			2019-20			
Gross Expenditure	Gross Income	Net Expenditure/(Income)		Gross Expenditure	Gross Income	Net Expenditure/(Income)
£000	£000	£000	Notes	£000	£000	£000
103,799	(38,181)	65,618		106,782	(38,464)	68,318
218,301	(167,324)	50,977		203,483	(153,497)	49,986
93,019	(49,065)	43,954		96,252	(50,431)	45,821
184,473	(164,006)	20,467		176,601	(149,842)	26,759
25,892	(31,554)	(5,662)	6.1	25,949	(31,940)	(5,991)
625,484	(450,130)	175,354		609,067	(424,174)	184,893
42,398	0	42,398	5.8	13,243	(5,917)	7,326
31,458	(5,564)	25,894	5.9	38,252	(1,635)	36,617
0	(186,932)	(186,932)	5.10	0	(204,079)	(204,079)
		56,714				24,757
		14,720	5.23.1			(38,781)
		30,239	5.23.4			(23,607)
		44,959				(62,388)
		101,673				(37,631)

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 2018 brought forward	(10,008)	(7,474)	(43,312)	(18,619)	(4,242)	(27,538)	(111,193)	(422,390)	(533,583)
<u>Movement in reserves during 2018-19</u>									
Total Comprehensive Expenditure and (Income) (Note 4.1)	52,428	4,286	0	0	0	0	56,714	44,959	101,673
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	(75,177)	(4,460)	0	481	(1,471)	997	(79,630)	79,630	0
Net (Increase)/Decrease	(22,749)	(174)	0	481	(1,471)	997	(22,916)	124,589	101,673
Other movements	22,749	174	(22,923)	0	0	0	0	0	0
(Increase)/Decrease in 2018-19	0	0	(22,923)	481	(1,471)	997	(22,916)	124,589	101,673
Balance at 31 March 2019 carried forward (Note 4.3)	(10,008)	(7,474)	(66,235)	(18,138)	(5,713)	(26,541)	(134,109)	(297,801)	(431,910)
Balance at 31 March 2019 brought forward (Note 4.3)	(10,008)	(7,474)	(66,235)	(18,138)	(5,713)	(26,541)	(134,109)	(297,801)	(431,910)
<u>Movement in reserves during 2019-20</u>									
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)
Other movements	(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)

4.3 Balance Sheet

31-Mar-19 £000		Notes	31-Mar-20 £000
1,162,918	Property Plant and Equipment	5.11	1,230,673
34,728	Investment Property	5.13	72,927
39,075	Long Term Debtors	5.15	16,017
<u>1,236,721</u>	Long Term Assets		<u>1,319,617</u>
11,105	Short Term Investments	5.14	23,615
33,399	Short Term Debtors	5.16	37,659
12,652	Cash and Cash Equivalents	5.17	38,606
<u>57,156</u>	Current Assets		<u>99,880</u>
(47,564)	Short Term Borrowing	5.18	(4,765)
(74,298)	Short Term Creditors	5.19	(80,873)
(5,780)	Provisions	5.20	(4,393)
<u>(127,642)</u>	Current Liabilities		<u>(90,031)</u>
(6,052)	Provisions	5.20	(5,907)
(302,451)	Long Term Borrowing	5.14	(422,403)
(420,507)	Other Long Term Liabilities	5.21	(424,484)
(5,315)	Capital Grants Receipts in Advance	5.33.3	(7,134)
<u>(734,325)</u>	Long Term Liabilities		<u>(859,928)</u>
<u>431,910</u>	Net Assets		<u>469,538</u>
(134,109)	Usable Reserves	5.22	(136,517)
(297,801)	Unusable Reserves	5.23	(333,021)
<u>(431,910)</u>	Total Reserves		<u>(469,538)</u>

4.4 Cash Flow Statement

2018-19 £000		Notes	2019-20 £000
(56,714)	Net (deficit)/surplus on the provision of services	4.1	(24,757)
94,649	Adjustments to net deficit on the provision of services for non cash movements	5.24.1	71,645
(11,012)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.24.1	(32,801)
<u>26,923</u>	Net cash flow from Operating Activities		<u>14,087</u>
(40,118)	Investing Activities	5.24.2	(67,398)
<u>20,707</u>	Financing Activities	5.24.3	<u>79,265</u>
<u>7,512</u>	Net increase/(decrease) in cash and cash equivalents		<u>25,954</u>
<u>5,140</u>	Cash and cash equivalents at the beginning of the reporting period	5.17	<u>12,652</u>
<u><u>12,652</u></u>	Cash and cash equivalents at the end of the reporting period	5.17	<u><u>38,606</u></u>

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 2019-20 financial year and its position as at 31st March 2020. 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 2019-20 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.

London Borough of Harrow Statement of Accounts 2019-20

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 (48%), to the Ministry of Housing, Communities and Local Government (25%) and to the Greater London Authority (27%).

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.

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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:

Funding

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	<p>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.</p> <p>Assets valued 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).</p> <p>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.</p> <p>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 cases 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).</p>	<p>If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall.</p> <p>Any reduction in asset values will result in a reduction in the Council's overall net asset position.</p>
Provisions	<p>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.</p>	<p>If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.</p>

Outstanding Debts	<p>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.</p> <p>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.</p>	<p>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.</p>
Business Rates	<p>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.</p>	<p>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.</p>
Pensions Liability	<p>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 Council with expert advice about the assumptions to be applied.</p>	<p>The assumptions used are reviewed yearly in respect of the calculation of the net liability and triennially in respect of the Council's pension contribution rate. Changes in assumptions may increase the net liability and future pension costs.</p>

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 2019-20 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

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.

2018-19			2019-20		
Net Expenditure Chargeable to General Fund and HRA Balances	Adjustments between Funding and Accounting Basis Note 5.5.1	Net Expenditure in Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to General Fund and HRA Balances	Adjustments between Funding and Accounting Basis Note 5.5.1	Net Expenditure in Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
67,687	(2,069)	65,618	66,356	1,962	68,318
40,971	10,006	50,977	42,469	7,517	49,986
45,618	(1,664)	43,954	49,095	(3,274)	45,821
14,641	5,826	20,467	9,214	17,545	26,759
0	(5,662)	(5,662)	(52)	(5,939)	(5,991)
168,917	6,437	175,354	167,082	17,811	184,893
(168,917)	50,277	(118,640)	(167,082)	6,946	(160,136)
0	56,714	56,714	0	24,757	24,757
(17,482)			(17,482)		
0			(52)		
(17,482)			(17,534)		

* 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

	2019-20			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(954)	1,677	1,239	1,962
People - Children and Families	(6,758)	6,868	7,407	7,517
Community	4,828	4,172	(12,274)	(3,274)
Resources and Commercial	8,476	1,867	7,202	17,545
Housing Revenue Account	(6,887)	646	302	(5,939)
Cost Of Services	(1,295)	15,230	3,876	17,811
Other income and expenditure	(4,844)	(9,907)	21,697	6,946
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services				
(Surplus)/Deficit on Provision of Services	(6,139)	5,323	25,573	24,757

	2018-19			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(1,429)	1,433	(2,073)	(2,069)
People - Children and Families	6,635	6,841	(3,470)	10,006
Community	4,105	3,642	(9,411)	(1,664)
Resources and Commercial	15,133	(1,830)	(7,477)	5,826
Housing Revenue Account	155	604	(6,421)	(5,662)
Cost Of Services	24,599	10,690	(28,852)	6,437
Other income and expenditure	22,719	9,369	18,189	50,277
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services				
(Surplus)/Deficit on Provision of Services	47,318	20,059	(10,663)	56,714

Note a: Adjustments for Capital Purposes - 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.

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

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

Note d: The total difference is analysed by nature in the first two columns of note 5.6: Note to the Movement in Reserves Statement.

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

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 written 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

2018-19	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(19,454)	(605)	0	0	0	20,059
Depreciation	(25,160)	(7,534)	0	0	0	32,694
Impairment	392	(100)	0	0	0	(292)
Premiums and Discounts on Debt Restructure	(3,779)	(1,837)	0	0	0	5,616
Movements in market value of Investment Properties	676	0	0	0	0	(676)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	(3,879)	0	0	0	0	3,879
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	(416)	0	0	0	0	416
Unwinding of discount on deferred capital receipts	921	0	0	0	0	(921)
Revenue expenditure funded from capital	(11,441)	(55)	0	0	0	11,496
Non Current assets written out on disposal	(31,420)	(4,114)	0	0	0	35,534
Total Adjustments to Revenue Resources	(93,560)	(14,245)	0	0	0	107,805
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	10,918	0	0	0	0	(10,918)
Capital expenditure funded from revenue balances	660	0	0	0	0	(660)
Capital grants and contributions	7,834	180	0	0	(3,563)	(4,451)
Transfer of sale proceeds credited to the CIES	171	2,862	(6,330)	0	0	3,297
Administrative cost of non-current asset disposals	0	(34)	34	0	0	0
Payment to the Housing Capital Receipts Pool	0	(757)	757	0	0	0
Use of capital receipts to fund revenue expenditure	(1,200)	0	1,200	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,534	0	(7,534)	0	0
Total Adjustments between Revenue and Capital Resources	18,383	9,785	(4,339)	(7,534)	(3,563)	(12,732)
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	6,063	0	(6,063)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	4,820	0	0	(4,820)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	4,560	(4,560)
Total Adjustments to Capital Resources	0	0	4,820	6,063	4,560	(15,443)
Total Adjustments	(75,177)	(4,460)	481	(1,471)	997	79,630

5.7 Earmarked reserves

	Balance at 31-Mar-18	Transfers Out 2018-19	Transfers In 2018-19	Balance at 31-Mar-19	Transfers Out 2019-20	Transfers In 2019-20	Balance at 31-Mar-20
	£000	£000	£000	£000	£000	£000	£000
Earmarked Reserves:							
Transformation Reserve	0	0	(7,526)	(7,526)	0	0	(7,526)
Business Rates Pool Reserve	0	0	(4,279)	(4,279)	4,279	(1,800)	(1,800)
Budget Planning Reserve	(6,184)	0	(645)	(6,829)	4,200	0	(2,629)
Capacity Building Reserve	(1,198)	937	(4,000)	(4,261)	2,212	(1,172)	(3,221)
PFI Sinking Funds	(3,874)	0	(49)	(3,923)	0	(114)	(4,037)
Projects in progress	(454)	454	(2,384)	(2,384)	2,384	(3,224)	(3,224)
Revenue Grant Reserve	(3,100)	1,330	(3,156)	(4,926)	719	(2,862)	(7,069)
Public Health	(2,202)	500	(425)	(2,127)	280	0	(1,847)
MTFS Implementation Cost	(2,441)	374	0	(2,067)	292	0	(1,775)
CIL - Harrow	(5,886)	343	(3,405)	(8,948)	3,612	(2,452)	(7,788)
Dedicated Schools Grant Reserve	0	0	0	0	2,944	0	2,944
Other earmarked reserves	(5,862)	3,465	(2,636)	(5,033)	618	(1,207)	(5,622)
Total Earmarked Reserves	(31,201)	7,403	(28,505)	(52,303)	21,540	(12,831)	(43,594)
Locally Managed School Balances	(11,580)	0	(1,647)	(13,227)	466	0	(12,761)
HRA earmarked Reserves	(531)	24	(198)	(705)	127	(217)	(794)
Total	(43,312)	7,427	(30,350)	(66,235)	22,133	(13,048)	(57,149)

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.

MTFS Implementation Cost: Covers one off implementation and redundancy costs related to delivering the savings identified in the Medium Term Financial Strategy.

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.

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 years grant payments.

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.

5.8 Other operating income and expenditure

2018-19 £000		2019-20 £000
	Levies	
189	London Boroughs Grants Committee	188
295	London Pension Fund Authority	296
8,226	West London Waste Authority (WLWA)	8,475
204	Lee Valley Regional Park Authority	205
192	Environment Agency	197
<u>9,106</u>	Sub Total Levies	<u>9,361</u>
757	Payments to the Government Housing Capital Receipts Pool	3,882
<u>32,535</u>	Losses/(gains) on the disposal of non current assets	<u>(5,917)</u>
<u>42,398</u>	Total	<u>7,326</u>

5.9 Financing and investment income and expenditure

2018-19 £000		2019-20 £000
16,011	Interest payable and similar charges	16,864
6,078	Premium on debt restructure	0
9,369	Net interest on the net defined benefit liability	9,907
(1,351)	Interest receivable and similar income	(1,635)
(4,213)	Income in relation to investment properties & changes in their fair value	11,481
<u>25,894</u>	Total	<u>36,617</u>

5.10 Taxation and non- specific grant income

2018-19 £000		2019-20 £000
(120,857)	Council tax income	(127,958)
(33,599)	Business Rates Retention	(25,375)
(10,578)	Business Rates Top-Up Grant	(13,753)
(2,998)	London Business Rates Pool	(1,044)
(3,482)	New Home Bonus Grant	(4,345)
(3,366)	Section 31 Grants	(3,198)
(2,014)	Flexible Homeless Support Grant	(1,478)
(2,024)	Other General Grants	(4,253)
(8,014)	Capital grants and contributions (Note 5.33.2)	(22,675)
<u>(186,932)</u>	Total	<u>(204,079)</u>

5.11 Property, plant and equipment

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 Revaluation Reserve	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.

2018-19	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 2018	443,085	526,552	41,098	205,005	1	103,570	17,603	1,336,914	37,404
Reversal of accumulated depreciation on revaluation	(6,998)	(10,305)	0	0	0	0	0	(17,303)	0
Additions	342	9,667	12,964	11,576	428	2,114	0	37,091	299
Donated assets	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(21,524)	6,869	0	0	0	0	(65)	(14,720)	1,791
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(100)	885	0	0	(493)	0	0	292	
Derecognition - Disposals	(4,844)	(33,718)	0	0	0	0	0	(38,562)	0
Derecognition - Other*	0	0	(6,198)	(3,731)	0	0	0	(9,929)	0
Reclassifications/ Transfer	1,643	50,331	4,733	21	65	(56,177)	(616)	0	5,268
At 31 March 2019	411,604	550,281	52,597	212,871	1	49,507	16,922	1,293,783	44,762
Accumulated Depreciation									
At 1 April 2018	(6,998)	(12,304)	(27,417)	(81,497)	0	0	(213)	(128,429)	(1,271)
Reversal of accumulated depreciation on revaluation	6,998	10,305	0	0	0	0	0	17,303	0
Depreciation charges for 2018-19	(7,248)	(9,805)	(4,691)	(10,952)	0	0	0	(32,696)	(554)
Derecognition - Depreciation on Disposal	730	2,298	0	0	0	0	0	3,028	0
Derecognition - Other*	0	0	6,198	3,731	0	0	0	9,929	0
Reclassification of assets	0	(41)	0	0	0	0	41	0	0
At 31 March 2019	(6,518)	(9,547)	(25,910)	(88,718)	0	0	(172)	(130,865)	(1,825)
Net Book Value									
At 31 March 2019	405,086	540,734	26,687	124,153	1	49,507	16,750	1,162,918	42,937
At 31 March 2018	436,087	514,248	13,681	123,508	1	103,570	17,390	1,208,485	36,133

* 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 £53.1m (£20.9m as at 31st March 2019). This expenditure will be incurred in 2020-21 and future years. The major capital commitments are as follows:

- HRA Building Council Homes for London scheme £29.0m (nil as at 31st March 2019)
- Redevelopment of the Council's central depot £13.6m (£9m as at 31st March 2019)
- Redevelopment of Waxwell Lane £4.7m (£nil as at 31st March 2019)

5.11.3 Revaluations

The Council has a 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 were carried out internally at 1st April 2019 except for surplus and investment properties and properties with greater than £400k of capital expenditure spent on them in-year, which were valued at 31st March 2020. Specialist and out of borough investment properties have been valued by Crosthwaites, Fleurets, Gerald Eve and Knight Frank. 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 2019. The Land Registry Index is used to calculate the movement in property values between 1st April 2019 and 31st March 2020. 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	29,967	121,919	70,952	0	222,838	0
Valued at fair value:								
As at 31st March 2020	442,900	320,546	0	0	0	16,525	779,971	72,927
As at 31st March 2019	0	75,703	0	0	0	0	75,703	0
As at 31st March 2018	0	88,765	0	0	0	0	88,765	0
As at 31st March 2017	0	45,927	0	0	0	0	45,927	0
As at 31st March 2016	0	17,468	0	0	0	0	17,468	0
Total Cost or Valuation as at 31st March 2020	442,900	548,409	29,967	121,919	70,952	16,525	1,230,672	72,927

This table excludes community assets valued at £1K

5.11.4 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 Existing Use Value, 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

2018-19		2019-20
£000		£000
27,448	Balance at start of the year	34,728
6,194	Additions	53,426
0	Disposals	(920)
1,086	Net gains/(losses) from fair value adjustments	(14,307)
<u>34,728</u>	Balance at end of the year	<u>72,927</u>

5.14 Financial instruments

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

	Long-term		Current	
	31-Mar-20 £000	31-Mar-19 £000	31-Mar-20 £000	31-Mar-19 £000
Investments				
Loans and receivables	0	0	23,615	11,105
Cash and cash equivalents	0	0	40,982	15,306
Total investments	0	0	64,597	26,411
Debtors				
Loans and receivables	16,017	16,373	0	0
Financial assets carried at amortised cost	0	0	28,880	22,484
Total Debtors	16,017	16,373	28,880	22,484
Borrowings				
Financial liabilities at amortised cost	(422,403)	(302,451)	(7,141)	(50,218)
Total borrowings	(422,403)	(302,451)	(7,141)	(50,218)
Other Liabilities				
PFI and finance lease liabilities	(17,364)	(14,918)	(1,156)	(583)
Total other liabilities	(17,364)	(14,918)	(1,156)	(583)
Creditors				
Financial liabilities carried at amortised cost	0	0	(55,548)	(43,653)
Total creditors	0	0	(55,548)	(43,653)

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 £8.8m (£10.9m in 2018-19). The creditors balance excludes £24.2m (£30.1m in 2018-19). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £2.4m 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	Financial Assets Loans and receivables	Total		Financial Liabilities Measured at amortised cost	Financial Assets Loans and receivables	Total
2018-19 £000	2018-19 £000	2018-19 £000		2019-20 £000	2019-20 £000	2019-20 £000
15,322	0	15,322	Interest Expenses	16,131	0	16,131
6,078	0	6,078	Premium on debt restructure	0	0	0
0	690	690	Impairment Losses	0	733	733
21,400	690	22,090	Interest payable and similar charges	16,131	733	16,864
0	(1,360)	(1,360)	Interest income	0	(1,635)	(1,635)
0	(1,360)	(1,360)	Interest and investment income	0	(1,635)	(1,635)
21,400	(670)	20,730	Net gain/(loss) for the year	16,131	(902)	15,229

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 where there is material difference is given below:

Carrying Amount	Fair Value	Difference		Carrying Amount	Fair Value	Difference
2018-19	2018-19	2018-19		2019-20	2019-20	2019-20
£000	£000	£000		£000	£000	£000
11,105	11,105	0	Investments	23,615	23,615	0
16,373	33,331	16,958	Loans and receivables	16,016	29,474	13,458
15,306	15,306	0	Cash and Cash	40,982	40,982	0
(350,015)	(562,532)	(212,517)	Borrowing	(427,168)	(831,618)	(404,450)

5.15 Long term debtors

31-Mar-19		31-Mar-20
£000		£000
16,137	West London Waste Authority	15,864
22,703	Deferred proceeds on sale of assets	0
235	Other Loans	153
<u>39,075</u>	Total	<u>16,017</u>

5.16 Short term debtors

31-Mar-19		31-Mar-20
£000		£000
2,414	Business Rates & Council Tax	1,047
27,505	Trade debtors	34,738
3,480	Other debtors	1,874
<u>33,399</u>	Total	<u>37,659</u>

5.17 Cash and cash equivalents

31-Mar-19		31-Mar-20
£000		£000
82	Cash held by the Authority	65
(2,654)	Bank current accounts	(2,376)
15,224	Short-term deposits with Banks and Building Societies	40,917
<u>12,652</u>	Total Cash and Cash Equivalents	<u>38,606</u>

5.18 Short term borrowing

31-Mar-19		31-Mar-20
£000		£000
(1,717)	Public Works Loan Board	(2,791)
(12,714)	Other Financial Institutions	(573)
(989)	Pension Fund	(1,289)
(32,144)	Other Loans	(112)
<u>(47,564)</u>	Total	<u>(4,765)</u>

5.19 Short term creditors

31-Mar-19		31-Mar-20
£000		£000
(8,770)	Business Rates & Council Tax	(8,714)
(51,790)	Trade Creditors	(57,766)
(13,738)	Other Creditors	(14,393)
<u>(74,298)</u>	Total	<u>(80,873)</u>

5.20 Provisions

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	Total £000
Short Term				
Balance at 1 April	(1,100)	(2,880)	(1,800)	(5,780)
Additional provisions made	(982)	(912)	(978)	(2,872)
Transferred to/from Long Term	(145)	0	0	(145)
Amounts used	1,127	2,880	282	4,289
Unused amounts reversed	0	0	115	115
Balance at 31 March	<u>(1,100)</u>	<u>(912)</u>	<u>(2,381)</u>	<u>(4,393)</u>
Long Term				
Balance at 1 April	(6,052)	0	0	(6,052)
Transferred to/from Short Term	145	0	0	145
Balance at 31 March	<u>(5,907)</u>	<u>0</u>	<u>0</u>	<u>(5,907)</u>

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 £1.53m 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-19		31-Mar-20
£000		£000
0	Finance Lease Liability (Note 5.36.1)	(3,092)
(14,918)	PFI Lease Liability (Note 5.37)	(14,272)
(405,589)	IAS19 Pension Liability (Note 5.38.5)	(407,120)
<u>(420,507)</u>	Total	<u>(424,484)</u>

5.22 Usable reserves

31-Mar-19		Note	31-Mar-20
£000			£000
(10,008)	General Fund	4.2	(10,008)
(66,235)	Earmarked Reserves	5.7	(57,149)
(7,474)	Housing Revenue Account	6.1	(7,526)
(5,713)	Major Repairs Reserve	6.2.4	(7,741)
(18,138)	Capital Receipts Reserve	5.22.1	(18,705)
(26,541)	Capital Grants and Contributions Unapplied	5.22.2	(35,388)
<u>(134,109)</u>	Total Usable Reserves		<u>(136,517)</u>

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				General		
Fund	HRA	Total		Fund	HRA	Total
2018-19	2018-19	2018-19		2019-20	2019-20	2019-20
£000	£000	£000		£000	£000	£000
(5,031)	(13,588)	(18,619)	Balance unapplied at 1 April	(4,002)	(14,136)	(18,138)
(3,468)	(375)	(3,843)	Receipts in year - Others	(3,689)	(1,750)	(5,439)
0	(2,487)	(2,487)	Receipts in year - Right to Buy	0	(4,687)	(4,687)
0	34	34	Disposal Costs	19	82	101
0	757	757	Pooling payment to the MHCLG	0	3,882	3,882
1,200	0	1,200	Use of capital receipts to fund revenue expenditure	3,100	0	3,100
3,297	0	3,297	Applied during the year - others	0	0	0
0	1,523	1,523	Applied during the year - Right to Buy	0	2,476	2,476
<u>(4,002)</u>	<u>(14,136)</u>	<u>(18,138)</u>	Balance unapplied at 31 March	<u>(4,572)</u>	<u>(14,133)</u>	<u>(18,705)</u>

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				General		
Fund	HRA	Total		Fund	HRA	Total
2018-19	2018-19	2018-19		2019-20	2019-20	2019-20
£000	£000	£000		£000	£000	£000
(24,729)	(2,809)	(27,538)	Balance unapplied at 1 April	(23,792)	(2,749)	(26,541)
(3,383)	(180)	(3,563)	Receipts in year	(10,329)	(7,524)	(17,853)
4,320	240	4,560	Applied during the year	4,569	4,437	9,006
<u>(23,792)</u>	<u>(2,749)</u>	<u>(26,541)</u>	Balance unapplied at 31 March	<u>(29,552)</u>	<u>(5,836)</u>	<u>(35,388)</u>

5.23 Unusable reserves

31-Mar-19 £000		Notes	31-Mar-20 £000
(146,598)	Revaluation Reserve	5.23.1	(182,432)
(548,291)	Capital Adjustment Account	5.23.2	(571,335)
12,021	Financial Instruments Adjustment Account	5.23.3	11,573
405,589	Pensions Reserve	5.23.4	407,120
(2,937)	Collection Fund Adjustment Account	5.23.5	(2,495)
5,126	Accumulating Compensated Absences Adjustment Account	5.23.6	4,556
(22,711)	Deferred Capital Receipts Reserve	5.23.7	(8)
<u>(297,801)</u>	Total Unusable Reserves		<u>(333,021)</u>

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.

2018-19				2019-20		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
(97,006)	(68,765)	(165,771)	Balance at 1 April	(99,480)	(47,118)	(146,598)
(31,873)	(1,318)	(33,191)	Upward revaluation of property, plant & equipment	(31,338)	(27,433)	(58,771)
14,025	0	14,025	Less: reversal of past impairments charged to Provision of Services	15,895	372	16,267
(17,848)	(1,318)	(19,166)	Upward revaluation of assets charged to the revaluation reserve	(15,443)	(27,061)	(42,504)
25,713	21,905	47,618	Impairment of property, plant & equipment	12,409	77	12,486
(13,632)	(100)	(13,732)	Less: impairments charged to Provision of Services	(8,694)	(69)	(8,763)
12,081	21,805	33,886	Impairments charged to the revaluation reserve	3,715	8	3,723
			(Surplus) / Deficit on revaluation of non-current assets not posted to			
(102,773)	(48,278)	(151,051)	(Surplus) / Deficit on the Provision of Services	(111,208)	(74,171)	(185,379)
			Difference between fair value depreciation and historical cost			
1,869	907	2,776	depreciation	2,017	765	2,782
1,424	253	1,677	Accumulated gains on assets sold or scrapped	248	(83)	165
3,293	1,160	4,453	Amount written off to the Capital Adjustment Account	2,265	682	2,947
<u>(99,480)</u>	<u>(47,118)</u>	<u>(146,598)</u>	Balance at 31 March	<u>(108,943)</u>	<u>(73,489)</u>	<u>(182,432)</u>

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.

2018-19				2019-20		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
(325,494)	(268,513)	(594,007)	Balance at 1 April	(282,595)	(265,696)	(548,291)
25,158	7,534	32,692	Reversal of depreciation charged to the CIES	27,861	7,659	35,520
(392)	100	(292)	Asset Impairment/ (Reversal of Impairment)	(7,274)	(111)	(7,385)
31,420	4,114	35,534	Non Current assets written out on Disposal	1,271	3,213	4,484
11,441	55	11,496	Revenue expenditure funded from capital under statute	3,268	0	3,268
(3,293)	(1,160)	(4,453)	Amounts written off from the revaluation reserve	(2,265)	(682)	(2,947)
0	0	0	Deferred credit on transfer of fixed asset	(22,703)	0	(22,703)
(3,297)	(1,523)	(4,820)	Use of the Capital Receipts Reserve	0	(2,476)	(2,476)
0	(6,063)	(6,063)	Use of the Major Repairs Reserve	0	(5,619)	(5,619)
(8,771)	(240)	(9,011)	Capital grants credited to the Cl&E	(9,389)	(4,437)	(13,826)
3,297	0	3,297	Reversal of use of the Capital Receipts Reserve	0	0	0
(10,918)	0	(10,918)	Minimum Revenue Provision	(21,978)	(8)	(21,986)
(660)	0	(660)	Revenue Contribution to Capital Outlay	(3,681)	0	(3,681)
(1,086)	0	(1,086)	Movements in the market value of Investment Properties debited/credited to the Cl&E Statement	14,307	0	14,307
<u>(282,595)</u>	<u>(265,696)</u>	<u>(548,291)</u>	Balance at 31 March	<u>(303,178)</u>	<u>(268,157)</u>	<u>(571,335)</u>

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.

2018-19 £000		2019-20 £000
6,405	Balance at 1 April	12,021
6,079	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 with statutory requirements:	
(443)	General Fund	(403)
(20)	HRA	(45)
12,021	Balance at 31 March	11,573

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.

2018-19 £000		2019-20 £000
355,291	Balance at 1 April	405,589
30,239	Remeasurement of the net defined benefit liability	(23,607)
	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	
42,803	Employer's pensions contributions and direct payments to pensioners payable in the year	48,470
(22,744)		(23,332)
405,589	Balance at 31 March	407,120

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.

2018-19 £000		2019-20 £000
(6,815)	Balance at 1 April	(2,937)
	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	
3,878		442
<u>(2,937)</u>	Balance at 31 March	<u>(2,495)</u>

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.

2018-19 £000		2019-20 £000
4,710	Balance at 1 April	5,126
(4,710)	Settlement or cancellation of accrual made at the end of the preceding year	(5,126)
5,126	Amounts accrued at the end of the current year	4,556
<u>5,126</u>	Balance at 31 March	<u>4,556</u>

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				Regeneration		
projects	Other	Total		projects	Other	Total
2018-19	2018-19	2018-19		2019-20	2019-20	2019-20
£000	£000	£000		£000	£000	£000
(22,192)	(11)	(22,203)	Balance deferred at 1 April	(22,703)	(8)	(22,711)
(921)	0	(921)	Regeneration Projects sale proceeds		0	0
410	0	410	Transfer to Capital Adjustment Account	22,703	0	22,703
0	3	3	Transfer to Capital Receipts Reserve on receipt of proceeds	0	0	0
<u>(22,703)</u>	<u>(8)</u>	<u>(22,711)</u>	Balance deferred at 31 March	<u>0</u>	<u>(8)</u>	<u>(8)</u>

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

2018-19 £000		2019-20 £000
	The cash flows for operating activities include the following items:	
16,011	Interest payable & similar charges	16,864
(1,351)	Interest and Investment income	(1,635)
(4,213)	Other investment income	11,480
	The surplus or deficit on the provision of services has been adjusted for the following non cash movements:	
20,059	Adjustment for pension funding	25,138
5,018	Increase/(Decrease) in Provision	(1,532)
32,402	Impairment and Depreciation	28,135
416	Accumulated Absence	(571)
35,534	Carrying amount of non-current assets disposed	4,484
(921)	Unwinding of discount	0
270	Other non cash items charged to CIES	907
(676)	Movement in the value of investment properties	14,307
(9,608)	Billing authority Collection Fund adjustments	685
	Items on an accrual basis	
6,919	(Increase)/Decrease in Debtors	(4,260)
5,236	Increase/(Decrease) in Creditors	4,352
94,649	Adjustments for non cash movements	71,645
(2,999)	Proceeds from the sale of non-current assets	(10,126)
(8,013)	Capital grants credited to surplus or deficit on the provision of services	(22,675)
(11,012)	Adjustments for investment and financing activities	(32,801)

5.24.2 Investing activities

2018-19 £000		2019-20 £000
(41,829)	Purchase of property, plant and equipment and investment property	(89,864)
(6,194)	Purchase of short-term and long-term investments	0
7,733	Capital grants received in year	24,494
2,999	Proceeds from the sale of property, plant and equipment and investment property	10,126
(3,357)	Proceeds from short-term and long-term investments	(12,511)
530	Other long term loans granted	357
(40,118)	Net cash flows from Investing Activities	(67,398)

5.24.3 Financing activities

2018-19 £000		2019-20 £000
(673)	Cash receipts/ (payments) for the Increase/ (reduction) of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,018
21,380	Cash receipts of short-term and long-term borrowing	76,247
20,707	Net cash flows from financing activities	79,265

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.

2018-19		Notes	2019-20
£000	Expenditure/Income		£000
	Expenditure		
211,821	Employee benefits expenditure		209,601
136,069	Housing benefits		124,371
210,112	Other service expenses		217,732
25,028	Support service recharges (excl. employee costs)		25,076
42,453	Depreciation and impairment		32,288
73,857	Other expenditure	5.8 - 5.9	51,495
699,340	Total expenditure		660,563
	Income		
(128,525)	Fees, charges and other service income		(128,630)
(321,605)	Revenue grants included within cost of services	5.33.1	(295,545)
(192,496)	Other income	5.8 - 5.10	(211,631)
(642,626)	Total income		(635,806)
56,714	(Surplus) Deficit on Provision of Services		24,757

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.

2018-19		2019-20
£000		£000
(9,203)	Penalty Charge Notices	(9,456)
(2,911)	On street meters	(1,180)
(1,003)	Residents Permits	(730)
(13,117)	Total income	(11,366)
3,320	Enforcement contract/costs	2,496
2,823	Other expenditure	1,179
6,143	Total expenditure	3,675
(6,974)	Total (surplus) for the year ending 31 March 2020	(7,691)
	<u>Utilisation of Surplus</u>	
6,974	Concessionary fares	7,691
6,974		7,691

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:

2018-19 £000		2019-20 £000
	Funding provided to the pooled budget	
(11,974)	· Harrow Contribution	(13,127)
<u>(10,142)</u>	· NHS Harrow CCG Contribution	<u>(9,377)</u>
<u>(22,116)</u>		<u>(22,504)</u>
	Revenue Expenditure met from the pooled budget:	
10,568	· Harrow Council	11,610
10,142	· NHS Harrow CCG	9,377
<u>20,710</u>		<u>20,987</u>
	Capital Expenditure met from the pooled budget:	
1,406	· Harrow Council - Disabled Facilities	1,517
<u>1,406</u>		<u>1,517</u>
<u>0</u>	Surplus for the year	<u>0</u>

5.28 Members' Allowances

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

2018-19 £000		2019-20 £000
827	Allowances	872
<u>827</u>	Total	<u>872</u>

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			
	2019-20		2018-19	
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum
£50,000 - £54,999	119	0	122	4
£55,000 - £59,999	74	0	51	1
£60,000 - £64,999	43	0	48	0
£65,000 - £69,999	30	1	25	1
£70,000 - £74,999	10	0	33	0
£75,000 - £79,999	31	0	10	1
£80,000 - £84,999	3	0	6	0
£85,000 - £89,999	6	0	4	0
£90,000 - £94,999	6	0	9	1
£95,000 - £99,999	5	0	2	0
£100,000 - £104,999	4	0	5	0
£105,000 - £109,999	1	1	2	0
£110,000 - £114,999	4	1	1	0
£115,000 - £119,999	1	0	0	1
£120,000 - £124,999	0	0	1	0
£140,000 - £144,999	0	1	0	0
£255,000 - £259,999	0	1	0	0
	337	5	319	9

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	
		£	£	£	£	£	£	£	£
		2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Sean Harriss (Chief Executive)	1	220,291	35,357	0	0	0	0	220,291	35,357
		220,291	35,357	0	0	0	0	220,291	35,357

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	
		£	£	£	£	£	£	£	£
		2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Corporate Director - Community	2	146,733	150,856	0	0	0	0	146,733	150,856
Corporate Director - Resources	3	135,032	0	32,435	0	0	0	167,467	0
Corporate Director - People		146,733	128,416	18,246	30,820	0	0	164,979	159,236
Acting Chief Executive	4	0	131,402	0	31,536	0	0	0	162,938
Director Legal and Governance	5	160,224	153,319	38,579	35,549	0	0	198,803	188,868
Director of Finance		130,460	121,471	32,445	29,153	0	0	162,905	150,624
Acting Director of Adult Social Services	6	20,815	129,794	4,216	31,151	88,001	0	113,032	160,945
Director of Adult Social Services	7	110,089	0	27,379	0	0	0	137,468	0
		850,086	815,258	153,300	158,209	88,001	0	1,091,387	973,467

- Note 1 Sean Harriss commenced on 3rd February 2019. He is not a member of the pension scheme.
- Note 2 The Corporate Director is not a member of the pension scheme.
- Note 3 The Corporate Director commenced on 20th May 2019.
- Note 4 The Acting Chief Executive left the Council on 3rd February 2019.
- Note 5 The Director's salary includes a payment of £16,972 for undertaking duties as the Council's Returning Officer.
- Note 6 The Acting Director left the Council on 30th April 2019.
- Note 7 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	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
							£000	£000
£0 - £20,000	3	16	28	25	31	41	176	287
£20,001 - £40,000	0	9	4	4	4	13	94	358
£40,001 - £60,000	1	4	0	0	1	4	57	187
£60,001 - £80,000	0	0	0	1	0	1	0	63
£80,001 - £100,000	0	0	2	0	2	0	187	0
£100,001 - £120,000	0	0	1	0	1	0	111	0
Total	4	29	35	30	39	59	625	895

'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

2018-19 £000		2019-20 £000
895	Exit payments not provided for in 2018-19	595
0	Employment provision (w ithin note 5.20)	30
<u>895</u>	Included in cost of services	<u>625</u>

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:

2018-19 £000		2019-20 £000
	Fees payable to external auditors in respect of:	
116	External audit services carried out by the appointed auditor for the year	117
24	Certification of grant claims and returns for the year	25
<u>140</u>	Total	<u>142</u>

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 for 2019-20 are as follows:

	Individual Schools		Total £000
	Central Expenditure £000	Expenditure £000	
Final DSG allocation 2019-20			217,324
Less: Academy recoupment			<u>(89,312)</u>
Final DSG after recoupment 2019-20			<u>128,012</u>
Plus: Brought forward from 2018-19			2,614
Less: Carry forward to 2020-21 agreed in advance			<u>(1,702)</u>
Agreed budgeted distribution in 2019-20	52,249	76,675	128,924
In-year adjustments	415	0	415
Final budget distribution for 2019-20	<u>52,664</u>	<u>76,675</u>	<u>129,339</u>
Less: Actual central expenditure	<u>(54,318)</u>		<u>(54,318)</u>
Less: Actual ISB deployed to schools		<u>(76,454)</u>	<u>(76,454)</u>
Carry forward to 2020-21	<u>(1,654)</u>	<u>221</u>	<u>(1,433)</u>
Total surplus carry forward to 2020-21			<u><u>(269)</u></u>

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:

2018-19		Awarding Body	2019-20
£000	Grant		£000
(141,770)	Dedicated Schools Grant	Department for Education	(129,339)
(4,587)	Pupil Premium	Department for Education	(3,810)
(3,029)	Universal Infant Free School Meals	Department for Education	(2,274)
(2,744)	Private finance initiative	Various	(2,744)
(10,808)	Public Health	Department of Health	(10,523)
(113,997)	Rent Allowance	Department of Work and Pensions	(100,497)
(24,948)	HRA Rent Rebate	Department of Work and Pensions	(24,444)
(1,576)	New burdens	Department of Work and Pensions	(2,127)
(1,146)	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	(1,998)
(2,811)	EFA 6th Form Funding	Young People's Learning Agency	(4,352)
(4,679)	Improved Better Care Fund	Ministry of Housing, Communities and Local Gov.	(5,498)
(9,510)	Other Grants	Various	(7,939)
(321,605)	Total Revenue Grants included in the Comprehensive Income and Expenditure Account		(295,545)

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

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

2018-19		Awarding Body	2019-20
£000	Grant		£000
(3,822)	LA Capital Maintenance and Basic Need Grant	Department for Education	(8,535)
0	HRA Affordable Housing Grant	Greater London Authority	(3,073)
0	HRA Grange Farm Phases 1 & 2	Greater London Authority	(2,644)
(277)	Section 20 & 106 income	Various	(1,423)
(3,915)	Other	Various	(7,000)
(8,014)	Total Capital Grants included in Comprehensive Income and Expenditure Account		(22,675)

5.33.3 Capital grants receipts in advance

2018-19		Awarding Body	2019-20
£000	Grant - Capital		£000
(3,750)	Borough Intervention Agreement	Greater London Authority	(3,750)
(751)	Section 106 Capital Receipts	Various	(696)
(814)	Other Capital Grants	Various	(2,688)
(5,315)			(7,134)

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.

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 a local charity due to a significant number of Members also being trustees on the governing body of the charity.

In 2019-20, the Council made the following payments for grants and services to the charity:

Organisation	Amount £000
West House and Heath Robinson Museum	9

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.

2018-19 £000		2019-20 £000
22,579	Employers Pension Contributions to the Fund	22,893
(846)	Administration expenses paid by the Fund	(906)
989	Cash Due to the Fund	1,289

5.35 Capital Financing

London Borough of Harrow Statement of Accounts 2019-20

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.

2018-19 £000		2019-20 £000
494,223	Opening Capital Financing Requirement	517,532
	<i>Capital Investment</i>	
37,091	Property, Plant and Equipment	60,674
6,194	Investment Property	53,426
11,496	Revenue Expenditure Funded from Capital under Statute	3,268
	<i>Sources of finance</i>	
(4,820)	Capital receipts	(2,476)
(9,011)	Government grants and other contributions	(13,825)
0	Deferred capital receipts	(22,703)
	Sums set aside from revenue:	
(660)	· Direct revenue contributions	(3,681)
(10,918)	· Minimum Revenue Provision	(21,986)
(6,063)	· Major Repairs Reserve	(5,619)
517,532	<i>Closing Capital Financing Requirement</i>	564,610
	<i>Explanation of movements in year</i>	
34,227	Increase in unsupported borrowing	69,064
(10,918)	Minimum Revenue provision	(21,986)
23,309	<i>Increase in Capital Financing Requirement</i>	47,078

5.36 Leases

5.36.1 The Council as Lessee

Finance Leases

The Council entered into new leases of vehicles and machinery in 2019-20.

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 £3.488m (nil in 2018-19). Outstanding lease liabilities are £3.601m (nil in 2018-19) and minimum lease payments of £4.831m (nil in 2018-19) will be made over the next 1 to 7 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-19 £000		31-Mar-20 £000
2,816	Not later than one year	3,473
1,395	Later than one year and not later than five years	1,335
2,215	Later than five years	2,150
6,426		6,958
3,710	Min. lease payments charged to revenue in 19-20	2,816

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 prior to 2019-20 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 2019-20.

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 £4.2m in 2019-20 (£3.0m in 2018-19).

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

31-Mar-19		31-Mar-20
£000	Land and Buildings	£000
3,138	Not later than one year	4,730
9,892	Later than one year and not later than five years	16,283
18,939	Later than five years	21,518
<u>31,969</u>		<u>42,531</u>

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

2018-19		2019-20
£000		£000
(10,777)	Balance outstanding at start of year	(10,406)
1,361	Lease repayments during the year	1,332
(990)	Finance charge	(956)
<u>(10,406)</u>	Balance outstanding at year end	<u>(10,030)</u>

NRCs

2018-19		2019-20
£000		£000
(5,272)	Balance outstanding at start of year	(5,095)
615	Lease repayments during the year	630
(438)	Finance charge	(423)
<u>(5,095)</u>	Balance outstanding at year end	<u>(4,888)</u>

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 2020-21	1,239	921	453	90	2,703
Payable w ithin 2 to 5 years	5,962	3,228	1,909	84	11,183
Payable w ithin 6 to 10 years	8,167	2,959	3,518	245	14,889
Payable w ithin 11 to 14 years	5,492	936	4,150	788	11,366
Total	<u>20,860</u>	<u>8,044</u>	<u>10,030</u>	<u>1,207</u>	<u>40,141</u>

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 2020-21	294	406	193	230	1,123
Payable w ithin 2 to 5 years	1,136	1,437	1,037	1,167	4,777
Payable w ithin 6 to 10 years	1,951	1,265	1,607	1,851	6,674
Payable w ithin 11 to 15 years	1,754	440	2,051	2,086	6,331
Total	<u>5,135</u>	<u>3,548</u>	<u>4,888</u>	<u>5,334</u>	<u>18,905</u>

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 £233m have been recognised in the Movement in Reserves Statement up to and including 2019-20 (£257m in 2018-19).

Expected employer contributions for 2020-21 are £20.5m, excluding any contributions in respect of unfunded benefits.

2018-19 8000		2019-20 £000
	Cost of Services:	
33,253	• current service cost	35,950
181	• past service costs	2,613
	Financing and Investment Income and Expenditure	
29,056	• interest cost	29,192
(19,687)	• interest income on scheme assets	(19,285)
42,803	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	48,470
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
0	• changes in demographic assumptions	(11,365)
62,359	• changes in financial assumptions	(87,719)
(33,029)	• return on plan assets	118,818
909	• changes in other experience	(43,341)
30,239		(23,607)
73,042	Total Post Employment Benefit Charged to the CIES	24,863
22,744	Actual amount charged to the General Fund balance in the year	23,332

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.

2018-19 £000		2019-20 £000
(1,116,211)	Opening balance at 1 April	(1,212,805)
(33,253)	Current service cost	(35,950)
(29,056)	Interest cost	(29,192)
(5,548)	Contributions by scheme participants	(5,519)
	Remeasurement (gains)/losses arising from changes in:	
0	Demographic Assumptions	11,365
(62,359)	Financial Assumptions	87,719
(909)	Other Experience	43,341
34,712	Benefits paid	39,581
(181)	Past service costs	(2,613)
<u>(1,212,805)</u>	Closing balance at 31 March	<u>(1,104,073)</u>

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 -£99.5m (2018-19: £53m).

2018-19 £000		2019-20 £000
760,920	Opening balance at 1 April	807,216
19,687	Interest income on plan assets	19,285
33,029	Remeasurement gain/(loss)	(118,818)
22,744	Employer contributions	23,332
5,548	Contributions by scheme participants	5,519
(34,712)	Benefits paid	(39,581)
<u>807,216</u>	Closing balance at 31 March	<u>696,953</u>

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.

	2019-20 £000	2018-19 £000	2017-18 £000	2016-17 £000	2015-16 £000
Present value of liabilities	(1,104,073)	(1,212,805)	(1,116,211)	(1,102,110)	(933,174)
Fair value of assets	696,953	807,216	760,920	732,652	594,189
Net deficit in the scheme	(407,120)	(405,589)	(355,291)	(369,458)	(338,985)

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:

2018-19		2019-20
	Long-term expected rate of return on assets in the scheme:	
7.0%	Equity investments	8.3%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.2	Men	22.0
24.4	Women	24.3
	Longevity at 65 for future pensioners:	
24.0	Men	23.1
26.4	Women	26.3
	Financial assumptions:	
2.8%	Rate of increase in salaries	2.6%
2.5%	Rate of increase in pensions (CPI)	1.9%
2.4%	Rate for discounting scheme liabilities	2.3%
	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-19		31-Mar-20
13.0%	Debt Securities - Corporate Bonds	13.0%
2.0%	Private Equity	1.0%
9.0%	Real Estate: UK Property	7.0%
	Investment Funds and Unit Trusts:	
53.0%	Equities	53.0%
22.0%	Other	23.0%
1.0%	Cash and Equivalents	3.0%
100%		100%

5.38.8 History of experience gains and losses

	2019-20	2018-19	2017-18	2016-17	2015-16
	%	%	%	%	%
Differences between the expected and actual return on assets	-17.05	4.09	2.22	17.35	-3.20
Experience gains and (losses) on liabilities	-3.93	0.07	-0.02	1.79	1.55

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	93,208
0.5% increase in rate of increase in salaries	1	6,893
0.5% increase in the rate of increase in pensions	8	85,696
1 year increase in member life expectancy	3 - 5	33,122 - 55,204

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 Innovation, Universities and Skills and the Department for Children, Schools and Families.

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 2019-20 the Council made £7.40m (£6.86m in 2018-19) of employer contributions to the TPA. The current contribution rate is 23.68%. The rate increased from 16.48% on 1st September 2019 (16.48% in 2018-19).

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-20	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-20	Estimated maximum exposure to default and uncollectability 31-Mar-20
	£000	%	%	£000
UK Banks	62,917	0.00	0.00	0
UK Money Market Funds	1,615	0.00	0.00	0
Customers	13,733	3.52%	22.64%	4,019
Total	<u>78,265</u>			<u>4,019</u>

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-19		Amount at 31-Mar-20
£000		£000
8,623	Less than three months	11,390
635	Three to six months	555
977	Six months to one year	711
323	More than one year	1,077
<u>10,558</u>	Total Debtors	<u>13,733</u>

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-19 £000		31-Mar-20 £000
	Source of Loan:	
(248,461)	Public Works Loan Board	(348,461)
(53,800)	Market Loans	(73,800)
(190)	Other financial institutions	(142)
<u>(302,451)</u>	Total	<u>(422,403)</u>
	Analysis of loans by maturity:	
(48)	1-2 years (1.4.2021 - 31.3.2022)	(46)
(5,098)	2-5 years (1.4.2022 - 31.3.2025)	(5,070)
(10,044)	5-10 years (1.4.2025 - 31.3.2030)	(20,027)
(287,261)	More than 10 years (1.4.2030 onwards)	(397,260)
<u>(302,451)</u>	Total	<u>(422,403)</u>

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 £90m (£39m in 2018-19). 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 £0.90m.

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 in 2019- 20 was £216k (£223k in 2018-19).

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 in 2019-20 was £9.6m (£10.6m in 2018-19).

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.

2018-19 £000		Note	2019-20 £000	£000
	Expenditure			
8,351	Repairs and maintenance		8,428	
9,057	Supervision and management		9,289	
373	Rents, rates, taxes and other charges		108	
7,534	Depreciation of non-current assets	6.2.3	7,647	
100	Impairment of non-current assets		0	
37	Debt management costs		37	
25,452	Total Expenditure		25,509	
	Income			
(27,650)	Dwelling rents (gross)	6.2.1	(28,002)	
(591)	Non-dwelling rents (gross)	6.2.2	(549)	
(2,038)	Charges for services and facilities		(2,060)	
(1,275)	Contributions towards expenditure		(1,218)	
0	Reversal of impairment of non-current assets		(111)	
(31,554)	Total Income		(31,940)	
(6,102)	Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement		(6,431)	
440	HRA's share of Corporate and Democratic Core		440	
(5,662)	Net cost of HRA Services		(5,991)	
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
1,286	Loss (Gain) on sale of HRA Fixed Assets		(3,143)	
757	Pooling payments in respect of Right to Buy disposals		3,882	
8,126	Interest payable and similar charges		6,380	
(41)	Interest & investment income		(51)	
(180)	Capital grants & contributions receivable		(7,507)	
4,286	(Surplus) Deficit for the year on HRA services		(6,430)	

Statement of Movement on the HRA Balance

2018-19 £000	Note	2019-20 £000
(7,474)		(7,474)
4,286		(6,430)
(3,123)	6.2.9	3,188
1,163		(3,242)
(1,163)	6.2.9	3,190
0		(52)
(7,474)		(7,526)

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 0.88% of lettable properties were vacant (0.71% in 2018-19). The average de-pooled rents were £110.46 per week (£111.57 in 2018-19). There was an average rent reduction of 1% over the previous year. The average reduction, after taking into account service charges, was 0.88%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 51.54% of garages were vacant (56.5% in 2018-19).

6.2.3 HRA Fixed Assets

	Land £000	Dw ellings £000	Assets under construction £000	Shops £000	Garages £000	Community Halls £000	Total 2019-20 £000
Net book value as at 1 April 2019	216,759	188,327	9,746	4,594	4,996	7,290	431,712
Revaluations and additions	(2,468)	50,843	(2,029)	508	323	612	47,789
Disposals	(1,258)	(1,942)	0	0	(14)	0	(3,214)
Gross book value as at 31 March 2020	213,033	237,228	7,717	5,102	5,305	7,902	476,287
Depreciation for year	0	(7,362)	0	(35)	(161)	(89)	(7,647)
Net book value as at 31 March 2020	213,033	229,866	7,717	5,067	5,144	7,813	468,640

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 2019 would have been £1,497m (£1,525m at 1st April 2018), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,092m (2018-19 £1,117m).

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-19 £000	Transfer to Reserve £000	Capital Expenditure £000	Debt Repayment £000	Balance 31-Mar-20 £000
Analysis of the Movement	(5,713)	(7,647)	4,860	759	(7,741)

6.2.5 Capital Expenditure and Funding Statement

2018-19 £000		2019-20 £000
	HRA Capital Expenditure	
4,233	Dwellings & garages	5,151
2,858	New build	4,333
<u>7,091</u>	Total	<u>9,484</u>
	Financed by:	
6,063	Major Repairs Reserve	4,860
1,120	Capital receipts - Right to Buy, Affordable Housing & other	187
240	Contributions & Grants	4,437
(332)	Borrowing	0
<u>7,091</u>	Total	<u>9,484</u>

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

2018-19 Total	Housing Stock	Houses	Flats	Bungalows	2019-20 Total
105	4 or more bedrooms	101	2	2	105
1,337	3 bedrooms	1,245	103	1	1,349
1,406	2 bedrooms	541	877	26	1,444
1,914	1 bedroom	3	1,788	134	1,925
<u>4,762</u>	LBH managed stock as at 31 March	<u>1,890</u>	<u>2,770</u>	<u>163</u>	<u>4,823</u>
745	Garages				743
1,192	Leaseholders				1,201
	Summary of change in stock				
4,813	Stock as at 1 April				4,762
	Add/ (Less)				
(55)	Sales				(25)
4	New builds & Acquisitions				15
0	Transfer from General Fund				71
<u>4,762</u>	Total HRA stock at 31 March				<u>4,823</u>
	Measures of performance & information for disclosure notes to HRA				
£60.20	Average weekly costs per dwelling of management and maintenance				£56.83
£1.370m	Rent arrears (current and former tenants)				£1.830m
98.78%	Rent collection rate (BVPI 66a)				97.41%
2.00%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				2.04%
0.71%	Rent loss through voids				0.70%
£58k	Write offs in year				£96k
£651k	Provision for bad debts				£747k

6.2.9 Statement of Movement on the HRA Balance

2018-19 £000		2019-20 £000
	Adjustment between accounting basis and funding basis under regulations	
(1,837)	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	
(1,286)	Gain (Loss) on sale of HRA fixed assets	3,143
<u>(3,123)</u>		<u>3,188</u>
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
(604)	Net charges made for retirement benefits in accordance with IAS19	(646)
	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	
(100)	Impairment	111
(55)	Revenue expenditure funded from capital resources under statute	0
0	Minimum revenue provision	8
180	Capital grants and contributions	7,523
(7,534)	Depreciation transfer	(7,660)
7,534	Transfer to the Major Repairs Reserve	7,647
	Transfers to/from Capital Reserves	
(757)	Pooling payments to MHCLG financed through capital reserves	(3,882)
173	Other	89
<u>(1,163)</u>		<u>3,190</u>
<u>(4,286)</u>		<u>6,378</u>

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

2018-19		2019-20		Total
		Business Rates & Crossrail	Council Tax	
£000		£000	£000	£000
Income				
(148,207)	Income from Council Tax	0	(158,621)	(158,621)
(60,897)	Income Collectable from Business Ratepayers	(55,839)	0	(55,839)
(1,113)	Income Collectable from Business Ratepayers - BRS	(1,083)	0	(1,083)
(210,217)	Total Income	(56,922)	(158,621)	(215,543)
Expenditure				
Apportionment of Previous year surplus / deficit				
3,117	Central Government	29	0	29
6,093	Harrow Council	(779)	3,003	2,224
4,172	Greater London Authority	(421)	633	212
Precepts, demands and shares				
0	Central Government	12,935	0	12,935
152,242	Local Demand (Harrow)	24,836	126,295	151,131
45,331	Greater London Authority	15,047	27,644	42,691
Impairment of debts / appeals				
0				0
7,843	Write offs of uncollectable amounts	6,463	1,201	7,664
1,459	Increase in bad debt provisions	(243)	1,456	1,213
700	Increase / (decrease) in provision for appeals	(2,600)	0	(2,600)
251	Costs of Collection	250	0	250
221,208	Total Expenditure	55,517	160,232	215,749
10,991	Movement on Fund balance: (Surplus) / Deficit for the year	(1,405)	1,611	206
(14,223)	(Surplus) / Deficit brought forward	1,225	(4,457)	(3,232)
(3,232)	(Surplus) / Deficit carried forward	(180)	(2,846)	(3,026)

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:

2018-19			2019-20				
Band D Ratio	Property Numbers	Council Tax £	Band D Ratio	Property Numbers	Council Tax £		
Valuation Bands							
6/9	307	1,125.95	A =	Not exceeding £40,000	6/9	358	1,189.86
7/9	1,728	1,313.61	B =	£40,001 - £52,000	7/9	1,901	1,388.18
8/9	13,773	1,501.26	C =	£52,001 - £68,000	8/9	14,448	1,586.49
1	24,305	1,688.92	D =	£68,001 - £88,000	1	24,872	1,784.80
11/9	23,683	2,064.23	E =	£88,001 - £120,000	11/9	23,931	2,181.42
13/9	10,503	2,439.55	F =	£120,001 - £160,000	13/9	10,619	2,578.05
15/9	9,567	2,814.86	G =	£160,001 - £320,000	15/9	9,559	2,974.66
2	2,324	3,377.84	H =	£320,001 +	2	2,324	3,569.60
	86,190		Total			88,012	
	(1,724)			Adjustment for non-collection		(1,760)	
	<u>84,466</u>			Council tax base		<u>86,252</u>	

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 2019-20, split between relevant preceptors at the following percentages: the Council (48%), the GLA (27%) and MHCLG (25%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £138.6m (£141.1m in 2018-19). The national non-domestic rate multiplier for 2019-20 was 50.4p (49.3p in 2018-19) with a lower multiplier for small businesses at 49.1p (48.0p in 2018-19)).

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, values and outcomes as outlined in the Harrow Ambition Plan. 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 Ambition Plan, 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.

The governance structure, details of the annual review of governance including management assurance and partnership self-assessments that feed into the review and the Annual Governance Statement can be found on the Council's website at

<https://www.harrow.gov.uk/council/governance>

This currently shows the 2018/19 statement and will be updated with the 2019/20 statement once it has been agreed.

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, it was not possible for Members to meet and take decisions between 23 March 2020 and 21 May 2020 due to the 'lockdown' and the requirement to maintain social distancing. Officers therefore took a number of operational decisions to comply with the Government's instructions and directions that Members were asked to ratify at the first Cabinet meeting since the lockdown on 21 May 2020.

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.

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.

Risk Management

Three risks relating to COVID 19 were included on the Quarter 4 Corporate Risk Register, covering the impact of the pandemic on the delivery of core services, a risk relating to the delivery of services to vulnerable people specifically susceptible to the virus and a risk that encompassed the financial impact on the Council, all of which were red rated.

Risks were assessed on a daily basis by Chief Officers meeting via a gold, silver and bronze command structure.

The on-going risks to the provision of services, to the financial impact on the Council as well as the risks associated with the recovery of Council operations post pandemic will be included in the Quarter 1/2 Corporate Risk Register.

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. Residents and Members were advised that responses to service queries and complaints might be delayed.

Financial Impact

The Covid-19 emergency is having a significant financial impact on the Council's financial position both for 2020/21 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. 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). Even with these savings already identified, the Council faces budget gaps of £11.4m in 2021/22 and £11.2m in 2022/23.

Qtr1 reporting does indicate that in the current financial year, as a result of receiving emergency funding, the co-payment mechanism and robust control of the in year budget, that the Council can manage a balanced budget position. However, there are continued grave concerns about the legacy impact of Covid-19 over the MTFS. Council Officers and Members are linked into numerous lobbying forums to ensure the Government fully understands the financial impact of the emergency on Harrow Council, not only in the current year but over the three years of the MTFS as current events will carry legacy issues into future years. These concerns are heightened by the lack of clarity on Council funding and the continuation of schemes, such as emergency funding and co-payment mechanism, to support the legacy issues.

Full Council approved the Medium Term Financial Strategy (2020/21 to 2022/23) in February 2020. The financial impact of the COVID 19 emergency is being worked through in detail alongside the published MTFS. As government announcements on the funding of local government are now not anticipated until very late in the calendar year, the work being undertaken around financial sustainability is intended to be presented to October Cabinet, in advance of the draft budget and MTFS being presented to Cabinet in December 2020.

Impact on the production of the Annual Governance Statement

Whilst the review of governance is an ongoing process there is an annual process that requires assurances from officers across the Council which usually takes place in April and May each year. This year's process was disrupted due to the Covid 19 crisis as staff working in priority areas were unable during April to contribute to the process, other staff were also seconded to priority areas or dealing with new priorities, the limitations of the IT system to allow staff to work remotely and Council's overall lean organisational capacity. The process was begun in May and although the majority of the assurances were received it was still not been possible to obtain assurance on some elements of the Council's governance structure in place during 2019/20 or to complete the analysis of the assurances and as a consequence a 1st draft AGS was produced to include in the Draft Statement of Accounts and a 2nd draft of the AGS was produced once all the assurances had been obtained.

8.3 Effectiveness of Key Elements of the Governance Framework

Each year the Council undertakes a 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).

The 2019/20 annual review of governance comprised a review of governance arrangements in place against the core and sub-principles of good governance contained in the CIPFA Framework, Management Assurance provided by each Directorate on the operation of key elements of governance during 2019/20 and a review of a selection of joint working arrangements, undertaken during 2019/20. This was achieved via a self-assessment process co-ordinated and independently reviewed by the Council's Internal Audit Service. The effectiveness of key elements during 2019/20 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. Training on the Code of Conduct for Members took place after the local elections in May 2018 and was attended by 68% of Members, further training took place in January 2019 when a further 10% attended.

The Council values were developed through workshops with staff and Members and endorsed by Cabinet and Council in February 2016. They were launched and communicated to all staff in March 2016 and have been incorporated into the staff induction programme as well as the performance appraisal process and the staff are measured against these values annually although the annual appraisal process usually undertaken in April/May has been delayed due to the Covid-19 crisis.

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. No significant contraventions of law or course of action that would involve incurring unlawful expenditure occurred in 2019/20.

From 25th May 2018 the main provisions of the Data Protection Act 2018 (DPA) came into force to implement the EU General Data Protection Regulation (GDPR). This is an evolution of the data protection law rather than a revolution as many of the GDPR's concepts and principles are the same as under the DPA. However, there are new elements and significant enhancements of individual rights that must be taken into account. In compliance with the requirements of the legislation a Data Protection Officer was appointed in August 2018 who during 2019/20 continued to embed the rights of data subjects and the requirements for the Council as a data controller. The Data Protection officer reports to the Senior Information Risk Officer, currently the Corporate Director of Resources, who reports to CSB.

In addition mandatory online training for all staff on information governance, cyber security and the new Data Protection legislation has been developed and was introduced across the Council in October 2018. The completion rates for this training at the end of 2019/20 were slightly higher than for 2018/19 however still disappointing at 65%. Now that the workload to respond to Covid-19 is stabilising consideration will be given to how the uptake of this training can be addressed. Members also received this training via a mix of face to face with the DPO and online training, 83% of all members have now had training within the last 12 months a significant improvement on the 2018/19 completion rate of 29%.

The Freedom of Information Act (FOI) is a key piece of legislation that the Council is required to comply with and during the first 3 quarters of 2019/20 94% of FOI requests were dealt with within the 20 day timescale (Q4 data is not currently available).

In January 2019 the Committee on Standards in Public Life published its report on local government ethical standards and this was presented to the GARMS Committee in July 2019. The report looks at the current framework governing the behaviour of local government councillors and executives in England and makes a number of recommendations to promote and maintain the standards expected by the public. The report recommends a number of changes to legislation that may come into force in due course and makes some best practice recommendations for local authorities to consider as a benchmark of good ethical practice which they expect all local authorities can and should implement. The Committee resolved that steps be taken to introduce all the best practice recommendations set out in the Committee on Standards in Public Life report subject to, in relation to best practice recommendation 14, officers providing guidance on an appropriate mechanism for accountability of the separate bodies established by the Council and intends to review the implementation of these in 2020.

Best practice 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.

Paragraph 8.3.20 below outlines the separate bodies set up by the Council and their relationship with the Council however the annual review of governance has highlighted that not all of these bodies are yet publishing their board agenda, minutes and annual reports.

8.3.3 Acting in the Public Interest

The annual review of governance 2019/20 confirmed that the Council can demonstrate a commitment to openness and acting in the public interest. This is achieved via the implementation of a governance structure which includes codes of conduct, a corporate appraisal process, a Standards Committee, 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 Council's Financial Regulations were refreshed during 2018/19, agreed by Council and included in the constitution in February 2019. Staff was made aware of the refreshed regulations in the

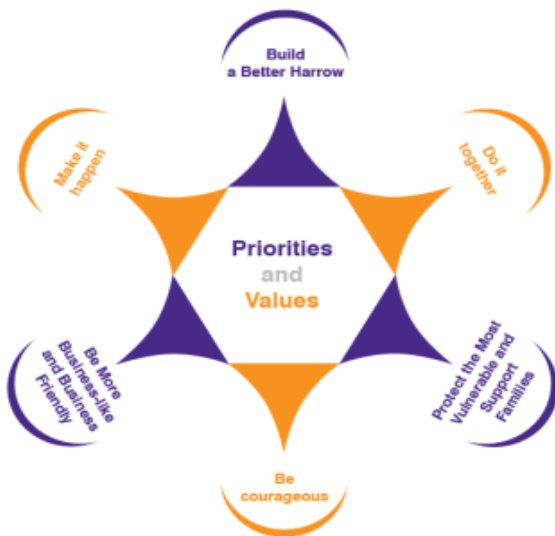
May 2019 staff newsletter and a training scheme is currently in development.

The Constitution was updated in July 2019 in respect of the following:

- Changes required to put in place a disciplinary procedure for statutory chief officers
- Inserting terms of reference for the Corporate Strategic Board and the Building a Better Harrow Board
- Principles of Decision Making
- Code of Conduct for Members
- Officer Employment Procedure rules
- Chief Officers Employment Panel

8.3.4 Communication and Consultation

Whilst a Communication Strategy/Plan was again not in place for 2019/20, the Council's Communications Team worked with all parts of the Council and a wide range of partner organisations and external stakeholders on media relations, marketing, campaigns, consultations, events, publications and social media in order to assist the Council in improving its relationship with its public. This includes keeping residents informed of Council activities, engaging them in dialogue around service delivery and soliciting their views to drive change.



8.3.5 The Council's Vision

The Council's vision and intended outcomes for residents have been developed and are contained within the Harrow Ambition Plan 2020 which was refreshed for 2019/20 with no significant changes. In February 2020 the Council adopted its Borough Plan, and a new Council Delivery Plan will succeed the Harrow Ambition Plan for 2020/21 onwards.

The original plan was communicated widely across the Council and the refreshed version is available on the Council's external website. This diagram, included in the plan, illustrates the 'golden thread' between the Council's vision and the Council's plans.

The majority of the Council's Divisions had service plans in place for 2019/20 linked to the Corporate Priorities contained in the Harrow Ambition Plan and the corporate annual appraisal process requires all individual objectives to be aligned to the Harrow Ambition plan and its strategic aims.



8.3.6 Putting the Vision into Practice

The original Harrow Ambition Plan 2020, 2019 refresh, contains courses of action to be taken by the Council to implement the vision during 2019/20. Usually an annual update on progress against the plan is reported to Cabinet and Council however due to the Covid-19 Pandemic the Policy Team, who undertake the review, were re-deployed to the Community Hub and thus there was no capacity to undertake the review. A report on the new Council Delivery Plan is due to be presented to Cabinet in November 2020 and will cover progress during 2019/20 against the Harrow Ambition Plan.

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).

8.3.8 Measuring Performance

Throughout 2019/20 the Council's strategic performance has been tracked through a quarterly cycle of:

- Performance Briefings
- CSB performance discussions
- Joint Cabinet/CSB discussions
- Strategic Performance Report to Cabinet

Capital and revenue financial performance was also reported quarterly to the Corporate Strategic Board, Cabinet and all Members with Treasury Management reported to Cabinet three times during the year.

The 2019/20 Management Assurance exercise confirmed that key performance indicators were in place for all Divisions within the Community, People and Resources Directorates and that these were reported in the quarterly Strategic Performance reports to CSB and Cabinet throughout 2019/20.

Her Majesty's Passport Office, General Register Office – Compliance & Performance Unit issued two reports during 2019/20, a Stock and Security Assurance Assessment of the Council's Registrars Service in May 2019 that concluded that overall Harrow Council maintains 'High' security in relation to the security arrangements around the receipt, storage and use of the secure certificate stock (marriage, birth and death certificates) and an Annual Report 2018/19 issued in June 2019 that concluded that 'It is pleasing to note the very high level of service achieved by the local authority during the past year'.

The Law Society issued a report in February 2020 entitled Lexcel - Excellence in Legal Practice Management and Client Care that concluded that HB Public Law are to be commended in that 19 areas of good practice were identified during the assessment. These evidence either a diligent approach to complying with the requirements or identify areas in which the minimum Lexcel requirement has been exceeded and are also to be commended as no non-compliances were identified during the assessment.

In Adults Service a Harrow Peer Review – Commissioning for Better Outcomes was undertaken during 2019/20. This was a light touch review of the micro commissioning practices and wider intentions of the Directorate. Overall the practice and commitment was judged to be well embedded and evidenced. There was encouragement that Harrow's draft plans for change were on the correct track to further improve the commissioning processes.

Two reports from Ofsted were received during 2019/20 one on The Firs short Breaks Unit giving an outstanding assurance rating and the other on the Inspection of Local Authority Children

Services giving a GOOD in all graded areas. Two further reviews were carried out in the Children and Young People Division during the year one from Ofsted and Care Quality Commission on SEND identifying 36 strengths and 18 areas for development and the other carried out by the London Innovation and Improvement Alliance on Adolescent Safeguarding Peer Review copy outstanding.

8.3.9 External Audit

During 2019/20 the authority provided timely support, information and responses to the Council's external auditors, Mazars, and properly considered their audit findings in relation to the 2018/19 accounts completed in May 2019. An unqualified opinion was given on the 2018/19 accounts and no recommendations were made by the auditors in relation to these accounts.

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 2019/20 conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). During 2019/20 the Council delivered its services within the approved budget of £167.1m, 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 £6.1m into reserves, which after allowing for £3.2m which has been carried forward to be spent in 2020/21, leaves the remainder of £2.9m earmarked to help fund the 2020/21 budget and to fund capacity needed to implement future savings and organisational transformation.

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 2019/20 to discharge these duties and no reports were made on any contraventions.

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 2019/20.

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 also conducted on how to use social media, homelessness and rough sleeping and EU settled status.

The Council runs Corporate Induction sessions to ensure all new members of staff, including Agency staff, are inducted in a timely manner. HR policy has been changed to ensure that new members of staff should not pass probation unless they have attended induction.

For 2019/20 there were 7 Induction sessions held and 107 staff attended.

The Corporate Induction covers:

- Welcome from Leader and Chief Executive (their expectations from staff)
- Vision and priorities
- Values and Behaviours for both Staff and Managers
- Organisation structure
- Equalities and Diversity
- Completion of Mandatory training (for staff who do not have IT access)

The organisational Development agenda has been an area of focus during 2019/20 with work to build line manager capabilities a priority. Work to develop effective metrics and measures for the new in-house Human Resources and Organisational Development service and to develop a People Strategy is also underway.

8.3.15 Managing Risks

The framework for identifying and managing risks was updated during 2016/17 and 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 four times during 2019/20 for Q1, Q2, Q3 and Q4 with updates undertaken within each quarter. Q1, Q2 and Q3 updates were presented to the Corporate Strategic Board (CSB) for review and challenge and Q2 and Q3 updates 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. The reporting of the Q4 Corporate Risk Register to both CSB and the GARMS Committee was disrupted due to the COVID-19 crisis.

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. However no changes were made to the strategy in 2019/20. The refreshed Local Government Fighting Fraud & Corruption Locally Strategy (FFCL) was published online on 26th March 2020 and during 2020-21 the authorities' own strategy will be reviewed and updated to reflect any changes and best practice that the new FFCL Strategy recommends. The Council's Corporate Anti-Fraud Team undertook a self-assessment against the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014), during 2019/20, that reviewed progress against the five main principles within the code to improve the Council's arrangements. The result was a compliance level of 78%, unchanged from 2018/19, indicating that the authority has reached a 'good level' of performance against the code. Further work is currently being undertaken to determine the barriers preventing further improvement.

8.3.17 Scrutiny

The scrutiny function comprises an Overview and Scrutiny Committee (O&S), a Performance and Finance Sub-Committee (P&F), a Health and Social Care (H&SC) 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 2019/20 O&S met 9 times, P&F 2 times (with one meeting cancelled in March 2020 due to the Covid-19 crisis) and H&SC 4 times.

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 2019/20 these principles were complied with however a small number of the organisational responsibilities need to be clarified and strengthened. 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 regularly. 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.

8.3.19 Audit Committee

The duties of the audit committee are undertaken by the Governance, Audit, Risk Management & Standards Committee and an Internal Audit review undertaken during 2018/19 has established it generally operates in-line with the core functions of an audit committee as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2017). Two key actions coming out of the review was the update the Committee's Terms of Reference which were approved by Council and included in the constitution in February 2019 and the introduction of an Annual Report describing the work of the Committee throughout the year and demonstrating that the Committee has undertaken its role effectively, the first of which, for 2018/19 was presented to Council in January 2020.

8.3.20 Joint Working

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 2019/20 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

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 five 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.

Concillium Business Services Ltd (CBS - previously trading as Smart Lettings) is a wholly owned subsidiary of Concillium 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.

Concillium 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. It will formally cease to exist in the next few weeks once it has been processed by Companies House.

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), Concillium Business Services and Sancroft Community Care Ltd have been 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 will be reviewed in 2020/21.

On 30th September 2018 Buckinghamshire County Council (BCC) gave one year's notice, in compliance with the Inter Authority Agreements, of its intention to exit both the Human Resources & Development (for which they were the lead authority) and the Legal Services shared service. The reason given by BCC for the notice was to enable them to concentrate on preparation for the upcoming Unitary announcement. Consequently the HR service transferred back in-house from October 2019.

8.3.21 Health & Safety

Following on from the peer review of Health & Safety Management undertaken during 2016/17 a Corporate Health & Safety Strategy was developed for 2017/18 with the stated purpose to implement the findings of the peer review to ensure that the aims, objectives and outcomes are met. The strategy, approved by the GARMS Committee in July 2018, contains an action plan setting out how, when and by whom this will be achieved.

The Corporate Health & Safety Board was re-established in December 2017 chaired by the Corporate Director of Community and comprising of the Director of Finance, Divisional Directors, representatives from UNISON and GMB trades union, and Corporate Human Resources. The Board has met monthly throughout 2019/20.

An annual H&S report was presented to the Corporate Health & Safety Board at the end of May

2019, CSB in June 2019 and to the GARMS Committee meeting in July 2019 at which the Corporate Health & Safety Strategy 2019-2022, including an action plan, and the Corporate Health & Safety Policy 2019-2020 were approved.

Mid-year progress against the H&S Strategy action plan and the H&S risk action plan reported to CSB in October 2019 showed good progress against both had been made in the first half of the year.

8.4 Level of Assurance

The analysis of assurances from the annual review of governance 2019/20 indicates that a reasonable level of governance is in place across the Council and that, other than the significant gap identified in paragraph 8.6, arrangements continue to be fit for purpose in accordance with the governance framework.

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 2019/20 is: **Good with 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 94% of reports issued being amber, green/amber or green assurance. 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 and one significant governance gap was identified as part of the annual review of governance process. However overall, the direction of assurance travel over the past three years is positive with fewer red/amber and red assurance reports issued each year. Improvements have been recommended in areas where weaknesses were identified of which 98% have been agreed by management.

8.5 Previous Governance Issues

8.5.1 Health & Safety

A significant governance gap was identified in the 2016/17, 2017/18 and the 2018/19 statement in relation to the Corporate Health & Safety arrangements.

A new policy and three year strategy incorporating a new Corporate H&S Plan for 2019/20 with clear performance measures and a clearer understanding of the tasks to be undertaken and the timescale in which they will be undertaken was submitted and approved by the GARMS Committee in July 2019 along with the annual report for 2018/19.

The good progress reported against both the H&S Strategy action plan and the H&S risk action plan reduced the Corporate Risk of 'Failure to fulfil the Council's Health & Safety duties leading to a harmful event for an individual/individuals for which the Council is responsible leading to litigation' from a red risk in Q1 and Q2 to an amber risk in Q3 and Q4 of 2019/20. As a consequence Health & Safety is no longer considered a significant governance issue.

8.6 Significant Governance Issue 2019/20

8.6.1 Depot Redevelopment Project

A new governance gap has been 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 has been taken by management and Finance to identify the extent of the overspend and it has been established that this can be contained within the approved Capital Programme funding. A report on the full extent of the governance issues, recommendations to improve the governance weaknesses and agreed management action will be presented to the GARMS Committee meeting in October 2020.

8.7 Conclusion

Updates on the implementation of the agreed actions to address the significant governance gap identified in paragraph 6 above will be provided to the Governance, Audit, Risk Management and Standards Committee throughout 2020/21 until fully implemented and will be formally reported upon as part of the next annual review of governance.

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 and the Monitoring Officer, from the Management Assurance Statements provided by Corporate Directors and independent assurance provided by the Head of Internal Audit, and a number of external assurance bodies as detailed in paragraph 8.3.8.

.....

Graham Henson

Leader

Date:

.....

Sean Harriss

Chief Executive

Date:

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2019-20

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31st March 2020 and its income and expenditure for the year.

A handwritten signature in purple ink that reads "D. Calvert". The signature is written in a cursive style with a large initial 'D'.

Dawn Calvert CPFA
Director of Finance
xx November 2020

Harrow Pension Fund Account as at 31 March 2020

2018/19		Notes	2019/20
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
(31,757)	Contributions	7	(34,229)
(3,247)	Transfers in from other pension funds	8	(1,366)
(44)	Other income		(70)
(35,048)			(35,665)
33,527	Benefits	9	35,905
3,097	Payments to and on account of leavers	10	2,470
0	Other Expenditure		0
36,624			38,375
1,576	Net (additions)/withdrawals from dealings with members		2,710
5,731	Management expenses	11	5,405
7,307	Net (additions)/withdrawals including fund management expenses		8,115
	Return on investments		
(8,907)	Investment income	12	(9,059)
(33,601)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	74,518
(42,508)	Net return on investments		65,459
(35,201)	Net (increase)/decrease in the net assets available for benefits during the year		73,574
(816,131)	Opening net assets of the scheme		(851,332)
(851,332)	Closing net assets of the scheme		(777,758)

Net Assets Statement as at 31 March 2020

31 March 2019		Notes	31 March 2020
£'000			£'000
	Investment assets		
846,294	Investments	14	749,955
3,156	Derivative contracts	14	1,092
45	Cash with investment managers	14	28,153
849,495			779,200
3,068	Cash deposits	14	2,641
852,563			781,841
	Investment liabilities		
(2,400)	Derivative contracts	14	(5,852)
850,163			775,989
1,579	Current assets	21	2,005
(410)	Current liabilities	22	(236)
851,332	Net assets of fund available to fund benefits at the period end		777,758

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
xx November 2020

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2020

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.

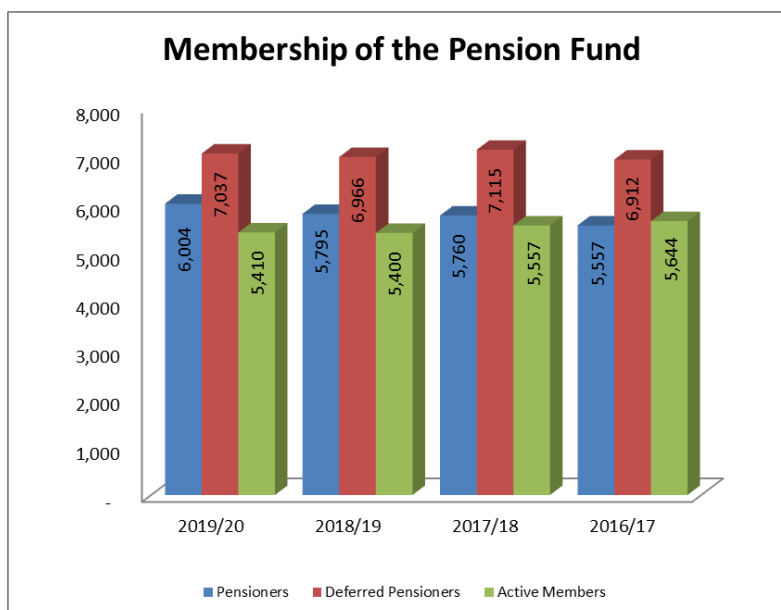
b) Membership

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 39 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5675	5880	3655	15,210	82.43
Stanmore College	Scheduled Body	86	154	79	319	1.73
Nower Hill High School	Scheduled Body	22	145	143	310	1.68
Heathland and Whitefriars	Scheduled Body	7	74	172	253	1.37
Hatch End High School	Scheduled Body	28	133	71	232	1.26
Rooks Heath College	Scheduled Body	19	90	109	218	1.18
Park High School	Scheduled Body	12	77	109	198	1.07
Canons High School	Scheduled Body	15	73	105	193	1.05
Bentley Wood School	Scheduled Body	8	89	55	152	0.82
NLCS	Community Admission Body	35	48	54	137	0.74
Harrow High School	Scheduled Body	11	57	63	131	0.71
St Dominics College	Scheduled Body	40	37	53	130	0.70
Aylward Primary School	Scheduled Body	7	25	65	97	0.53
Salvatorian Academy	Scheduled Body	20	54	15	89	0.48
Priestmead School	Scheduled Body	1	0	80	81	0.44
St Georges Primary	Scheduled Body	2	1	62	65	0.35
Pinner High Academy	Scheduled Body	0	4	57	61	0.33
St John Fisher	Scheduled Body	0	3	56	59	0.32
St Josephs Primary	Scheduled Body	0	3	53	56	0.30
Earlsmead Academy	Scheduled Body	1	9	43	53	0.29
Welldon Park School	Scheduled Body	0	2	42	44	0.24
Alexandra School	Scheduled Body	2	16	22	40	0.22
St Bernadettes	Scheduled Body	3	3	34	40	0.22
Sacred Heart High School	Scheduled Body	2	3	30	35	0.19
Krishna Avanti Primary	Scheduled Body	0	14	20	34	0.18
Avanti House Primary School	Scheduled Body	1	12	20	33	0.18
Jubilee Academy	Scheduled Body	0	15	18	33	0.18
Avanti House Secondary Sch	Scheduled Body	0	3	30	33	0.18
St Jerome	Scheduled Body	1	1	27	29	0.16
Moriah Jewish School	Scheduled Body	1	0	20	21	0.11
Chartwells	Admitted Body	1	4	12	17	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
Avanti School Trust	Scheduled Body	0	0	10	10	0.05
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
ISS Catering	Admitted Body	0	1	3	4	0.02
Evergreen Aylward	Admitted Body	0	0	4	4	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
Total		6,004	7,037	5,410	18,451	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 19.9%.

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.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' 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.

London Borough of Harrow Statement of Accounts 2019-20

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 2019/20.

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)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2019-20 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

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

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 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 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
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: <ul style="list-style-type: none"> • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £93m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £7m • a 0.5% increase in Pension benefits would increase the liability by approximately £86m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i> . 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 £8.0m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

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 2019-20.

NOTE 7: CONTRIBUTIONS RECEIVABLE**By category**

2018/19		2019/20
£'000		£'000
(6,875)	Employees' contributions	(7,162)
	Employers' contributions:	
(17,551)	Normal contributions	(18,643)
(7,085)	Deficit recovery contributions	(8,211)
(246)	Pension strain contributions	(213)
(24,882)	Total employers' contributions	(27,067)
(31,757)	Total contributions receivable	(34,229)

By type of employer

2018/19		2019/20
£'000		£'000
(25,346)	Administering Authority	(26,159)
(5,403)	Scheduled bodies	(7,131)
(784)	Community admission body	(777)
(224)	Transferee admission bodies	(162)
(31,757)		(34,229)

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
(3,247)	Individual transfers	(1,366)
(3,247)		(1,366)

NOTE 9: BENEFITS PAYABLE**By category**

2018/19		2019/20
£'000		£'000
28,765	Pensions	29,973
4,343	Commutation and lump sum retirement benefits	4,999
419	Lump sum death benefits	933
33,527		35,905

By type of employer

2018/19		2019/20
£'000		£'000
32,012	Administering Authority	33,753
1,236	Scheduled bodies	1,906
190	Community admission body	202
89	Transferee admission bodies	44
33,527		35,905

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
95	Refunds to members leaving service	125
3,002	Individual transfers	2,345
3,097		2,470

NOTE 11: MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
656	Administrative costs	721
4,509	Investment management expenses	4,050
566	Oversight and governance costs	634
5,731		5,405

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
3,478	Management fees	3,457
90	Custody fees	134
941	Transaction costs	459
4,509		4,050

NOTE 12: INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
(4,156)	Private equity investments	(3,882)
(1,845)	Pooled property investments	(2,026)
(2,906)	Pooled investments - units trusts and other managed funds	(3,151)
(8,907)		(9,059)

NOTE 13: EXTERNAL AUDIT COSTS

2018/19		2019/20
£'000		£'000
(16)	Payable in respect of external audit	(16)
(16)		(16)

NOTE 14: INVESTMENTS

Market value		Market value
31 March 2019		31 March 2020
£'000		£'000
	Investment assets	
467,263	Pooled equities investments	394,247
108,159	Pooled bonds investments	111,463
191,029	Pooled alternative investments	171,230
0	Pooled infrastructure	700
68,171	Pooled property investments	64,140
150	Equity in London CIV	150
11,522	Private equity	8,025
3,156	Derivative contracts: forward currency	1,092
45	Cash with investment managers	28,153
849,495		779,200
3,068	Cash deposits	2,641
852,563	Total investment assets	781,841
	Investment liabilities	
(2,400)	Derivative contracts: forward currency	(5,852)
(2,400)	Total investment liabilities	(5,852)
850,163	Net investment assets	775,989

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	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

	Market value 31 March 2018	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 2019
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	430,168	218,594	(220,722)	39,223	467,263
Pooled bonds investments	102,445	2,916	(41)	2,839	108,159
Pooled alternative investments	189,579		(1,263)	2,714	191,029
Pooled property investments	67,656		(303)	818	68,171
Equity in London CIV	150				150
Private equity	13,844		(598)	(1,724)	11,522
Derivative contracts: forward currency	5,865	8,880	(3,720)	(10,269)	756
	809,707	230,390	(226,647)	33,601	847,050
Cash with investment managers	53				45
Cash deposits	4,643				3,068
	4,696				3,113
Net investment assets	814,403				850,163

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2019			31 March 2020
£'000			£'000
	Pooled Funds		
	UK		
86,080	Fixed Interest Securities	Corporate	87,635
22,079	Index Linked Securities	Public Sector	23,828
108,159			111,463
68,171	Managed Funds - Property	Unit Trusts	64,140
68,171			64,140
	Global		
217,821	Managed Funds - Equities	Unitised Insurance Policy	177,589
249,442	Managed Funds - Equities	Other	216,658
467,263			394,247
95,229	Managed Funds - Alternatives	Unit Trusts	0
95,800	Managed Funds - Alternatives	Other	171,230
0	Managed Funds - Infrastructure	Other	700
191,029			171,930
11,522	Managed Funds - Private Equity	Other	8,025
	Other Funds		
3,156	Derivatives		1,092
150	Equity in London CIV		150
45	Cash with investment managers		28,153
3,068	Cash Deposits		2,641
852,563	Total Investment Assets		781,841
	Investment Liabilities		
(2,400)	Derivatives		(5,852)
(2,400)	Total Investment Liabilities		(5,852)
850,163	Net Investment Assets		775,989

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019	Percentage of Fund	Manager	Investment assets	Market value 31 March 2020	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
105,031	12	LCIV - Longview	Developed world equities-active	91,705	12
0	0	LCIV - CQS	Multi Asset Credit	80,816	10
0	0	LCIV	Infrastructure	700	0
217,821	26	BlackRock	Global equities-passive	177,589	23
322,852	38		Total LCIV	350,810	45
Investments managed outside of the London CIV					
68,171	8	LaSalle	Pooled property	64,140	8
44	0	BlackRock	Cash with investment managers	25,128	3
86,080	10	BlackRock	Fixed interest securities	87,635	11
22,079	3	BlackRock	Index-linked securities	23,828	4
3,068	0	Cash Deposits		2,641	0
73,784	9	GMO	Emerging markets equities-active	67,577	9
95,800	11	Insight	Diversified growth fund	90,414	12
1	0	JP Morgan	Cash with investment managers	3,025	0
150	0	LCIV	UK equities-passive	150	0
70,627	8	Oldfields	Developed world equities-active	57,376	7
11,522	2	Pantheon	Private equity	8,025	2
756	0	Record	Forward currency contracts	(4,760)	(1)
95,229	11	Aberdeen Std	Diversified growth fund	0	0
527,311	62		Total - Managers	425,179	55
850,163	100		Total Investments	775,989	100

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

Market value 31 March 2019	% of total fund	Investment assets	Market value 31 March 2020	% of total fund
£'000			£'000	
95,229	11	SLI Global Absolute Return Strategies Fund	0	0
95,800	11	Insight Broad Opportunities Fund	90,414	12
105,031	12	LCIV LV Global Equity Fund (Longview)	91,705	12
0	0	LCIV Multi Asset Credit (CQS)	80,816	10
86,080	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	87,635	11
73,784	9	GMO Emerging Domestic Opportunities Equity Fund	67,577	9
68,171	8	LaSalle Investors UK Real Estate Fund of Funds	64,140	8
70,627	8	Overstone Global Equity CCF (USD Class A1 Units)	57,376	7
217,821	26	Blackrock Equity Beta Portfolio	177,589	23
812,543	95	Total over 5% holdings	717,252	92

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 2020 £23.8m (8.24%) compared to £40.3m (13.3%) as at 31 March 2019.

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	NOK	2,337	GBP	(178)	2	
Up to one month	SEK	10,339	GBP	(838)	4	
Up to one month	SGD	708	GBP	(401)	0	
Up to one month	USD	78,064	GBP	(62,904)	61	
One to six months	CHF	1,098	GBP	(865)	51	
One to six months	EUR	427	GBP	(364)	14	
One to six months	GBP	4,122	AUD	(8,006)	171	
One to six months	GBP	8,563	CAD	(14,854)	146	
One to six months	GBP	3,744	CHF	(4,426)	39	
One to six months	GBP	4,741	HKD	(45,608)	2	
One to six months	GBP	203	NOK	(2,356)	22	
One to six months	GBP	159	NZD	(320)	6	
One to six months	GBP	768	SEK	(9,386)	3	
Over six months	EUR	427	GBP	(365)	13	
Over six months	GBP	27,940	EUR	(31,192)	266	
Over six months	GBP	15,657	JPY	(2,071,200)	136	
Over six months	GBP	60,496	USD	(74,810)	155	
Up to one month	AUD	4,003	GBP	(1,992)		(15)
Up to one month	CAD	7,427	GBP	(4,239)		(30)
Up to one month	CHF	4,426	GBP	(3,733)		(41)
Up to one month	EUR	15,134	GBP	(13,513)		(115)
Up to one month	HKD	45,608	GBP	(4,751)		(5)
Up to one month	JPY	1,080,000	GBP	(8,090)		(18)
Up to one month	NZD	160	GBP	(78)		(1)
One to six months	GBP	4,349	CHF	(5,524)		(259)
One to six months	GBP	4,450	HKD	(45,608)		(297)
One to six months	GBP	674	JPY	(95,700)		(41)
One to six months	GBP	178	NOK	(2,337)		(2)
One to six months	GBP	916	SEK	(11,292)		(5)
One to six months	GBP	801	SGD	(1,416)		(2)
One to six months	GBP	5,535	USD	(7,297)		(351)
One to six months	NOK	19	GBP	(2)		(0)
Over six months	EUR	497	GBP	(446)		(6)
Over six months	GBP	13,372	EUR	(15,561)		(434)
Over six months	GBP	7,590	JPY	(1,080,000)		(501)
Over six months	GBP	122,013	USD	(156,128)		(3,720)
Over six months	JPY	6,900	GBP	(53)		(1)
Over six months	USD	4,043	GBP	(3,271)		(10)
Open forward currency contracts at 31 March 2020					1,091	(5,854)
Net forward currency contracts at 31 March 2020						(4,763)
<u>Prior year comparative</u>						
Open forward currency contracts at 31 March 2019					3,156	(2,400)
Net forward currency contracts at 31 March 2019						756

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is 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 <i>International Private Equity and Venture Capital Valuation (2012)</i>	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 2020 using data provided by PIRC.

	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.

Pension Fund Financial Statement

	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	596,124	81,908	72,165	750,197
Financial liabilities at fair value through profit and loss	0	(5,852)	0	(5,852)
Net Investment asset	596,124	76,056	72,165	744,345

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	766,451	3,156	79,693	849,300
Financial liabilities at fair value through profit and loss	0	(2,400)	0	(2,400)
Net Investment asset	766,451	756	79,693	846,900

The following assets have been carried at cost.

	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
Investment in London CIV			150	150
LCIV Infrastructure			700	700

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the financial year.

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

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)	Realised gains/(losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	11,522	0	0	0	(249)	0	(3,248)	8,025
Pooled - property	68,171	0	0	0	(426)	(3,605)	0	64,140
	79,693	0	0	0	(675)	(3,605)	(3,248)	72,165

NOTE 17: FINANCIAL INSTRUMENTS**NOTE 17A: CLASSIFICATION OF 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 2019			31 March 2020		
Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000	Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000
Financial assets					
467,263	0	0	394,247	0	0
108,159	0	0	111,463	0	0
191,029	0	0	171,230	0	0
0	0	0	700	0	0
68,171	0	0	64,140	0	0
150	0	0	150	0	0
11,522	0	0	8,025	0	0
3,156	0	0	1,092	0	0
0	4,103	0	0	32,083	0
0	589	0	0	716	0
849,450	4,692	0	751,047	32,799	0
Financial liabilities					
(2,400)	0	0	(5,852)	0	0
0	0	(410)	0	0	(236)
(2,400)	0	(410)	(5,852)	0	(236)
847,050	4,692	(410)	745,195	32,799	(236)
851,332			777,758		
Grand Total					

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019 £'000	31 March 2020 £'000
Financial assets	
43,870	(64,435)
Financial liabilities	
(10,269)	(10,083)
33,601	(74,518)
Total	

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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 an annual 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 (+/-) %
Total equities	12.00
Fixed interest & index linked securities	6.90
Alternative investments	6.30
Pooled property investments	1.90
Private Equity	9.10

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 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	389,487	12.00	436,225	342,749
Fixed interest & index linked securities	111,463	6.90	119,154	103,772
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
Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
Total	745,195		812,360	678,030

Asset type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	468,019	9.20	511,077	424,961
Fixed interest & index linked securities	108,159	7.30	116,055	100,263
Alternative investments	191,029	3.30	197,333	184,725
Pooled property investments	68,171	1.90	69,466	66,876
Private Equity	11,522	10.00	12,674	10,370
Equity - London CIV	150	0.00	150	150
Total	847,050		906,755	787,345

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 2020 and 31 March 2019 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 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

Assets exposed to interest rate risk	Carrying amount as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
Total change in assets available	89,193	861	90,054	88,332

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 7.4%

A 7.4% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2020	Change to net assets	
	£'000	+7.4%	-7.4%
		£'000	£'000
Overseas Pooled Equities	367,462	394,654	340,270

Currency Exposure - asset type	Asset Value as at 31 March 2019	Change to net assets	
	£'000	+8.8%	-8.8%
		£'000	£'000
Overseas Pooled Equities	426,328	463,845	388,811

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 2020 was £30.8m (31 March 2019: £3.1m). This was held with the following institutions.

Summary	Balances at 31 March 2019	Balances at 31 March 2020
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	3,068	2,641
JP Morgan	1	3,025
BlackRock	44	25,128
	3,113	30,794

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 in to cash. As at 31 March 2020 the value of illiquid assets was £72.9m. This represented 9% of the total Fund assets (31 March 2019: £79.7m).

All financial liabilities at 31 March 2020 are due within one year.

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
- 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 year period 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 improvement of 1.25% p.a. for women and men.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0 years	24.3 years
Future pensioners (assumed to be aged 45)	23.1 years	26.3 years

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 2019		31 March 2020
£m		£m
(1,213)	Present value of promised retirement benefits	(1,104)
807	Fair value of scheme assets	697
(406)	Net Liability	(407)

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

	2018/19	2019/20
	% pa	% pa
Inflation/pensions increase rate assumption	2.5	1.9
Salary increase rate	2.8	2.6
Discount rate	2.4	2.3

NOTE 21: CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
	Debtors:	
526	Contributions due - employers	661
63	Sundry debtors	55
990	Cash owed to Fund	1,289
1,579		2,005

Analysis of Debtors:

31 March 2019		31 March 2020
£'000		£'000
0	Central Government bodies	0
990	Other local authorities	1,289
4	NHS bodies	4
526	Scheduled/Admitted bodies	661
59	Other entities and individuals	51
1,579		2,005

NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

NOTE 22: CURRENT LIABILITIES

31 March 2019		31 March 2020
£'000		£'000
(344)	Sundry creditors	(156)
(66)	Benefits payable	(80)
(410)		(236)

Analysis of Creditors:

31 March 2019		31 March 2020
£'000		£'000
(5)	Central government bodies	(4)
(10)	Scheduled/Admitted bodies	0
(395)	Other entities and individuals	(232)
(410)		(236)

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.50m were paid directly to the providers during the year (2018/19: £0.51m)

Market value 31 March 2019		Market value 31 March 2020
£'000		£'000
2,011	Prudential Assurance	2,268
599	Clerical Medical	553
219	Equitable Life Assurance Society	224
2,829		3,045

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 on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2019		31 March 2020
£'000		£'000
(19,770)	Employer's Pension Contributions to the Fund	(20,634)
846	Administration expenses paid to the Council	906
990	Cash held by the Council	1,289

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 Treasury & Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2019		31 March 2020
£'000		£'000
86	Short-term benefits	91
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2020 totalled £65.8m (31 March 2019: £2.7m).

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 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated 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 2018
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 ¹	23.1 years	26.3 years

¹Aged 45 at the 2018 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 2018

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



Laura McInroy FFA

5 May 2020

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 fixed asset below its 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 (48%), Central Government (25%) and the Greater London Authority (27%).

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

London Borough of Harrow Pension Fund

**Annual Report and Financial Statements for the
year ended 31 March 2020**

(subject to audit)



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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 2020. 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 Consulting Actuary on page 50/51.

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 2019-20, the Pension Fund Committee's decision to reallocate funds from Diversified Growth Funds to alternative assets and infrastructure as part of a risk diversification strategy was implemented. The Fund divested from Aberdeen Standard Investments (GARS Fund) and invested 10% of fund assets in the LCIV Multi Asset Credit Fund. The Committee has approved investing 7.5% of fund assets in the LCIV Infrastructure Fund, and the first investment of £700,000 was made when the sub-fund is opened. Further investments will be made in 2020-21.

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 2019-20, Pension Board met three times and considered reports on pension administration performance and pension fund governance arrangements.

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 2019-20.

The net assets of the Fund as at 31 March 2020 were £777.8m compared to £851.3m as at 31 March 2019. The Fund's overall investment return for the year was -8.1%, reflecting market turbulence in the final quarter arising from the Covid-19 pandemic.



Dawn Calvert - CPFA
Director of Finance
XX November 2020

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

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	John Royle - UNISON 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 Oldfield Partners 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 pension's 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 2019-20 all Annual Benefit Statements were issued on time.

Performance Monitoring 2019/20

Service	National Benchmarking Target	Harrow Actual Performance %
Issue letter notifying of dependent's benefit in 5 days	5 days	60
Calculation and notification of ill health estimate within 7 days	10 days	100
Calculation and notification of retirement benefits estimate in 7 days	10 days	99.22
Issue letter to new pension provider detailing transfer-out quote in 9 days	10 days	89.47
Calculation and notification of deferred benefits in 8 days	10 days	98.16
Calculation and notification of retirement benefits in 3 days	5 days	65.96
Process refund and issue payment within 5 days	5 days	99
Calculation and notification of actual ill health benefits within 3 days	5 days	75
Issue statutory notification on receipt of transfer funds in 8 days	10 days	100

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law and annual benefits statements were issued on time.

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	2017/18	2018/19	2019/20
Investment management expenses			
Total Cost (£000)	4,267	4,509	4,050
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	231	248	220
Administration costs			
Total Cost (£000)	646	656	721
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	35	36	39
Oversight & governance costs			
Total Cost (£000)	612	566	634
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	33	31	34
Total cost per member (£)	300	316	293

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 CIV.

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 reflects 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 20)

The MSCI AC World Index fell by 9.5% in local currency terms over the past twelve months. Global equities performed well in the first three quarters of the period, recording the best annual equity market gain in a decade in 2019 as trade war concerns faded with the eventual agreement of a “phase one” US-China trade deal. However, Covid-19 bought an end to the decade-long bull market in Q1 2020, as the virus outbreak in China escalated into a global pandemic. Whilst unprecedented fiscal and monetary stimulus provided support to markets, the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020. With much of the global economy shuttered going into Q2 2020, a deep global recession appears to be inevitable. Sterling depreciation limited global equity losses for unhedged UK investors. The MSCI AC World Index returned -6.2% in sterling terms.

On a sector level, Information Technology (7.5%) and Health Care (1.6%) were the best performers in local currency terms. These sectors were relatively unhindered by coronavirus-driven lockdowns. Energy (-41.6%) was the worst-performing sector as oil prices collapsed in Q1 2020.

Sterling ended a highly volatile twelve-month period 1.7% lower on a trade-weighted basis. Sterling was driven by Brexit developments for most of 2019. Whilst fears of an acrimonious “No Deal” Brexit kept pressure on sterling over 2019, sterling rallied after Prime Minister Boris Johnson agreed a Withdrawal Agreement with the European Union and his Conservative Party won a sizeable majority in the UK general election, paving the way for the Brexit Withdrawal Agreement to be ratified. Sterling fell sharply in Q1 2020, briefly hitting a 30-year low of \$1.15/£ against the US dollar amidst safe haven dollar inflows and a deteriorating UK coronavirus situation.

The US Federal Reserve (Fed) implemented three 25bps rate cuts over the second half of 2019, bringing the Federal Funds Rate target down to 1.50%-1.75%. The Fed then announced two emergency rate cuts in Q1 2020 in a bid to mitigate the severe economic impacts of Covid-19, lowering the Fed Funds Rate target by a total of 150bps to 0.00%-0.25%. The Fed also relaunched quantitative easing, pledging to buy potentially unlimited amounts of treasuries, corporate bonds, and other credit assets.

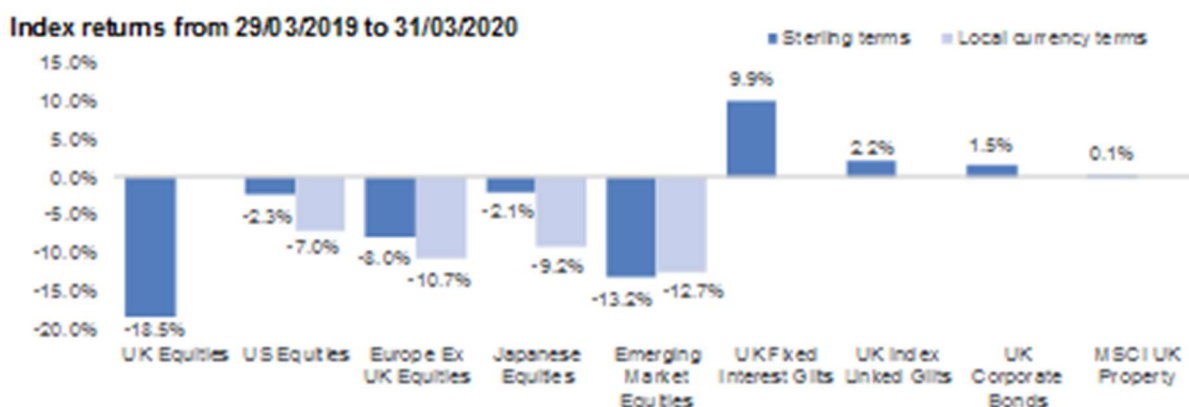
Following the Fed’s lead, the Bank of England (BoE) cut its base rate by 65bps to an all-time low of 0.10% in Q1 2020. Meanwhile, the European Central Bank (ECB) cut its deposit rate by 10bps to -0.5% in September 2019 but, with limited room to cut rates further, kept interest rates unchanged in Q1 2020 amidst the coronavirus outbreak. The BoE joined the ECB in launching new asset purchase programme in Q1 2020.

Brent Crude oil prices fell sharply by 66.7% to US\$23/BBL over the last twelve months. Weakening global economic growth and heightened trade tensions kept a lid on crude oil prices over 2019 but almost all of the decline occurred in Q1 2020. Over that quarter, oil prices fell by 65.5% in USD terms as demand for fuel fell due to social distancing measures to reduce the spread of Covid-19 whilst Saudi Arabia ramped up production after it failed to agree a plan with Russia to cut oil supply.

UK gilt yields fell in tandem with global government bond yields as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking “safe haven” assets amidst an equity market sell-off and from central banks implementing quantitative easing measures also drove prices up and yields down further. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 9.9% whilst index-linked gilts returned 2.2%.

Investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 75bps higher at 217bps, their highest level since 2012. Credit spreads widened by 94bps just in Q1 2020, a reflection of the risk asset sell-off which tormented equity markets over the quarter, as concerns over future corporate earnings and existing corporate leverage resurfaced.

UK commercial property returned 0.1%, supported by a steady income return of 5.4% which offset the 5.0% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering a total return of -9.7% over the period.



Source: FactSet, FTSE, MSCI

□

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 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

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 Fund's Investment Strategy Statement states that the Fund will invest its assets through the London CIV as and when suitable pooled investments become available in accordance with the Local Government Investment Regulations 2016. Following the disinvestment from the diversified growth fund managed by Aberdeen (GARS) and the transition of these funds to the LCIV Multi Asset Credit mandate, Harrow had 45% of fund assets managed through the London CIV and its preferred providers at 31 March 2020. The commitment of 7.5% to the LCIV infrastructure will increase this further in 2020-21. The committed strategic allocation through the London CIV is currently up to 55% of fund assets.

The cumulative cost of pooling for the Pension Fund to 31 March 2020 is £0.347m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2020 to the agreed allocation

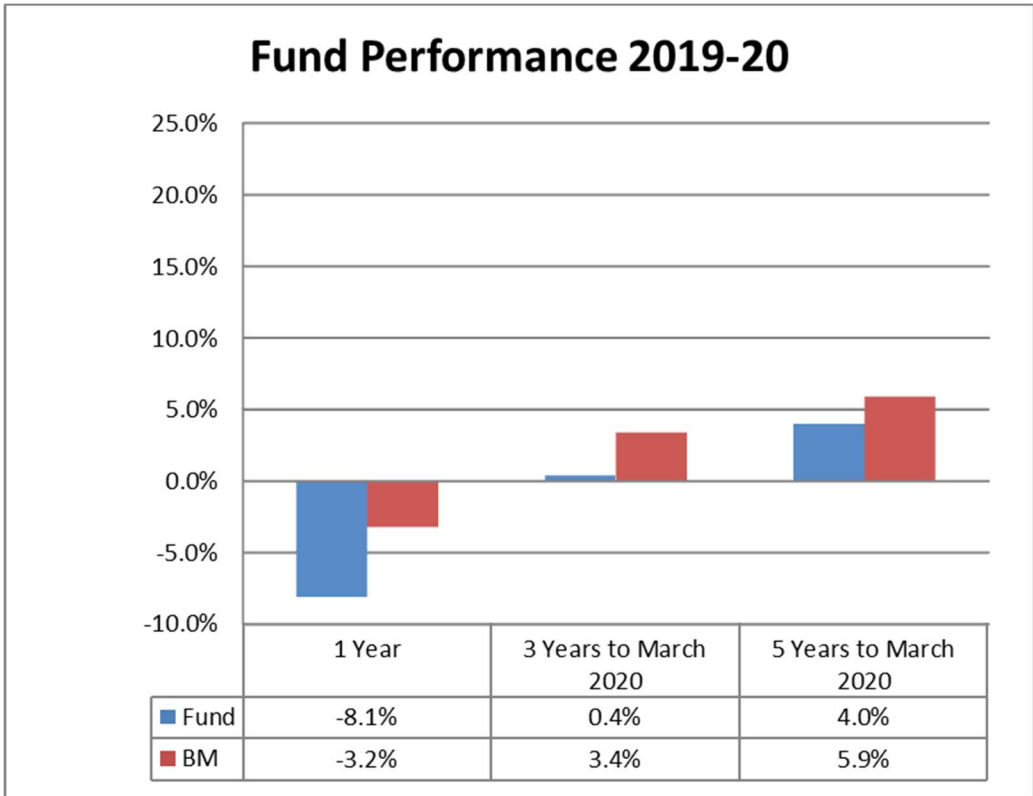
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	23	24
Developed world equities-active	19	18
Emerging markets equities-active	9	8
Fixed interest securities	11	10
Index linked securities	3	3
Private equity	2	2
Cash	3	0
Forward currency contracts	(1)	0
Diversified growth funds	12	6.5
Multi Asset Credit	10	11
Pooled property	8	10
Infrastructure	0	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 style 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 2020 are shown below.



The Fund’s return of -8.1% during 2019-20 was due to the significant fall in asset prices experienced during the 4th quarter as the Covid-19 pandemic impacted across all asset classes. There has been a partial recovery in asset values since 31 March 2020.

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 7 March 2018 and can be found as Appendix 1.

<https://www.harrowpensionfund.org/media/4434/governance-compliance-statement-march-2018.pdf>

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 7 March 2018 and can be found as Appendix 2.

<https://www.harrowpensionfund.org/media/4435/communication-policy-march-2018.pdf>

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 can be found as Appendix 3.

<https://www.harrowpensionfund.org/media/4635/appendix-3-funding-strategy-statement-march-2019.pdf>

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 amended by the Pension Fund Committee on 12 March 2019 can be found as Appendix 4.

<https://www.harrowpensionfund.org/media/4636/appendix-4-investment-strategy-statement-march-2019.pdf>

Following the 2019 Actuarial Valuation, the Fund is currently reviewing its Investment Strategy. The Investment Strategy Statement will be updated as part of that work.

Local Government Pension Scheme Guide

A brief guide to the Local Government Pension Scheme can be found as Appendix 5

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, having increased by 6.0% in 2018-19. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include 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 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 a fund that continues to have a positive Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

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 "McLeod 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	<p>Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF</p>
Administration Enquiries	<p>Email address: Pension@harrow.gov.uk Telephone Number: 020 8416 8087 Website: www.harrowpensionfund.org</p>
Complaints and Advice	<p>The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB</p> <p>Pensions Help line: 0800 011 3797 Website: www.pensionsadvisoryservice.org.uk</p> <p>The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW</p> <p>Telephone Number: 0345 600 1011 Website: www.thepensionsregulator.gov.uk</p> <p>The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU</p> <p>Telephone Number: 0800 917 4487</p> <p>Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk</p>
Tracing Service	<p>The Pension Tracing Service The Pension Service 9 Mail Handling Site A Wolverhampton WV98 1LU</p> <p>Telephone Number: 0800 731 0193 Website: www.gov.uk/find-lost-pension</p>

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 2020 and its income and expenditure for the year then ended.



Dawn Calvert – CPFA
Director of Finance
XX November 2020

Harrow Pension Fund Account as at 31 March 2020

2018/19		Notes	2019/20
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
(31,757)	Contributions	7	(34,229)
(3,247)	Transfers in from other pension funds	8	(1,366)
(44)	Other income		(70)
(35,048)			(35,665)
33,527	Benefits	9	35,905
3,097	Payments to and on account of leavers	10	2,470
0	Other Expenditure		0
36,624			38,375
1,576	Net (additions)/withdrawals from dealings with members		2,710
5,731	Management expenses	11	5,405
7,307	Net (additions)/withdrawals including fund management expenses		8,115
	Return on investments		
(8,907)	Investment income	12	(9,059)
(33,601)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	74,518
(42,508)	Net return on investments		65,459
(35,201)	Net (increase)/decrease in the net assets available for benefits during the year		73,574
(816,131)	Opening net assets of the scheme		(851,332)
(851,332)	Closing net assets of the scheme		(777,758)

Net Assets Statement as at 31 March 2020

31 March 2019 £'000		Notes	31 March 2020 £'000
	Investment assets		
846,294	Investments	14	749,955
3,156	Derivative contracts	14	1,092
45	Cash with investment managers	14	28,153
849,495			779,200
3,068	Cash deposits	14	2,641
852,563			781,841
	Investment liabilities		
(2,400)	Derivative contracts	14	(5,852)
850,163			775,989
1,579	Current assets	21	2,005
(410)	Current liabilities	22	(236)
851,332	Net assets of fund available to fund benefits at the period end		777,758

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
XX November 2020

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2020

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.

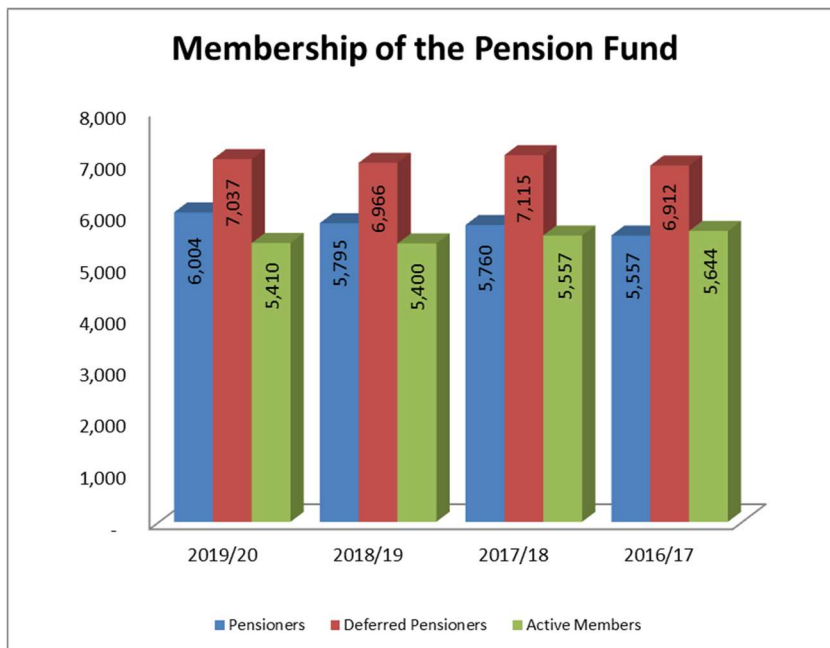
b) Membership

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 39 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5675	5880	3655	15,210	82.43
Stanmore College	Scheduled Body	86	154	79	319	1.73
Nower Hill High School	Scheduled Body	22	145	143	310	1.68
Heathland and Whitefriars	Scheduled Body	7	74	172	253	1.37
Hatch End High School	Scheduled Body	28	133	71	232	1.26
Rooks Heath College	Scheduled Body	19	90	109	218	1.18
Park High School	Scheduled Body	12	77	109	198	1.07
Canons High School	Scheduled Body	15	73	105	193	1.05
Bentley Wood School	Scheduled Body	8	89	55	152	0.82
NLCS	Community Admission Body	35	48	54	137	0.74
Harrow High School	Scheduled Body	11	57	63	131	0.71
St Dominics College	Scheduled Body	40	37	53	130	0.70
Aylward Primary School	Scheduled Body	7	25	65	97	0.53
Salvatorian Academy	Scheduled Body	20	54	15	89	0.48
Priestmead School	Scheduled Body	1	0	80	81	0.44
St Georges Primary	Scheduled Body	2	1	62	65	0.35
Pinner High Academy	Scheduled Body	0	4	57	61	0.33
St John Fisher	Scheduled Body	0	3	56	59	0.32
St Josephs Primary	Scheduled Body	0	3	53	56	0.30
Earlsmead Academy	Scheduled Body	1	9	43	53	0.29
Welldon Park School	Scheduled Body	0	2	42	44	0.24
Alexandra School	Scheduled Body	2	16	22	40	0.22
St Bernadettes	Scheduled Body	3	3	34	40	0.22
Sacred Heart High School	Scheduled Body	2	3	30	35	0.19
Krishna Avanti Primary	Scheduled Body	0	14	20	34	0.18
Avanti House Primary School	Scheduled Body	1	12	20	33	0.18
Jubilee Academy	Scheduled Body	0	15	18	33	0.18
Avanti House Secondary School	Scheduled Body	0	3	30	33	0.18
St Jerome	Scheduled Body	1	1	27	29	0.16
Moriah Jewish School	Scheduled Body	1	0	20	21	0.11
Chartwells	Admitted Body	1	4	12	17	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
Avanti School Trust	Scheduled Body	0	0	10	10	0.05
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
ISS Catering	Admitted Body	0	1	3	4	0.02
Evergreen Aylward	Admitted Body	0	0	4	4	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
Total		6,004	7,037	5,410	18,451	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 19.9%.

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 2019/20 financial year and its position as at 31 March 2020. 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 2019/20' 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 2019/20.

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)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2019-20 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

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 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 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
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.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £93m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £7m • a 0.5% increase in Pension benefits would increase the liability by approximately £86m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i> . 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 £8.0m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

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 2019-20.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2018/19		2019/20
£'000		£'000
(6,875)	Employees' contributions	(7,162)
	Employers' contributions:	
(17,551)	Normal contributions	(18,643)
(7,085)	Deficit recovery contributions	(8,211)
(246)	Pension strain contributions	(213)
(24,882)	Total employers' contributions	(27,067)
(31,757)	Total contributions receivable	(34,229)

By type of employer

2018/19		2019/20
£'000		£'000
(25,346)	Administering Authority	(26,159)
(5,403)	Scheduled bodies	(7,131)
(784)	Community admission body	(777)
(224)	Transferee admission bodies	(162)
(31,757)		(34,229)

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
0	Group transfers	0
(3,247)	Individual transfers	(1,366)
(3,247)		(1,366)

NOTE 9: BENEFITS PAYABLE

By category

2018/19		2019/20
£'000		£'000
28,765	Pensions	29,973
4,343	Commutation and lump sum retirement benefits	4,999
419	Lump sum death benefits	933
33,527		35,905

By type of employer

2018/19		2019/20
£'000		£'000
32,012	Administering Authority	33,753
1,236	Scheduled bodies	1,906
190	Community admission body	202
89	Transferee admission bodies	44
33,527		35,905

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
95	Refunds to members leaving service	125
0	Group transfers	0
3,002	Individual transfers	2,345
3,097		2,470

NOTE 11: MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
656	Administrative costs	721
4,509	Investment management expenses	4,050
566	Oversight and governance costs	634
5,731		5,405

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
3,478	Management fees	3,457
90	Custody fees	134
941	Transaction costs	459
4,509		4,050

NOTE 12: INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
(4,156)	Private equity investments	(3,882)
(1,845)	Pooled property investments	(2,026)
(2,906)	Pooled investments - units trusts and other managed funds	(3,151)
(8,907)		(9,059)

NOTE 13: EXTERNAL AUDIT COSTS

2018/19		2019/20
£'000		£'000
(16)	Payable in respect of external audit	(16)
(16)		(16)

NOTE 14: INVESTMENTS

Market value		Market value
31 March 2019		31 March 2020
£'000		£'000
	Investment assets	
467,263	Pooled equities investments	394,247
108,159	Pooled bonds investments	111,463
191,029	Pooled alternative investments	171,230
0	Pooled infrastructure	700
68,171	Pooled property investments	64,140
150	Equity in London CIV	150
11,522	Private equity	8,025
3,156	Derivative contracts: forward currency	1,092
45	Cash with investment managers	28,153
849,495		779,200
3,068	Cash deposits	2,641
852,563	Total investment assets	781,841
	Investment liabilities	
(2,400)	Derivative contracts: forward currency	(5,852)
(2,400)	Total investment liabilities	(5,852)
850,163	Net investment assets	775,989

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	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

	Market value 31 March 2018	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 2019
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	430,168	218,594	(220,722)	39,223	467,263
Pooled bonds investments	102,445	2,916	(41)	2,839	108,159
Pooled alternative investments	189,579		(1,263)	2,714	191,029
Pooled property investments	67,656		(303)	818	68,171
Equity in London CIV	150				150
Private equity	13,844		(598)	(1,724)	11,522
Derivative contracts: forward currency	5,865	8,880	(3,720)	(10,269)	756
	809,707	230,390	(226,647)	33,601	847,050
Cash with investment managers	53				45
Cash deposits	4,643				3,068
	4,696				3,113
Net investment assets	814,403				850,163

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2019		31 March 2020	
£'000		£'000	
Pooled Funds			
UK			
86,080	Fixed Interest Securities	Corporate	87,635
22,079	Index Linked Securities	Public Sector	23,828
108,159			111,463
68,171	Managed Funds - Property	Unit Trusts	64,140
68,171			64,140
Global			
217,821	Managed Funds - Equities	Unitised Insurance Policy	177,589
249,442	Managed Funds - Equities	Other	216,658
467,263			394,247
95,229	Managed Funds - Alternatives	Unit Trusts	0
95,800	Managed Funds - Alternatives	Other	171,230
0	Managed Funds - Infrastructure	Other	700
191,029			171,930
11,522	Managed Funds - Private Equity	Other	8,025
Other Funds			
3,156	Derivatives		1,092
150	Equity in London CIV		150
45	Cash with investment managers		28,153
3,068	Cash Deposits		2,641
852,563	Total Investment Assets		781,841
Investment Liabilities			
(2,400)	Derivatives		(5,852)
(2,400)	Total Investment Liabilities		(5,852)
850,163	Net Investment Assets		775,989

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019	Percentage of Fund	Manager	Investment assets	Market value 31 March 2020	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
105,031	12	LCIV - Longview	Developed world equities-active	91,705	12
0	0	LCIV - CQS	Multi Asset Credit	80,816	10
0	0	LCIV	Infrastructure	700	0
217,821	26	BlackRock	Global equities-passive	177,589	23
322,852	38		Total LCIV	350,810	45
Investments managed outside of the London CIV					
68,171	8	LaSalle	Pooled property	64,140	8
44	0	BlackRock	Cash with investment managers	25,128	3
86,080	10	BlackRock	Fixed interest securities	87,635	11
22,079	3	BlackRock	Index-linked securities	23,828	3
3,068	0	Cash Deposits		2,641	0
73,784	9	GMO	Emerging markets equities-active	67,577	9
95,800	11	Insight	Diversified growth fund	90,414	12
1	0	JP Morgan	Cash with investment managers	3,025	0
150	0	LCIV	UK equities-passive	150	0
70,627	8	Oldfields	Developed world equities-active	57,376	7
11,522	1	Pantheon	Private equity	8,025	2
756	0	Record	Forward currency contracts	(4,760)	(1)
95,229	11	Aberdeen Std	Diversified growth fund	0	0
527,311	62		Total - Managers	425,179	55
850,163	100		Total Investments	775,989	100

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

Market value 31 March 2019	% of total fund	Investment assets	Market value 31 March 2020	% of total fund
£'000			£'000	
95,229	11	SLI Global Absolute Return Strategies Fund	0	0
95,800	11	Insight Broad Opportunities Fund	90,414	12
105,031	12	LCIV LV Global Equity Fund (Longview)	91,705	12
0	0	LCIV Multi Asset Credit (CQS)	80,816	10
86,080	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	87,635	11
73,784	9	GMO Emerging Domestic Opportunities Equity Fund	67,577	9
68,171	8	LaSalle Investors UK Real Estate Fund of Funds	64,140	8
70,627	8	Overstone Global Equity CCF (USD Class A1 Units)	57,376	7
217,821	26	Blackrock Equity Beta Portfolio	177,589	23
812,543	95	Total over 5% holdings	717,252	92

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 2020 £23.8m (8.24%) compared to £40.3m (13.3%) as at 31 March 2019.

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	NOK	2,337	GBP	(178)	2	
Up to one month	SEK	10,339	GBP	(838)	4	
Up to one month	SGD	708	GBP	(401)	0	
Up to one month	USD	78,064	GBP	(62,904)	61	
One to six months	CHF	1,098	GBP	(865)	51	
One to six months	EUR	427	GBP	(364)	14	
One to six months	GBP	4,122	AUD	(8,006)	171	
One to six months	GBP	8,563	CAD	(14,854)	146	
One to six months	GBP	3,744	CHF	(4,426)	39	
One to six months	GBP	4,741	HKD	(45,608)	2	
One to six months	GBP	203	NOK	(2,356)	22	
One to six months	GBP	159	NZD	(320)	6	
One to six months	GBP	768	SEK	(9,386)	3	
Over six months	EUR	427	GBP	(365)	13	
Over six months	GBP	27,940	EUR	(31,192)	266	
Over six months	GBP	15,657	JPY	(2,071,200)	136	
Over six months	GBP	60,496	USD	(74,810)	155	
Up to one month	AUD	4,003	GBP	(1,992)		(15)
Up to one month	CAD	7,427	GBP	(4,239)		(30)
Up to one month	CHF	4,426	GBP	(3,733)		(41)
Up to one month	EUR	15,134	GBP	(13,513)		(115)
Up to one month	HKD	45,608	GBP	(4,751)		(5)
Up to one month	JPY	1,080,000	GBP	(8,090)		(18)
Up to one month	NZD	160	GBP	(78)		(1)
One to six months	GBP	4,349	CHF	(5,524)		(259)
One to six months	GBP	4,450	HKD	(45,608)		(297)
One to six months	GBP	674	JPY	(95,700)		(41)
One to six months	GBP	178	NOK	(2,337)		(2)
One to six months	GBP	916	SEK	(11,292)		(5)
One to six months	GBP	801	SGD	(1,416)		(2)
One to six months	GBP	5,535	USD	(7,297)		(351)
One to six months	NOK	19	GBP	(2)		(0)
Over six months	EUR	497	GBP	(446)		(6)
Over six months	GBP	13,372	EUR	(15,561)		(434)
Over six months	GBP	7,590	JPY	(1,080,000)		(501)
Over six months	GBP	122,013	USD	(156,128)		(3,720)
Over six months	JPY	6,900	GBP	(53)		(1)
Over six months	USD	4,043	GBP	(3,271)		(10)
Open forward currency contracts at 31 March 2020					1,092	(5,852)
Net forward currency contracts at 31 March 2020						(4,760)
<u>Prior year comparative</u>						
Open forward currency contracts at 31 March 2019					3,156	(2,400)
Net forward currency contracts at 31 March 2019						756

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is 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 <i>International Private Equity and Venture Capital Valuation (2012)</i>	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 2020 using data provided by PIRC.

	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 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	596,124	81,908	72,165	750,197
Financial liabilities at fair value through profit and loss	0	(5,852)	0	(5,852)
Net Investment asset	596,124	76,056	72,165	744,345

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	766,451	3,156	79,693	849,300
Financial liabilities at fair value through profit and loss	0	(2,400)	0	(2,400)
Net Investment asset	766,451	756	79,693	846,900

The following assets have been carried at cost

	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
Investment in London CIV			150	150
LCIV Infrastructure			700	700

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

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)	Realised gains/(losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	11,522	0	0	0	(249)	0	(3,248)	8,025
Pooled - property	68,171	0	0	0	(426)	(3,605)	0	64,140
	79,693	0	0	0	(675)	(3,605)	(3,248)	72,165

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF 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 2019			31 March 2020		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
467,263	0	0			
108,159	0	0			
191,029	0	0			
0	0	0			
68,171	0	0			
150	0	0			
11,522	0	0			
3,156	0	0			
0	4,103	0			
0	589	0			
849,450	4,692	0	751,047	32,799	0
Financial liabilities					
(2,400)	0	0	(5,852)	0	0
0	0	(410)	0	0	(236)
(2,400)	0	(410)	(5,852)	0	(236)
847,050	4,692	(410)	745,195	32,799	(236)
851,332			777,758		
Grand Total					

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019	31 March 2020
£'000	£'000
Financial assets	
43,870	(64,435)
0	0
Financial liabilities	
(10,269)	(10,083)
0	0
33,601	(74,518)
Total	

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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 an annual 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 (+/-) %
Total equities	12.00
Fixed interest & index linked securities	6.90
Alternative investments	6.30
Pooled property investments	1.90
Private Equity	9.10

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 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	389,487	12.00	436,225	342,749
Fixed interest & index linked securities	111,463	6.90	119,154	103,772
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
Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
Total	745,195		812,361	678,030

Asset type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	468,019	9.20	511,077	424,961
Fixed interest & index linked securities	108,159	7.30	116,055	100,263
Alternative investments	191,029	3.30	197,333	184,725
Pooled property investments	68,171	1.90	69,466	66,876
Private Equity	11,522	10.00	12,674	10,370
Equity - London CIV	150	0.00	150	150
Total	847,050		906,755	787,345

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 2020 and 31 March 2019 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 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

Assets exposed to interest rate risk	Carrying amount as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
Total change in assets available	89,193	861	90,054	88,332

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 7.4%

A 7.4% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2020	Change to net assets	
	£'000	+7.4% £'000	-7.4% £'000
Overseas Pooled Equities	367,462	394,655	340,270

Currency Exposure - asset type	Asset Value as at 31 March 2019	Change to net assets	
	£'000	+8.8% £'000	-8.8% £'000
Overseas Pooled Equities	426,328	463,845	388,811

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 2020 was £30.8m (31 March 2018: £3.1m). This was held with the following institutions.

Summary	Balances at 31 March 2019	Balances at 31 March 2020
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	3,068	2,641
JP Morgan	1	3,025
BlackRock	44	25,128
	3,113	30,794

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 in to cash. As at 31 March 2020 the value of illiquid assets was £72.9m. This represented 9% of the total Fund assets (31 March 2019: £79.7m).

All financial liabilities at 31 March 2020 are due within one year.

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
- 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' period 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 improvement of 1.25% p.a. for women and men.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0 years	24.3 years
Future pensioners (assumed to be aged 45)	23.1 years	26.3 years

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 2019		31 March 2020
£m		£m
(1,213)	Present value of promised retirement benefits	(1,104)
807	Fair value of scheme assets	697
(406)	Net Liability	(407)

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

	2018/19	2019/20
	% pa	% pa
Inflation/pensions increase rate assumption	2.5	1.9
Salary increase rate	2.8	2.6
Discount rate	2.4	2.3

NOTE 21: CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
Debtors:		
526	Contributions due - employers	661
63	Sundry debtors	55
990	Cash owed to Fund	1,289
1,579		2,005

Analysis of Debtors:

31 March 2019		31 March 2020
£'000		£'000
0	Central Government bodies	0
990	Other local authorities	1,289
4	NHS bodies	4
526	Scheduled/Admitted bodies	661
59	Other entities and individuals	51
1,579		2,005

NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

NOTE 22: CURRENT LIABILITIES

31 March 2019		31 March 2020
£'000		£'000
(344)	Sundry creditors	(156)
(66)	Benefits payable	(80)
(410)		(236)

Analysis of Creditors:

31 March 2019		31 March 2020
£'000		£'000
(5)	Central government bodies	(4)
(10)	Scheduled/Admitted bodies	0
(395)	Other entities and individuals	(232)
(410)		(236)

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.50m were paid directly to the providers during the year (2018/19: £0.51m)

Market value 31 March 2019		Market value 31 March 2020
£'000		£'000
2,011	Prudential Assurance	2,268
599	Clerical Medical	553
219	Equitable Life Assurance Society	224
2,829		3,045

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 on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2019		31 March 2020
£'000		£'000
(19,770)	Employer's Pension Contributions to the Fund	(20,634)
846	Administration expenses paid to the Council	906
990	Cash held by the Council	1,289

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 Treasury & Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2019		31 March 2020	
£'000		£'000	
86	Short-term benefits	91	
0	Termination benefits	0	

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2020 totalled £65.8m (31 March 2019: £2.7m).

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 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated 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 disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



Laura McInroy FFA

5 May 2020

For and on behalf of Hymans Robertson LLP

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Audit Completion Report

London Borough of Harrow
Year ending 31 March 2020

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1. Executive summary
2. Significant findings
3. Summary of misstatements
4. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any 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.

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Governance, Audit, Risk Management and Standards Committee
London Borough of Harrow
Harrow Civic Centre
Station Road
Harrow
HA1 2XY

22 October 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 21 January 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of Covid-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of Covid-19 for the Council was that the deadlines for submission of the draft and audited financial statements were amended to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and 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

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Harrow ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Governance, Audit, Risk Management and Standards Committee (GARMS) meeting on 22 October 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Revenue recognition
- Valuation of Property, Plant & Equipment
- Valuation of Defined Benefit Pension Scheme liability

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. As outlined in more detail in section 2, we intend to include an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainties regarding land and building valuations and pension fund property investments, which the Council intends to disclose in the financial statements.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We are awaiting receipt of the Group Audit instructions from the National Audit Office at the time of presenting this report. We anticipate completing our work on WGA relatively quickly once these 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 Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

Our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020 is currently on-going. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Journals	●	We are currently completing our review of the detailed journal testing.
Income and Expenditure	●	We are awaiting final pieces of supporting evidence from management in respect of our income, expenditure and payroll sample testing.
Property, plant and equipment valuation and existence testing	●	Our work on land and building valuations, including the review of the material valuation uncertainty is ongoing. We are also completing our confirmation of asset existence.
Debtors / Creditors	●	We are awaiting final pieces of evidence from management in respect of our debtor and creditor samples.
Provisions / Reserves	●	We need to perform our testing of provisions and reserves.
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.
Whole of Government Accounts (WGA)	●	Our work on the WGA return will take place later in the year.

Status

- 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

We will provide GARMS with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £9.3m 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 £9.15m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to GARMS, at £279k based on 3% of overall materiality.

1. EXECUTIVE SUMMARY (CONTINUED)

Internal control recommendations and misstatements

We have not identified any internal control recommendations or misstatements as at the time of issuing this report.

If any internal control recommendations or misstatements are noted on completion of the outstanding work, these will be reported to GARMS in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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. 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 and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Description of the risk

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. 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 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.

Audit conclusion

As noted above, our work in this area is ongoing and we will provide an update on any issues arising to GARMS.

At this stage, there are no significant findings arising from our review of areas of potential management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Revenue recognition

Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.

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. In particular we can rebut the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts.

We are not rebutting the income risk relating to other material income streams within the Council, such as charges for use of Council facilities, 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 which assure the Council that revenue is materially recognised in the correct accounting year, and performed the following work:

- detailed testing of transactions within the 2019/20 financial statements to confirm they were accounted for in the correct year;
- testing from receipts around the year-end to provide assurance that there were no material unrecorded items of income in the 2019/20 accounts.

Audit conclusion

As noted above, our work in this area is ongoing and we will provide an update on any issues arising to GARMS.

At this stage, there are no significant findings arising from our review of revenue recognition.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, Plant & equipment valuation	<p>Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate current value as at that date. 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 current value.</p> <p>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.</p> <p>Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.</p> <p><u>Update to risk</u></p> <p>The Covid-19 pandemic has had an impact on all markets with initial significant impact on valuations. In March 2020, RICS issued a valuation practice alert in response to the Coronavirus global pandemic, setting out guidance in light of the potential impact on the ability of valuers to undertake valuations, noting there may be a greater level of uncertainty over valuations as a result of a lack of comparable market or cost data.</p> <p>This potential lack of relevant recent market or cost data upon which to base a valuation, combined with a potentially limited ability to physically inspect properties, has given rise to a potential for material valuation uncertainty disclosures within valuers' reports. It is noted that, even where data is available, the current market circumstances may make that data less reliable than has previously been the case.</p> <p>The alert has reminded valuers of the potential need to disclose that material uncertainty exists over the valuations as part of their reports. It is clear in the alert that such a disclosure is not a disclaimer and that valuers can still provide valuations where material uncertainty exists.</p> <p>The Council's valuer applied a material valuation uncertainty paragraph to their valuations performed as at 31 March 2020. This will also be recognised in the final accounts.</p>

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 were not materially misstated, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, and considered 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:

- 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.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, Plant & equipment valuation (continued)

In response to the potential valuation uncertainty arising from the Covid-19 pandemic we have completed additional review procedures, including review of the Council's responses to the updated RICS guidance and available data to support valuation movements arising on assets in the period. We have also:

- obtained and documented our understanding of the market/cost data used by the valuer in forming the valuations
- obtained and documented our understanding of the arrangements that management has put in place to assure itself that the valuation is materially accurate, considering use of actual cost/market data as opposed to estimated data
- challenged the market/cost data used, by comparing against other relevant data.

Audit conclusion

Our work in this area is ongoing and we will provide an update on any further issues arising to GARMS.

The Council's valuer has included a material valuation uncertainty paragraph within their valuation report. The Council intends to include a disclosure of material valuation uncertainty of land and buildings in note [x] 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. Our opinion on the Council's financial statements is not modified in respect of this matter.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Defined benefit liability valuation

The latest triennial valuation for the London Borough of Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within the fund, the valuation also 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., 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 these valuations, we determined there is a significant risk in this area.

Update to 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.

How we addressed this risk

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.

Audit conclusion

Our work in this area is ongoing and we will provide an update on any further issues arising to GARMS.

London Borough of Harrow Pension Fund's financial statements intend to include disclosures regarding material valuation uncertainty of its unquoted (level 3) investments. Linked to this matter, the Council intends to include a disclosure of material valuation uncertainty of its share of the pension fund assets in note [x] 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. Our opinion on the Council's financial statements is not modified in respect of this matter.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 14 July 2020 and were of a good quality. Supporting working papers were made available to us at the start of the audit and were also of a good quality.

Significant matters discussed with management

We discussed the following significant matters with management:

- The impact of Covid-19 on the Council, including potential impact on risks of material misstatement to the valuation of Property, Plant & Equipment, the assessed provision for expected credit losses and the potential overall impact on the Council's financial position.
- The impact of Covid-19 on the London Borough of Harrow Pension Fund, including potential impact on risk of material misstatement to the valuation of unquoted investments, and the impact that has on the Council's share of the pension fund's assets.
- Financial Sustainability – we have discussed with management plans in place to refresh and redraft the MTFS reflecting expected lost income and additional expenditure as a result of the Covid-19 pandemic.
- Regeneration Project – we have discussed the status of the Council's regeneration project and the decision to select a development partner which was approved in September 2020.
- Going Concern – we have reviewed managements' assessment of the Council as a going concern and have reviewed treasury management forecasts and Cabinet finance papers to support the going concern assessment.

Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit, which has been conducted remotely.

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 2019/20 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. We have received no questions or objections in relation to the 2019/20 accounts.

2. SIGNIFICANT FINDINGS (CONTINUED)

Modifications required to our audit report

We have identified the following issue which has resulted in us proposing to issue a change to our audit opinion. Our draft auditor's report, in full, is set out in Appendix B.

- As described further within our response to the significant risk over the valuation of the Council's Property, Plant and Equipment portfolio (land and buildings) and its share of Pension Fund property based investments, our draft auditor's report set out in Appendix B, includes an emphasis of matter paragraph with respect to the Council's disclosures of these two material valuation uncertainties. Our opinion on the Council's financial statements is not modified in respect of these matters.

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £279k.

Unadjusted misstatements 2019/20

We have not identified any misstatements 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.

Adjusted misstatements 2019/20

We have not identified any misstatements during the course of our audit which management plan to adjust.

Disclosure amendments

During our review of the financial statements we identified some amendments to disclosures. The following were amended by management.

- **Accounting policies:** A number of revisions to ensure the accounts reflect the requirements of the Code.
- **General:** A number of other changes have been made to the financial statements not requiring individual analysis.
- **Material valuation uncertainty:** Disclosures are to be added to the final financial statements regarding disclosure of material valuation uncertainty with regard to the Council's land and building valuations and the Council's share of the Harrow Pension Fund assets which are property based due to the impact of the Covid-19 pandemic have had a 'material valuation uncertainty' attached to their 31 March 2020 valuation

4. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to 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
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>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.</p> <p>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.</p> <p>The Council has a detailed Treasury Management Strategy in place with regular reporting throughout the year. Decisions on treasury management are linked to the overall Medium Term Financial Strategy and capital programme of the Council.</p> <p>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.</p>	Yes

4. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>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.</p> <p>As in 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.</p> <p>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.</p> <p>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.</p>	Yes
Working with partners and other third parties	<p>The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services.</p> <p>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.</p> <p>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.</p>	Yes

4. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money 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 Value for Money 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.	<p>We addressed this risk by</p> <ul style="list-style-type: none">• 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.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
[Date]

Dear Lucy

London Borough of Harrow - audit for year ended 31 March 2020

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 2020 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 2019/20 (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 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.

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.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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 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.

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 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.

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 have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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 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.

Yours sincerely

Dawn Calvert
Director of Finance, Section 151 Officer

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of London Borough of Harrow

Report on the financial statements

Opinion

We have audited the financial statements of London Borough of Harrow ("the Council") for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of London Borough of Harrow as at 31st March 2020 and of the Council'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 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities 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 and buildings and unquoted investments

We draw attention to notes [x] and [x] of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and the Council's share of the London Borough of Harrow Pension Fund's unquoted (level 3) investments as at 31 March 2020. As disclosed in notes [x] and [x] to the financial statements, the outbreak of Covid-19 has had a significant impact on financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. 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's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council'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 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.

APPENDIX B

DRAFT AUDITOR'S REPORT

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 for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance 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 is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance 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.

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.

Conclusion on London Borough of Harrow's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

APPENDIX B

DRAFT AUDITOR'S REPORT

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

Use of the audit report

This report is made solely to the Members of London Borough of Harrow, 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 issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

CONTACT

Lucy Nutley

Director

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Senior Manager

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Audit Completion Report

London Borough of Harrow Pension Fund
Year ending 31 March 2020

CONTENTS

1. Executive summary
2. Significant findings
3. Summary of misstatements

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Draft consistency report

Appendix D – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any 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.

Governance, Audit, Risk Management and Standards Committee
London Borough of Harrow
Harrow Civic Centre
Station Road
Harrow
HA1 2XY

22 October 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 21 January 2020. Since then, the Covid-19 pandemic has had significant implications for the UK, including the Pension Fund sector. We have updated our planning work to understand the implications of Covid-19 on our audit and concluded that the original audit risks and other areas of management judgement in the Audit Strategy Memorandum remain appropriate.

In response to the Covid-19 pandemic, MHCLG issued a revised reporting timetable for the Pension Fund to prepare its financial statements for inclusion in the Administering Authority Statement of Accounts and for the audit to be completed. We understand the difficult circumstances that the Pension Fund is facing in order to respond to the pandemic and 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

Mazars LLP - Tower Bridge House - St Katharine's Way - London - E1W 1DD
Tel: 020 7063 4000 - www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2020, and forms the basis for discussion at the Governance, Audit, Risk Management and Standards Committee (GARMS) meeting on 22 October 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 2 of this report outlines the detailed findings from our work on the financial statements. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of control; and
- valuation of level 3 unquoted investments for which a market price is not readily available.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. As outlined in more detail in section 2, we intend to include an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty of property investments that the Pension Fund intends to disclose in the financial statements.

Consistency report

We have yet to review the Pension Fund Annual 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 the London Borough of Harrow. This work is due to be completed by 30 November 2020.

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 Pension Fund and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

Our work on the financial statements for the year ended 31 March 2020 is currently on-going. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Investments	●	Completion of confirmation of the investments held by the Pension Fund at year end from fund managers.
Audit testing	●	Completion of procedures following resolution of outstanding queries in respect of: <ul style="list-style-type: none"> • Journal testing and review, • Contributions, • Pension payments, • Return on investments and • Financial instruments.
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.

Status

- 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

We will provide GARMS with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

1. EXECUTIVE SUMMARY

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum, although our approach has been tailored for the impact of Covid-19.

Materiality

We set materiality at the planning stage of the audit at £12.7m using a benchmark of 1.5% of net assets available to pay benefits. We set a specific materiality for the fund account of £3.7m at the planning stage of the audit using a benchmark of 10% of benefits payable / contributions receivable.

Our final assessment of materiality, based on the final financial statements and qualitative factors is £11.7m, using the same benchmark. Fund account materiality has been assessed at £3.8m, using the same benchmark.

We set our trivial threshold (the level under which individual errors are not communicated to GARMS), at £382k based on 3% of overall materiality.

Misstatements

Section 3 sets out that, to date, we have not identified any misstatements. We will provide GARMS with an update if there are any misstatement in a follow-up letter, prior to signing the auditor's report.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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. 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; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Significant risk	Description of the risk
Management override of controls	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 there is a presumed risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none">• 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.
	Audit conclusion We are completing our testing in this area. There have been no significant findings arising from our review of areas of potential management override of controls completed to date, we will update GARMS once our work is complete.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

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.

Update to 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.

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

We are completing our testing in this area and will provide an update of any further issues arising to GARMS.

The Pension Fund intends to include a disclosure of material valuation uncertainty in note x 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. Our opinion on the Pension Fund financial statements is not modified in respect of this matter.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 14 July 2020 and were of a good quality. Supporting working papers were made available to us on the first day of the audit and were of a good quality.

Significant matters discussed with management

We discussed the following significant matters:

- 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 2020 and not based on estimates. We requested additional information where this was not the case.
- Uncertainty of property valuations. RICS guidance was issued in April and May to professional valuers, which highlighted the potential valuation uncertainties as at 31 March 2020 as a result of the Covid-19 pandemic. We discussed management's assessment of their specific property related investment funds. 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. Our audit has been performed remotely, using screen-sharing technology where appropriate.

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 2019/20 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 in relation to the Pension Fund.

3. SUMMARY OF MISSTATEMENTS

Misstatements

During the audit we have not identified any unadjusted or adjusted misstatements above the trivial threshold of £382k.

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.
- **Material valuation uncertainty:** the Pension Fund intends to include a disclosure of material valuation uncertainty in note x 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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
[Date]

Dear Lucy

London Borough of Harrow Pension Fund - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2020 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 2018/19 (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 Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance 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.

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 Pension Fund 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 Pension Fund in making accounting estimates, including those measured at current or fair value, are reasonable.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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 Pension 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.

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 Pension 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 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 Pension 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 Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

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.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

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.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements

I confirm that there are 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 Pension 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, Section 151 Officer

Independent auditor's report to the Members of London Borough of Harrow

Report on the financial statements

Opinion on the financial statements of London Borough of Harrow Pension Fund

We have audited the financial statements of London Borough of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2020, 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 London Borough of Harrow Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities 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 – the valuation of unquoted investments

We draw attention to note x to the financial statements which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's unquoted (level 3) investments as at 31 March 2020. As disclosed in note x to the financial statements, the outbreak of Covid-19 has had an impact on financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. Our opinion is not modified on 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's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance 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 is responsible for the other information. The other information comprises the Annual Governance Statement 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.

APPENDIX B

DRAFT AUDITOR'S REPORT

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance 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 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance 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 is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 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.

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.

Use of the audit report

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 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

We have examined the Pension Fund financial statements for the year ended 31 March 2020 included within the London Borough of Harrow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Harrow for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

I have not considered the effects of any events between the date I signed my report on the full financial statements (XXXX) and the date of this statement.

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance 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.

Use of this auditor's statement

This report is made solely to the Members of London Borough of Harrow, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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
Tower Bridge House
St Katharine'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.

CONTACT

Lucy Nutley

Director

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Email: lucy.nutley@mazars.co.uk

Gary McLeod

Senior Manager

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT &
STANDARDS COMMITTEE**

Date of Meetings:	22/10/20
Subject:	Internal Audit & Corporate Anti-Fraud Plans 2020/21
Responsible Officer:	Dawn Calvert – Director of Finance & Assurance
Exempt:	No
Enclosures:	Appendix 1: Internal Audit & Corporate Anti-Fraud Plans 2020/21 Appendix 2: Internal Audit Charter 2020/21 Appendix 3: CAFT Strategy for Resuming Investigative Interviews and Visits

Section 1 – Summary and Recommendations

This report sets out the Internal Audit & Corporate Anti-Fraud Plans for 2020/21.

Recommendations:

The Committee is requested to: Review and approve the Internal Audit & Corporate Anti-Fraud Plans 2020/21, the Internal Audit Charter 2020/21 and the Internal Audit and CAFT Covid-19 Working Strategies in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

Section 2 – Report

Internal Audit Plan 2020/21 (Appendix 1)

Background

- 2.1 Internal audit is a statutory service. The Accounts and Audit Regulations 2015, state that:
- ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’
- 2.2 The Public Sector Internal Audit Standards (PSIAS) have been adopted and are being implemented by the Council’s Internal Audit section. A self-assessment against the standards is required to be undertaken annually.
- 2.3 It is a requirement of the PSIAS that the ‘chief audit executive’ (Head of Internal Audit) ‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’
- 2.4 The purpose of the plan is to enable independent and objective assurance on control, risk management and governance processes, put in place by management, to be provided to those charged with governance. This culminates in an annual report that includes an opinion that concludes on the overall adequacy and effectiveness of the Council’s framework of control, risk management and governance as required by the PSIAS.

Annual Plan Process

- 2.5 In compliance with the PSIAS requirement annually a risk based internal audit plan of work is developed by the Head of Internal Audit to determine the priorities of the internal audit service for the coming year to support the Council’s vision and priorities.
- 2.6 The 2020/21 plan has been developed taking into account the Council’s risk management framework. Some initial consultation was undertaken with managers prior to the Covid-19 lockdown at the end of March 2020 however the normal consultation process could not be completed or the plan agreed with CSB and the GARMS Committee in the usual way due to the suspension of CSB/GARMS Committee meetings. The plan has now been revised and redrafted to reflect the work on the Council’s core financial systems, corporate governance, risk management and a number of other pieces of audit work undertaken during Q1/Q2, risks facing the Council due to Covid-19, to accommodate reviews which were unable to be completed in 2019/20,

and to reflect the need to provide an annual internal audit opinion with reduced internal audit resources.

- 2.7 The development of the plan has also taken into account the requirement for the Head of Internal Audit to produce an annual internal audit opinion on the Council's framework of governance, risk management and control, reported each year in the Internal Audit Year-end report (annual report).

Internal Audit Strategy

- 2.8 Internal audit adds value to the organisation and contributes to the corporate vision and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.
- 2.9 The annual plan is designed to provide the GARMS Committee, the Corporate Strategic Board (Chief Executive + Corporate Directors), the S151 Officer and other senior managers with assurance on the Council's control environment.
- 2.10 The plan will be delivered primarily by the dedicated in-house team situated in the Resources Directorate in accordance with the Internal Audit Charter (Appendix 2). The Charter has been reviewed and updated for 2020.
- 2.11 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. Recent events and reduced audit resources (caused by the Covid-19 lockdown and a vacant auditor post from April 2020) have made it difficult to build flexibility into the 2020/21 plan for emerging risks to minimise the impact they may have on the plan, as has been the practice in recent years. As a result any emerging risks identified by the Internal Audit Team, by CSB/management or by the GARMS Committee will require adjustments to be made to the plan and these will be reported to CSB and GARMS Committee.

Organisational Independence

- 2.12 The Public Sector Internal Audit Standards require the chief audit executive (Head of Internal Audit) to confirm to the board (GARMS Committee/CSB), at least annually, the organisational independence of the internal audit activity and if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.
- 2.13 The internal audit service at Harrow does have organisational independence in that the Head of Internal Audit does report functionally to the board (GARMS Committee/CSB), has effective communication

with, and free and unfettered access to, the Chief Executive and the chair of the audit committee (GARMS Committee). However the objectivity of the service is impaired in relation to the Corporate Anti-Fraud Team, the maintenance of the Corporate Risk Register, and the preparation of the Annual Governance Statement as the Head of Internal Audit has responsibility for these areas and thus independent assurance on them cannot be provided by internal audit. It should be noted that this is common across many local authorities.

2.14 This gap is mitigated by the following:

- The Head of Internal Audit can provide management assurance on these areas;
- The GARMS Committee and CSB have oversight of all the areas; and
- Some limited assurance of these areas is also provided by the External Auditors.

Resources/Audit Techniques

2.15 Internal audit's resource requirements for 2020/21 have been assessed by calculating the number of audit days spent on the plan in Q1 and Q2 (150) and available audit days of the team for Q3 and Q4 (90 days per FTE member and 72 days per part-time member of the team (working 4 days), giving a total of 564 audit days available to undertake the 2020/21 plan. This is lower than the 2019/20 plan by 232 audit days and is due to a current auditor vacancy since April 2020 (accounting for approximately 90 days) and time lost due to Covid-19 (approximately 142 days) e.g. due to lack of IT, increased number of audit days taken to complete 2019/20 plan due to officer availability and changes required in working practices etc.) The actual days in the plan however are slightly higher at 565.

2.16 Using different techniques to gain assurance ranging from self-assessment of some core financial systems to sample testing of corporate processes and by using risk based audit techniques to optimise the achievement of the plan, the number of audit days available is considered sufficient to deliver the proposed 2020/21 internal audit plan and the mix of knowledge and skills within the in-house team is considered appropriate to deliver the plan.

2.17 Changes to the way we work as an organisation as a result of the Covid-19 pandemic has required changes to internal audit working practices. The approach to undertaking reviews in previous years has relied heavily on face to face meetings, the physical presence of an auditor within the areas, schools or establishments being audited, the physical review of some evidence (in addition to electronic evidence) and the physical review and sign-off of audit files/reports as part of the internal audit quality assurance and management review process. During the first half of the 2020/21 year with the vast majority of the Council's workforce working from home new ways of undertaking audits remotely have been developed. This includes the use of

Microsoft Teams and Zoom to conduct face to face meetings, the sharing of screens to view evidence (that cannot be physically sent), the extension of the use of electronic evidence, the reintroduction of the use of Internal Control Questionnaires, the review of standard audit programmes for schools to make them more manageable remotely, protocols for when to use different forms of communications e.g. when a face to face meeting using technology is required during the audit process and electronic review and sign-off of audit files for quality assurance and management purposes. The approach to internal audit working practices will continue throughout 2020/21 (and beyond) to ensure that the internal service remains effective.

Other Sources of Assurance

- 2.18 The work planned by the External Auditors has been considered in developing the internal audit plan and the assurance provided by their work will be taken into account during the course of 2019/20.
- 2.19 Other potential sources of assurance i.e. external reviews by reputable bodies such as Ofsted and other Councils (e.g. in relation to shared service arrangements) will be considered as they occur or are reported during 2020/21.

Links to the Corporate Priorities

- 2.20 The Borough Plan 2030, agreed in February 2020 sets out the Council's Priorities as follows:



- 2.21 The Council's priorities are taken into account when developing the internal audit plan.

Summary of Work undertaken in Quarters 1 and 2

2.22 During Q1 and Q2 of 2020/21 the Internal Audit Team worked on the following:

- Completion of the 2019/20 plan of work;
- 2020/21 core financial systems reviews;
- Annual review of governance and the Annual Governance Statement;
- Corporate Risk Register Q1 & Q2;
- Resources Directorate Risk Register;
- Depot – Additional Works Review
- Covid-19 Business Grants (see paragraph 2.36 below)
- Replacement ERP System
- Purchase Card Expenditure during Covid19
- Social Value Review

Corporate Anti-Fraud Team Plan 2020/21 (Appendix 1) Background

2.23 The incidence of fraud and corruption globally are at epidemic levels. The most recent Annual Fraud Indicator Report published in 2017 by the UK Fraud Costs Measurement Committee (UKFCMC) estimated UK losses to be in the region of £190 billion per annum. Public Sector Fraud accounted for £40.4 billion. Harrow Council is not immune to fraud and corruption and to mitigate against these risks, an annual risk based fraud plan is developed in addition to the Internal Audit Plan 2019-20 so that fraud risks are managed in both a proactive and reactive response.

Annual Fraud Plan Process

2.24 The 2020/21 plan has been developed taking into consideration both internal and external factors that assess fraud risks according to their likelihood and impact. Internally, consultation has been more limited than usual due to the Covid-19 Pandemic. Careful consideration has also been given to incidents of fraud and corruption identified in 2019/20 which have been fed into the plan development. Externally, a number of national reports and trends have been reviewed and high risk fraud areas across the sector assessed accordingly and feature in the plan.

Development of the Draft Fraud Plan

2.25 The draft plan has been developed by drawing on a number of sources of data:-

- A review of recently published Local Government Fraud Strategy, Fighting Fraud & Corruption Locally 2020 (FFCL); a strategy for the 2020's

- A review of Harrow Council's Corporate Anti-Fraud & Corruption Strategy 2016-2019 (inc Fraud Response Plan)
- A review of the fraud risk register;
- Discussions with the Head of Internal Audit and Interim Risk Manager to co-ordinate common interest work where possible;
- Local knowledge and intelligence about known fraud risks the authority faces and fraud cases identified during 2019/20;
- Findings for the International Sector Fraud Forum's A Guide to Managing Fraud for Public Bodies; and
- A review of The Financial Cost of Fraud 2019; a publication by Crowe UK and Portsmouth University to measure world losses to fraud (inc the UK)
- Review of fraud and corruption trends and patterns across the UK and more specifically London.
- Weekly Cifas Intelligence bulletins on Covid-19 fraud risks, attendance at quarterly Cifas Local Authority Business Sector Working Group meetings and quarterly Cifas Organised Fraud Cross Sector Meetings

2.26 Fraud and corruption threats not only remove resources from crucial front line services but can cause immeasurable social harm to individuals and communities and create poor morale amongst employees. Having a robust annual plan in place to mitigate fraud and corruption risks ensures that the authority knows what threats are faced, is able to prevent and disrupt criminals from perpetrating fraud and finally it enables the authority to react quickly when fraud does occur through a clear fraud response plan.

CIPFA Code of Managing the Risk of Fraud & Corruption

2.27 The CIPFA Fraud Code which the authority has been using to self-assess its corporate counter fraud response has been replaced by the Local Government strategy for counter fraud and corruption; Fighting Fraud & Corruption Locally 2020. The recently updated strategy contains new pillars of activity, to add to Acknowledge, Prevent and Pursue, namely 'Govern' and 'Protect' which will require the authority to undertake some improvement work to ensure that anti-fraud and bribery measures are embedded and that there is greater executive support for anti-fraud arrangements and also that the authority seeks to protect itself from organised fraud. In addition to the new pillars, the strategy also contains a Local Response Section which sets out what activities different roles in the organisation should carry out to ensure good governance, and a helpful checklist that the authority will undertake a self-assessment against to drive improvements and any action plan. This work will be contained in the review of the Corporate Anti-Fraud & Corruption Strategy.

Corporate Anti-Fraud & Corruption Strategy 2016-19

2.28 The Council's Strategy will be reviewed to ensure it aligns closely to FFCL 2020 and subsequent to a self-assessment against the checklist

contained in the strategy, an improvement plan will be commenced so that authority fully mitigates where possible the current fraud and corruption risks.

London Counter Fraud Hub

2.29 Exploring the London Counter Fraud Hub project has also been removed from the plan for 2020/21 as no further updates have been received from CIPFA regarding a change in pricing model. In March 2020 the Head of Internal Audit and the CAFT Service Manager attended a showcase session to review the rebranded Cipfa Counter Fraud Hub, but the pricing model had remained pretty much the same which offered no value for money to the authority so with the absence of any pricing flexibility changes from CIPFA, the authority will not be joining. It also should be stated that the project has not gone live for any other local authority either as there are insufficient authorities joining

Resources

2.30 The plan is delivered by an in house Corporate Anti-Fraud Team of 5FTE's including the Service Manager. All officers in the team are Accredited Counter Fraud Officers and the Service Manager is a qualified as Accredited Counter Fraud Managers. Resources are such that it is vital that the plan developed is risk based so as to direct resources at areas where financial losses and their impact are greatest.

2.31 As members of the CAFT have been working from home since April 2020, all investigation visits and interviews ceased. Appendix 3 contains details for the resumption of this work.

Summary of Work Undertaken Quarters 1 and 2

2.32 During Quarter 1 and 2 the Corporate Anti-Fraud Team worked on the following:

- Covid-19 Business Grants

The Head of Internal Audit and the CAFT Service Manager fed into the process developed for assessing applicants for business grants under the three main schemes launched by the Department for Business, Energy and Industrial Strategy (BEIS). Team members in both Internal Audit & CAFT assisted Revenues in processing the applications in a timely manner and the CAFT also acted as a fraud liaison point of contact with BEIS in gaining access to the 'Spotlight' checking system and the Experian 'bank wizard' tool which provided risk based intelligence from 3rd party sources to assist Revenues in determining the applications. All told, in excess of 1500 applications were washed through the Spotlight system and 600 applications were washed through the Experian bank wizard tool and a risk based summary

provided with each data output which enabled Revenues to make decisions on applications. A number of investigations into grant payments are currently underway.

- National Fraud Initiative

The CAFT has supported business areas providing data for the bi-annual exercise ensuring that privacy notices were up to date

- Housing fraud

Two Right to Buy applications were intercepted as the applicants were unable to pass anti money laundering checks

Financial Implications

The functions of the Internal Audit and Corporate Anti-Fraud service are delivered within the budget available.

Legal Implications

The Accounts and Audit Regulations 2015, state that:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The terms of reference for the Committee include the requirement:

- to approve the internal audit charter and support the independence of Internal Audit;
- to approve the risk-based internal audit plan, including internal audit’s resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources;
- to review and approve the annual Corporate Anti-Fraud Team Plan.

Risk Management Implications

The work of Internal Audit and the Corporate Ant-Fraud Team supports the management of key risks across the council.

There are two main risks to the achievement of the Internal Audit and Corporate Anti-Fraud plans:

- The risk of inadequate resources to achieve the plans caused by unplanned reduction in staff resource e.g. sickness, maternity leave or staff leaving; and
- The risk of higher than anticipated level of reactive work e.g. investigations and emerging risks.

These risks are mitigated by good management practices e.g. monitoring/managing of sickness absence, by keeping the teams motivated and the risk assessment of work on investigations and emerging risks.

Specific reviews on the Internal Audit Plan link to individual corporate risks and this is shown under 'reason for inclusion' in the plan.

Equalities implications

None

Corporate Priorities

Internal audit and the Corporate Anti-Fraud Teams contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support the priorities.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels Date: 12/10/20	<input checked="" type="checkbox"/>	On behalf of Chief Financial Officer
Name: Chris Date: 12/10/20	<input checked="" type="checkbox"/>	On behalf of Monitoring Officer

Section 4 - Contact Details and Background Papers

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

Background Papers: None.

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Corporate Priorities	YES / NO

**HARROW COUNCIL
2020/21 INTERNAL AUDIT & CORPORATE ANTI-FRAUD PLAN**

Internal Audit Plan

Review Area	Risk Assessment ¹	Reason for inclusion	Proposed Audit Coverage	Audit Days	Q
Core Financial Systems					
Housing Benefit	H	Core Financial System	Key Control Review, Walkthrough Test	15	Q1
Treasury Management	M	Core Financial System	Key Control Review, Walkthrough Test	15	Q1
Housing Rents	M	Core Financial System	Due a full Key Control Review but Medium risk therefore will undertake an Evidence Based Self –Assessment	20	Q1
Business Rates	H	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
Capital expenditure	H	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
Corporate Accounts Receivable	M	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
Corporate Accounts Payable	H	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
Payroll	H	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
Council Tax	H	Core Financial System	Evidence Based Control Self- Assessment	1.5	Q1
IT					
Replacement ERP System	H	Replacement of major IT system as part of the modernisation agenda	Ongoing audit input to development of replacement ERP system	5	Q1-4
Corporate Compliance Checks					
Contract Procedure Rules (Annual Assurance)	H	To obtain assurance and to feed into future updating of Contract Procedure Rules and following the findings of the Depot – Additional Works Review	Sample checks across the council to ensure that Contract Procedure Rules are understood and being adhered to concentrate on Gateway 2 reports	10	Q3/4
Financial Regulations (Annual Assurance)	H	To obtain assurance following the updating of Financial Regulations during 18/19 and the findings of the Depot – Additional Works Review	Sample checks across the council to ensure that Financial Regulations are understood and being adhered to concentrating on expenditure allocation within capital projects	20	Q3/4
Adults Financial Assessments (Residential + non-residential)	H	Links to Corporate Priority: Addressing health and social care inequality	Sample testing of financial assessments for residential and non-residential care to ensure assessments are being undertaken and	10	Q4

¹ Wherever possible risk ratings are taken from the Corporate (prefix CR), an audit risk assessment is undertaken for all other reviews.

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			assessed correctly for the new arrangements		
Adult Social Care - Personal Budgets Monitoring	H	Carry forward from 2019/20 plan	Sample testing of cash personal budgets to ensure that monitoring is taking place on a regular basis, funds are being spent appropriately and surplus funds are recovered where appropriate	10	Q4
Invoice Payments - adherence to Fin Regs VAT invoice requirements	H	Following on from an issue identified in 2019/20	Sample testing of invoices to ensure they are being paid in compliance with Financial Regulations in relation to a valid VAT invoice	10	Q4
Purchase Card expenditure during Covid-19	H	Following reports of issues identified in other London Boroughs	Sample testing of purchase card transactions covering the Pre-Covid19 and during Covid19 periods to establish whether the transactions made during these periods were in accordance with Council policy	10	Q2
Fees & Charges (Annual Assurance)	M	Following an Issue identified during 2019/20 and discussion with Director of Finance	Annual check that Fees and Charges are being applied in accordance with Council decision	5	Q3
Corporate Risk Based/Governance Reviews					
Corporate Governance	Statutory Requirement	Requirement under the Accounts & Audit Regulations 2015: <i>A relevant authority must, each year conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement</i>	Co-ordination of the annual review of governance against the new CIPFA/Solace Delivering Good Governance in Local Government Framework 2016, including Management assurance, plus drafting of the Annual Governance Statement	30	Q1/4
Follow-up of minor governance gaps	Statutory Requirement	Requirement under the Accounts & Audit Regulations 2015: <i>A relevant authority must, each year conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement</i>	A follow-up of action taken to close minor governance gaps identified as part of the 2019/20 annual governance review	10	Q3/4
Risk Registers	Statutory Requirement	Requirement under the Accounts & Audit Regulations 2015: <i>A relevant authority must ensure that it has a sound system of internal control which includes effective arrangements for the management</i>	Update of the Corporate Risk Register and input assistance with Directorate and other Council risk registers	65	Q1-4

HARROW COUNCIL
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		<i>of risk</i>			
Risk Management Strategy review	Statutory Requirement	Requirement under the Accounts & Audit Regulations 2015: <i>A relevant authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk</i>	A review and update of the Council's Risk Management Strategy	20	Q3/4
Risk Management in projects	H	Links to the provision of effective arrangements for the management of risk	A review of the adequacy, application and effectiveness of risk management in a sample of projects across the Council	20	Q3/4
Risk Management in Decision Making	H	Links to the provision of effective arrangements for the management of risk	A review of compliance with risk management requirements for Cabinet reports and an assessment of the adequacy of the risk articulations in helping to ensure that sound decisions are made. This will be a real-time proactive review, with clearance provided before reports are presented to Cabinet	20	Q3/4
Information Governance	M	Proactive approach to ensure that the Council has effective policies & management of information governance risks.	Quarterly Board meetings plus review of security breaches and policies	2	Q1-4
Social Value	M	c/f 2019/20 Links to Corporate Priority: Thriving economy	To obtain assurance that social value is being delivered as per contract specifications across the Council and adequately monitored and reported	10	Q2
Income Collection	M	Leading on from 2019/20 Debt Management Review	A review of the suitability and effectiveness of income collection methods across the Council	10	Q4

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Resources Risk Based Reviews					
Covid -19 Grants	H	Government grants launched by the Department for Business, Energy and Industrial Strategy (BEIS) e.g. Small Business Grant, Retail, Hospitality & Leisure Grant, Nursery Discount Grant administered by the Council's Collection & Benefits Service had to be issued quickly and without the usual full scope of checks and balances – part of the conditions of these grants is post assurance review	Post assurance review conducted jointly with Corporate Anti-Fraud Team ensure that any suspected fraud identified can be investigated quickly and steps taken to recover any losses identified	60	Q3/ Q4
Community Risk Based Reviews					
Major Projects - Depot Redevelopment Additional Works	H	Following an projected overspend and the identification of a significant governance gap	A review of the governance issues of the projected overspend	10	Q2
Major Projects - Grange Farm/Depot	H	c/f 2019/20 To provide assurance on major projects being undertaken	Project Management Review	30	Q2-3
Bus Subsidy Grant	Statutory Requirement	Grant condition requirement	Annual HIA Certification	2	Q2
Empty Property Grant and Property Acquisition Programme	H	Links to Corporate Priority: Building Homes and infrastructure	Vfm reviews to support capital bids	15	Q3
Discretionary Grants Fund	H	Government grant launched by the Department for Business, Energy and Industrial Strategy (BEIS) administered by the Council's Economic Development Team	Post Assurance Review	15	Q3

**HARROW COUNCIL
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People Risk Based Reviews					
Schools	H	<p>Links to Corporate Priority: Sustaining quality education and training</p> <p>The Council has 34 maintained schools with delegated budgets most of which are in excess of £1m however schools are facing ever increasing financial pressures</p>	Reviews to be undertaken to provide assurance on Budget Management or Governance & Financial Control	70	Q3/4
Together with Families Programme (Troubled Families Grant)	Grant Requirement	<p>Links to Corporate Priority: Tackling poverty and inequality - testing by internal audit is a grant condition</p>	Sample testing of claim prior to grant submission	5	Q1-4
Test & Trace Grant	Grant Requirement	Part of the Suite of government grants for Covid 19	HIA Certification	2	Q4
Support, Advice & Follow-up					
Professional Advice	H/M/L	To provide a pro-active response to management requests for support and guidance on control, risk management and guidance	Advice on control, risk management and governance	10	Q1-4
Follow-up	H/M	To provide assurance on the implementation of audit recommendations by management in accordance with the agreed strategy	Follow-up of Red, Red/Amber & Amber reports	20	Q1-4
TOTAL DAYS IN 2020/21 PLAN				565	

**HARROW COUNCIL
2020/21 INTERNAL AUDIT & CORPORATE ANTI-FRAUD PLAN**

Internal Audit Performance Indicator 2019/20		Target
1	Recommendations agreed for implementation	95%
2	Follow up undertaken – red and red/amber assurance reviews	100%
3	Follow-up undertaken – amber assurance reviews	70%
4	Plan achieved for key control reviews	100%
5	Plan achieved overall (key indicator)	90%
Corporate Performance Indicator		Target
1	Implementation of recommendations	90%

The Performance Indicator for follow-ups has been split to reflect the reduced Internal Audit resources available to undertake follow-ups.

HARROW COUNCIL
2020/21 INTERNAL AUDIT & CORPORATE ANTI-FRAUD PLAN

Corporate Anti-Fraud Plan

	Fraud work stream	Proposed counter fraud coverage
1	Corporate fraud risk assessment	Identify and assess Harrow's fraud risk exposure affecting the principle activities in order to fully understand changing patterns in fraud and corruption threats and the potential harmful consequences to the authority and our customers.
2	Corporate fraud risk register	Review and facilitate the updating of the fraud risk register annually where significant fraud and corruption risks are identified, mitigated and monitored. Given the position with Covid-19 and most employees working from home, this review will be undertaken via a self assessment.
3	Corporate Anti-Fraud & Corruption Strategy	Review the authorities' Corporate Anti-Fraud & Corruption Strategy 2016-19 following the publication of Fighting Fraud and Corruption Locally Strategy 2020, including the drafting of any action plan to address areas for improvement contained within the local response checklist section
4	Establish a fraud loss value methodology	Develop and implement a fraud loss value methodology to apply consistently to significant fraud risk exposures enabling fraud losses to be measured accurately
5	National Fraud Initiative co-ordination role	Co-ordination of the 2020/21 National Fraud Initiative (NFI) project including:- <ul style="list-style-type: none"> • Ensuring all relevant service area privacy notices are up to date and follow best practice • Liaison with service leads to ensure data can be provided and in accordance with the relevant data specification • Ensure relevant data is extracted from legacy systems and handed to the CAFT for upload to the NFI website in accordance with the project deadline • Act as liaison and as a support role for service areas during the project
6.	Cifas Pilot Membership project	Pilot membership of Cifas has been extended to March 2021. Cifas is the UK's leading fraud prevention service that facilitates the sharing of fraud data for the prevention and detection of crime across the public, private and third sectors. A Cifas proactive datamatch project involving housing tenants will be undertaken to identify tenancy fraud/misuse and potential subletting.

HARROW COUNCIL
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7.	Corporate anti-fraud awareness	<p>Raise awareness of fraud and corruption risks both within the authority and in the community through the publication of fraud successes and awareness internally and in local and national media, including the use of all forms of social media including the following actions:-</p> <ul style="list-style-type: none"> • Launch a campaign to increase employee participation of the fraud E-learning course in the learning pod • General internal communications bulletins in relation to articles on fraud and corruption • Issuing management reports detailing investigation outcomes and recommendations for improving fraud risk controls are implemented if agreed according to risk (KPI5) • Deliver virtual fraud workshops for high risk fraud areas as determined by the outcomes of the fraud risk register • Publicity through all forms of media on successful fraud cases, fraud initiatives and related prosecution outcomes
8.	Fraud liaison	<p>Explore, develop and maintain effective liaison with investigation teams in other boroughs and external agencies and ensure that membership and interest continues in the London Borough of Fraud Investigators Group (LBFIG), The National Anti-Fraud Network (NAFN), The Chartered Institute of Public Finance and Accountancy (CIPFA) and Cifas</p>
9.	Housing fraud	<p>Assess and investigate allegations of fraud and abuse in the housing system working in partnership with Housing Resident Services, Housing Needs and Harrow's RSL's including:</p> <ul style="list-style-type: none"> • Seek to recover a combined total of 10 Council social housing units and disrupt/intercept fraudulent Right to Buy applications (KPI1) • Prevent housing application fraud through a partnership approach with Housing Needs providing fraud risk advice, support and the investigation of allegations of fraud • Prevent fraudulent Right to Buy (RTB) applications through targeted application validation with a fraud check on at least 90% applications referred to the CAFT at offer stage and before completion (KPI2)

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		<ul style="list-style-type: none"> • Maximise the use of powers contained within the Prevention of Social Housing Fraud Act 2013 (PoSHFA) in terms of gathering evidence, investigation and prosecution of offenders and recovery of unlawful profit • Plan and implement a proactive anti-fraud datamatching exercise to identify the misuse of Council social housing units (see datamatching section above)
10.	Covid-19 Business Grants	Work jointly with Internal Audit to undertake a review of the Small Business Grants Fund, the Retail, Hospitality & Leisure Grants Fund and the Discretionary Grants Fund launched by the Department for Business, Energy and Industrial Strategy (BEIS) and implemented by the authority to provide financial assistance to local businesses in Harrow. This work may identify suspected fraud cases which will be investigated fully and steps taken to recover any losses identified
11.	Internal fraud & corruption	Risk assess at least 80% of allegations of internal fraud and corruption as a priority and deploy resources on those cases where there is corroborative evidence within an average of 5 workings days of receipt of the information (KPI3).
12.	Revenues/Business Rates/Council Tax Support fraud	Work in partnership with Revenues and Benefits to investigate allegations of fraud and abuse on a risk basis of the Council Tax, Council Tax Support and Non Domestic Rates Systems, including exemptions, discounts and reliefs, apply appropriate sanctions where fraud is proven and assist in the recovery of fraud related losses
13.	Social care fraud	Work in partnership with the People Directorate to investigate allegations of fraud and abuse of the social care system including but not limited to:- <ul style="list-style-type: none"> • Personal budget applications, assessment and monitoring of PB spend • Long term residential care applications financial assessments and reviews
14.	Risk assess allegations of fraud and corruption	Risk assess 80% of allegations of fraud and corruption and deploy resources on those cases deemed sufficiently high enough fraud risk within an average of 10 working days of receipt of the information. (KPI4)

**HARROW COUNCIL
2020/21 INTERNAL AUDIT & CORPORATE ANTI-FRAUD PLAN**

No.	CAFT Key Performance Indicators 2020/21	Target
1.	Recovery of a combined total of 10 social housing units subject to fraud and misuse and the disruption/interception of fraudulent Right to Buy applications	100%
2.	Fraud validation checks undertaken on Right to Buy applications referred to the CAFT at offer stage and before completion	90%
3.	Internal fraud and corruption referrals risk assessed and resources deployed in 5 working days	80%
4.	Fraud and corruption referrals risk assessed and resources deployed in 10 working days	80%
5.	Fraud risk recommendations agreed for implementation	80%

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NB All targets have remained the same as 2019/20 due to the disruption caused by Covid-19, but ordinarily these would have been increased slightly to stretch performance

Justin Phillips
Service Manager, Corporate Anti-Fraud

Susan Dixon
Head of Internal Audit & Corporate Anti-Fraud

October 2020

Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of Harrow Council's Internal Audit function, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* (and also the Committee on Standards of Public Life's *Seven Principles of Public Life*) and the *Standards* as set out in the Public Sector Internal Audit Standards.

It establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the 'board' (the Governance, Audit, Risk Management & Standards Committee); authorises access to records, personnel and physical properties relevant to the performance of audit reviews; and defines the scope of internal audit activities.

Mission

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Purpose

The Accounts and Audit Regulations 2015 state that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

The Public Sector Internal Audit Standards (PSIAS), encompassing the *Definition of Internal Auditing*, *Code of Ethics* and the *Standards* themselves, constitute 'proper practice' under the Accounts and Audit (England) Regulations 2015 and are therefore mandatory for Local Authority internal audit functions.

Internal auditing is defined by the PSIAS *Definition of Internal Auditing* as 'an independent and objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

Authority/Access

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, assets, cash, stores, property, personnel and information (both manual or computerised) which is considered to be necessary to properly fulfil its function. This includes unrestricted access to alternative delivery vehicles wholly/majority own by the Council e.g. limited companies/partnerships. Access to other vehicles e.g. joint ventures will be agreed on a case by case basis. Internal audit may enter

Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits.

Access rights also apply to other third parties / organisations as permitted through contract, partnering and shared service arrangements. Internal audit has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Internal audit will consider all requests from the external auditor for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit need to discharge their responsibilities.

Responsibility/Objectives

The Council's Head of Internal Audit (HIA) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Governance, Audit, Risk Management & Standards (GARMS) Committee, on the overall adequacy and the effectiveness of the Council's framework of governance, risk management and control. In order to achieve this, the Internal Audit function has the following objectives:

- to provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- to provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- to provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- to provide assurance that significant risks to the Council's objectives are being managed;
- to provide advice and support to management to enable an effective control environment to be maintained;
- to promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.

Scope

The scope of Internal Audit encompasses, but is not limited to:

- the examination and evaluation of the adequacy and effectiveness of Harrow Council's governance, risk management, and internal control processes in relation to its goals and objectives;
- reviewing and evaluating compliance with policies, plans, procedures, laws and regulations;
- assessing the reliability and integrity of information;
- the safeguarding of assets.

Internal Audit's scope covers all Harrow Council's services and budgets including schools, HRA, shared services where Harrow is the lead authority and other alternative delivery vehicles.

Reporting/Independence

The Public Sector Internal Audit Standards require the Head of Internal Audit to report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. This is achieved by the Head of Internal Audit being line managed by the Director of Finance (s151 Officer) and reporting functionally to the GARMS Committee.

Functional reporting to the GARMS Committee is demonstrated by the committee:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan (as part of the annual plan);
- receiving regular reports from the HIA on Internal Audit's performance against the plan.

The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

The HIA also has free and unfettered access to:

- Chief Executive / Head of Paid Service;
- Director of Finance & Assurance (S151 Officer);
- GARMS Committee Chair;
- Monitoring Officer;
- CSB/Senior management;
- External Audit.

The independence of the HIA is further safeguarded by the Chief Executive and the Chair of the GARMS Committee providing feedback on the HIA's performance as part of the annual performance appraisal to ensure that the assessment is not inappropriately influenced by those subject to audit.

All staff in the Internal Audit Team are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the GARMS Committee. To maintain independence, any audit

staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

The HIA has managerial responsibility for the Corporate Anti-Fraud Team (CAFT), the Risk Management function and for the preparation of the Annual Governance Statement as well as for Internal Audit. An annual declaration on Internal Audit's organisational independence will be made annually in the report to the GARMS Committee on the draft annual plan. Internal Audit does not undertake any other non-audit activities.

Communication of Results

Draft internal audit reports are disseminated to managers who have been directly involved in the audit to confirm the accuracy of the report's findings and to respond to the report's recommendations. Final reports that include management's responses to recommendations will be disseminated to those who received the draft report plus the relevant senior managers i.e. Divisional Director and the Corporate Director.

Green, amber/green and amber assurance reports will be reported in summary to the Corporate Strategic Board (CSB) and the Governance, Audit, Risk Management and Standards (GARMS) Committee at mid-year and year-end. Red/amber and red assurance reports will be reported in full to CSB and the GARMS committee once they are finalised.

Release of draft reports to members will be at the discretion of the Head of Internal Audit but will remain private and confidential.

Annual Plan Process

In compliance with the PSIAS requirement annually a risk based internal audit plan of work is developed by the Head of Internal Audit to determine the priorities of the internal audit service for the coming year to support the Council's vision and priorities.

The plan will be developed taking into account the Council's risk management framework, including the risk maturity of the organisation. The Chief Executive, Corporate Directors, Divisional Directors, the Director of Finance (S151 Officer) and other senior management will be consulted and their input used to help assess risks not specifically linked to the Corporate or Directorate risk registers and a documented risk assessment will be undertaken for such reviews included in the plan.

The development of the plan will also take into account the requirement for the Head of Internal Audit to produce an annual internal audit opinion on the Council's framework of governance, risk management and control, reported each year in the Internal Audit Year-end report.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Definitions

The Public Sector Internal Audit Standards uses the terms 'board' and 'senior management' and requires these terms to be defined by each public sector organisation in relation to the internal audit function.

At Harrow the term 'board' has been defined as the Governance, Audit, Risk Management & Standards Committee which acts as the Council's audit committee.

The term 'senior management' refers to members of the Corporate Strategic Board (CSB).

Susan Dixson
Head of Internal Audit
March 2019

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CAFT STRATEGY FOR RESUMING INVESTIGATIVE INTERVIEWS AND VISITS
FOLLOWING THE COVID-19 PANDEMIC

Background

1. At the end of March 2020 as the COVID-19 pandemic was starting to unfold a decision was made by CSB / the Leadership Group that all employees where possible should work from home to reduce the risk of spreading the virus.
2. All members of the CAFT have been working from home since this time, although not all were able to access systems remotely immediately due to a lack of devices. All members of the CAFT have now been allocated a Windows 10 device and remain working from home for the foreseeable future

Investigations update

3. A good proportion of activities undertaken by the team can be carried out as a desk based activities in gathering evidence, however, a key function of the CAFT role when case relevant is to undertake interviews (both formal interviews under the Police & Criminal Evidence Act 1984 and informal interviews of witnesses) and visits to domestic and business premises to speak to suspects & witnesses involved in investigations.
4. The cessation of these activities during the period of home working has resulted in many investigations being 'parked' until such a time that these activities can be resumed. This has created both a backlog of live cases which has also impacted upon positive outcomes as cases are unable to be progressed to a conclusion as they normally would.
5. Given that we are now 6 months into the pandemic and the team continues to work remotely and importantly given the latest Government advice that those that can work from home should now continue to do so; a crossroads has been reached where a resumption of visiting and interviewing is required in a safe way following a thorough risk assessment.
6. The guiding principle behind both considerations for visiting and interviewing face to face is that staff should fully explore the option that the information sought cannot reasonably or appropriately be obtained via either email, telephone or virtual meeting platform.

Proposed visiting guidelines

7. Staff considering a visit should ensure they have fully explored the option that the information sought cannot reasonably be obtained via email, telephone or virtual meeting platform.
8. Staff undertaking visiting duties in pairs at all times understand the importance of minimising any additional risk of catching/spreading Covid-19. The additional arrangements below are intended to help minimise this risk.

9. Staff to confirm in advance that they or no member of their household is symptomatic, unwell or self-isolating.
10. Staff will use Personal Protective Equipment during the visit. This includes a face mask (if no exemption), gloves (if deemed appropriate) and hand sanitizer.
11. Staff should not enter customer's or witnesses premises, although this may pose a data protection risk interviewing individuals on the doorstep/entrance.
12. Staff will only remove face masks for the purposes of confirming identity. This will be done before engaging any further.
13. Customers/witnesses will be asked to sign any documents with their own pen (or a sanitised pen will be provided).
14. Visits will be kept as short as possible.
15. Social Distancing - all attendees should maintain a distance of minimum 1 metre from each other.
16. CAFT may utilise officer resources from Internal Audit for visits on occasions where more numbers are required (eg synchronized visits to multiple locations)

Local and National Guidance

Please visit Harrow Council <https://www.harrow.gov.uk/coronavirus> and Central Government website for further guidance <https://www.gov.uk/coronavirus>

Proposed formal PACE interview guidelines (face to face) – Option 1 to be considered in terms of logistics

17. Staff undertaking interviewing duties in pairs at all times understand the importance of minimising any additional risk of catching/spreading Covid-19. The additional arrangements below are intended to help minimise this risk.
18. Interviews to take place at the Civic Centre interview rooms in Reception
19. Staff to confirm in advance that they or no member of their household is symptomatic, unwell or self-isolating. All parties should only participate in the interview if they do not have symptoms, no one in their immediate family has symptoms and they, or a member of their immediate family are not in the extremely vulnerable category.
20. Staff will confirm at start of interview that all in attendance (LA staff/interviewee/legal representative/any third-parties) are currently well, do not fall into the extremely vulnerable (or shielding category) and do not have any symptoms.
21. Social Distancing - all attendees should maintain a distance of minimum 1 metre from each other.
22. All attendees to be offered the use of masks and gloves (PPE). Hand sanitiser and sanitiser/disinfectant wipes will also be made available and washroom facilities are available close to interview rooms.

23. If social distancing guidelines cannot be maintained Perspex screens will be available to provide shielding between interviewer(s) and person being interviewed.
24. Frequent breaks should be considered as a result of wearing PPE which can be uncomfortable if worn for long periods.

NB Given the geographical location of team members (2 Officers located a few hours away from the Civic Centre) this option may not be the most appropriate option at present

Proposed formal PACE Interview guidelines (virtual meeting platform MS Teams) – Option 2 to be considered in terms of logistics

25. Staff will be located in their homes to undertake this method of interviewing. The main risk using this option is the internet speed and strength of wifi signal to be able to run a meeting for a number of hours.
26. Suspect to be invited electronically to attend MS Teams PACE interview with all standard PACE interview information such as notice of rights attached to email along with link to MS Teams appt.
27. Lead Officer to include 2nd Officer in communications and in planning discussions.
28. 2nd Officer could be located in their own house or office.
29. In the PACE room (Officers home);-
PACE compliant recording device ;
30. MS Teams running on officer device;
31. Speakers connected to the device, so that all voices may be heard by the PACE recorder;
32. Record interview in PACE compliant manner on PACE recorder.
33. Record interview using MS Teams.
34. Show evidence remotely using 'share my screen'. (Folder needs to be fully prepared prior to interview)
35. Immediately download and zip the MS Teams recording and password protect (note password on file).
36. Send locked zip of MS Teams recording to suspect and/or solicitor **but do not send the password** ; the subject can obtain this only if a prosecution is authorised. (If sending is not possible, due to file size, upload to one drive)
37. Record the password on the file, on the master disk and in the disk log.

NB Given the geographical location of team members this option would be the preferred option at present. Full testing of this option to be carried out before proceeding

Local and National Guidance

Please visit Harrow Council <https://www.harrow.gov.uk/coronavirus> and Central Government website for further guidance <https://www.gov.uk/coronavirus>

Timings

38. Visits

Subject to approval, visits can commence as soon as the necessary PPE has been ordered and distributed to officers, training provided and a risk assessment complete.

39. Interviews

Subject to approval, depending on which interview option is chosen, the commencement of interviewing could take a little longer, particularly if the virtual meeting platform is the preferred choice as thorough testing of the IT in each officers location and PACE compliance would be required before going live.

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