Governance, Audit, Risk Management and Standards Committee Agenda

Date: Wednesday 29 November 2023

Time: 6.30 pm

Venue: The Auditorium - Harrow Council Hub, Kenmore Avenue, Harrow, HA3 8LU

Membership (Quorum 3)

Chair:	**Councillor Kanti Rabadia**
Conservative Councillors:	**Philip Benjamin** **Kuha Kumaran** **Yogesh Teli**
Labour Councillors:	**Ghazanfar Ali** **Rashmi Kalu** **Antonio Weiss (VC)**
Conservative Reserve Members:	1. Govind Bharadia 2. Nitesh Hirani 3. Nicola Blackman 4. Paul Osborn
Labour Reserve Members:	1. Dan Anderson 2. Peymana Assad 3. Dean Gilligan

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Useful Information

Joining the Meeting virtually

The meeting is open to the public and can be viewed online at London Borough of Harrow webcasts

Attending the Meeting in person

Directions by car:

Go along Kenmore Avenue and head towards the Kenton Recreation Ground. When approaching the end of the Kenmore Avenue turn right before reaching the Kadwa Patidar Centre.

The venue is accessible to people with special needs. If you have specific requirements, please contact the officer listed on the front page of this agenda.

You will be admitted on a first-come-first basis and directed to seats.

Please:

(1) Stay seated.
(2) Access the meeting agenda online at Browse meetings - Governance, Audit, Risk Management and Standards Committee
(3) Put mobile devices on silent.
(4) Follow instructions of the Security Officers.
(5) Advise Security on your arrival if you are a registered speaker.

Filming / recording

This meeting may be recorded or filmed, and if you choose to attend, you will be deemed to have consented to this. Any recording may be published on the Council website.

Agenda publication date: Tuesday 21 November 2023

Agenda - Part I

1. **Attendance by Reserve Members**
   To note the attendance at this meeting of any duly appointed Reserve Members.

2. **Declarations of Interest**
   To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from all Members present.

3. **Minutes** (Pages 5 - 10)
   That the minutes of the meeting held on 20th September 2023 be taken as read and signed as a correct record.

4. **Public Questions**
   To note any public questions received.

   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, Friday 24th November 2023. 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.

6. **Deputations**
   To receive deputations (if any).

7. **References from Council and other Committees/Panels**
   To receive references from Council and any other Committees or Panels (if any).

8. **2021/22 Statement of Accounts** (Pages 11 - 364)
   Report of the Interim Director of Finance & Assurance

9. **Annual Complaints Report and Update on Complaints against Members 2022/23** (Pages 365 - 392)
   Report of the Interim Director of Legal and Governance

10. **Treasury Management Mid-Year Report 2023/24** (Pages 393 - 404)
    Report of the Interim Director of Finance & Assurance

11. **Any Other Urgent Business**
    Which cannot otherwise be dealt with.

Agenda - Part II - Nil

Data Protection Act Notice

The Council will record the meeting and will place the recording on the Council's website.

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

Governance, Audit, Risk Management and Standards Committee

Minutes

20 September 2023

Present:

Chair:	Councillor Kanti Rabadia	
Councillors:	Ghazanfar Ali Philip Benjamin Rashmi Kalu	Yogesh Teli Antonio Weiss
Apologies received:	Councillor Kuha Kumaran	

80. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

81. Declarations of Interest

RESOLVED: To note that no declarations of interest were declared by Members.

82. Minutes

RESOLVED: That the minutes of the meeting held on 5 July 2023, be taken as read and signed as a correct record.

83. Public Questions

RESOLVED: To note that no public questions were received.

84. Petitions

RESOLVED: To note that no petitions had been received.

85. Deputations

RESOLVED: To note that no deputations had been received.

86. References from Council and other Committees/Panels

RESOLVED: To note that no references were received.

87. Exclusion of the Press Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

Agenda Item No	Title	Reason
9.	INFORMATION REPORT – CRR Update September 2023 Corporate Risk Register 2023/24	Information relating to the financial or business affairs of any particular person (including the authority holding that information).

88. INFORMATION REPORT - CRR UPDATE SEPTEMBER 2023 Corporate Risk Register 2023/24

The Committee received a confidential report which provided an update on the Corporate Risk Register as of September 2023.

The report was introduced by the Managing Director. Members were informed that risk register was overseen by the Corporate Leadership Team and contained the highest risks faced by the Council.

Following reviews by CLT, it was explained that some of the risks were either merged, transferred into directorate risk registers, or removed entirely. This was a process which was regularly undertaken.

Members were given the opportunity to ask questions, and these were responded to accordingly.

A Member queried whether training could be provided to Councillors to assist them in dealing with phishing emails. It was confirmed that this would be taken away to identify whether any updated training on cyber security for Members was required.

RESOLVED: That the Committee notes the INFORMATION REPORT – Updated Corporate Risk Register August 2023.

89. INFORMATION REPORT - Statement of Accounts 2021/22

The Committee received a report from the Interim Director of Finance & Assurance which provided an update on the 2021 – 2022 statement of accounts.

The Report was presented by the Interim Director of Finance & Assurance who informed Members that 2021-22 accounts were not yet finalised but were nearly ready to be published. It was explained that the covering report on pages 3-7 of the supplementary agenda set out the main changes to the accounts which have been made. It was also explained that pages 9 – 27 set out the Mazars audit progress update. The rest of the report set out the draft statements of accounts for 2021-22 which Members had already been presented to Members at an earlier Committee.

The Officer went on to clarify the main changes to the accounts which had been made including: on the balance sheet a re-valuation of the Council's value of buildings which had gone down by £71 million and an adverse impact on the pensions fund liabilities which had increased. The Officer drew attention to the fact that there had been no change to the outturn position of the Council as a result of the changes.

The Chair of the Committee sought clarification that the figures that were presented to the Committee were now the final figures and would not be changed and requested that if any changes were made that this would be disclosed to Members.

The External auditors from Mazars were then invited to present the audit progress report for 2021-22. The external auditor explained to Members that they were in the process of conducting the revised checks on the statement of accounts. Members were informed that this would be picked up next week.

The External auditor informed Members that he was hopeful that they would be in a position to wrap up the 2021-2022 statement of accounts by the end of September at the latest and is not anticipating any major changes to the accounts at this stage.

In response to questions from Members to Officers and Mazars it was clarified that:

- As a result of a windows software project, there was a £4m adjustment to re-classify some costs as PPE. It was initially assumed that these assets were intangible under the project. However, when looking through the invoices external auditors found some laptops which were tangible assets.
- External auditors were not anticipating issuing a qualified opinion.

The Chair of the Committee requested certainty as to when the accounts could be completely signed off. The External auditor stated that he was hopeful to be in this position by the end of September.

RESOLVED: That the Committee notes the attached 2021/22 Statement of Accounts for the Council.

90. INFORMATION REPORT - Internal Audit Year-End Report 2022/23

The Committee received a report which set out the details of the work completed by internal audit during the financial year of 2022 – 2023. The Officer drew attention to the fact that this report was drafted by the previous Head of internal audit before they left the Council.

Members were informed that the original plan covered 684 days; this had to be revised down to 479 days as a result of 2 vacant audit posts. It was explained that 90% of the revised plan was achieved.

The Officer informed Members that the direction of travel was improving in terms of the internal control systems.

Members were given the opportunity to ask questions and it was clarified that:

- Stag Lane School was missing from the report. The auditor had left the Council and it had been overlooked that the report had not been issued in final. It was confirmed that the Headteacher had now been contacted and the report was now going to be finalised and this would be issued a follow up.

RESOLVED: That the Committee notes the Internal Audit Year-End Report 2022/23.

91. Corporate Anti-Fraud Team Year-End Report 2022/23

The Committee received a report which set out the performance of the Corporate Anti – Fraud team in 2022 / 2023.

Members were informed that of the 12 workstreams contained in the plan 6 were fully achieved, one was substantially achieved, 3 were partially achieved, one was carried over to 2023/2024 and 1 was not achieved.

The Officer then went onto explain that all 5 key performance indicators were achieved by the team.

In response to questions from Members it was clarified that:

- There were no ongoing fraud investigations in relation to COVID 19 grants.
- Important work was undertaken to prevent and detect the Council from fraud and this work was carried out on a regular basis by the Corporate Anti – Fraud team.
- It would be identified if there was a particular pattern of services who failed to act upon the recommendations issued by the Corporate Anti – Fraud Team.

RESOLVED: That the Committee considered the report and appendix and note its contents.

92. GARMS Committee Annual Report 2022/23

The Committee received a report to be presented to Full Council which outlined the Committees achievements throughout the year. Pages 97-101 of the report provided detail of each of the Committees responsibilities and the reports received. The Officer explained that the purpose of the report was to provide Council with assurance that the Committee had complied with its terms of reference.

A Member queried whether some form of wording could be added in to express the fact that the 2021-2022 statement of accounts had not yet been signed off was undesirable to the Committee as both Officers and Members of the Committee had worked hard and pushed to ensure that this was signed off. The Officer stated that a comment could be added to paragraph 25 that the Committee strenuously pushed the external auditors to ensure that the 2021-22 statement of accounts were signed off.

RESOLVED: That the Committee

(1) considered the draft report attached at Appendix 1;

(2) provided any comments/changes required to the report;

(3) agreed any recommendations the Committee may wish to make as part of the report;

(4) agreed, subject to the above, for the report to be presented to Council for noting.

93. Internal Audit Annual Plan 2023/24

The Committee received a report which outlined the proposed internal audit plan for 2023/2024.

The Officer explained that since June 2023 there had only been one auditor in place and a temporary member of staff had now been recruited until the end of the financial year. As a result of this, Members were informed that this has impacted upon the number of operational days available to the plan and there were now 336 operational days in the revised plan.

The Chair of the Committee expressed his desire for work to be carried out into the workings of the Council's Insurance as well as HB Public Law. It was confirmed that this would be investigated as part of next year's plan.

RESOLVED: That the Committee

(1) reviewed and approved the Internal Audit Annual Plan 2023/24 and the Internal Audit Charter 2023/24 in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval;

(2) notes the annual plan process, the Internal Audit Strategy, the service's organisational independence, the resources available to complete the plan, audit techniques to be used and other sources of assurance, as covered within this report.

94. GARMS Workplan 2023/24

Following a discussion between Officers, a decision was made to set up a workplan for the GARMS Committee for 2023/ 2024.

The Officer introduced the report stating the GARMS Committee does not currently have a workplan in place. It was agreed that the introduction of a workplan would be useful to help manage the Committees workload and also assist Officers in managing their time accordingly.

The Chair of the Committee commented that he believed this was a comprehensive plan and would be of assistance to both Members and Officers.

RESOLVED: That the Committee notes the workplan for the period November 2023 – April 2024.

95. Any Other Urgent Business

The Chair of the Committee wished to thank the Chief Accountant who was leaving her role for her contributions to the Council and to the GARMS Committee. The Chair also wished to welcome the new Officer who was taking over this role to the Committee.

The Chair of the Committee explained to Members the new follow up process whereby Officers will be sent a list of actions if any from each meeting which will then be shared as a response to Members if required. A similar list is to be set up for the external auditors if required. It was noted that following the last meeting Members received the list of actions and responses via email.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.57 pm).

(Signed) Councillor Kanti Rabadia
Chair

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Report for:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	29 November 2023
Subject:	2021/22 Statement of Accounts
Responsible Officer:	Sharon Daniels, Interim Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1: 2021/22 Statement of Accounts Appendix 2: Pension Fund Annual Report 2021-22 Appendix 3A: LBH Completion Update 2021/22 Appendix 3B: Previous LBH Audit Completion Report (May 2023) Appendix 3C: LBH Draft Audit Opinion Appendix 4A: Pension Fund Completion Update 2021/22 Appendix 4B: Previous Pension Fund Audit Completion Report (June 2023) Appendix 4C: Pension Fund Draft Audit Opinion Appendix 5: Auditor's Annual Report 2020/21 & 2021/22 (DRAFT)

Section 1 – Summary and Recommendations

This report presents the audited Statement of Accounts for 2021-22 subject to the issue of the audit opinion.

Recommendations:
The GARMS committee is requested to :
1. Consider the Audit Completion Updates of the External Auditor on matters arising from the audit of the Statement of Accounts 2021- 22 and the Pension Fund Annual Report 2021-22;
2. Approve the audited Statement of Accounts 2021-22 and authorise the signing thereof by the Chair.
3. Note the Pension Fund Annual Report 2021-22;
4. Authorise the Director of Finance and Assurance, following consultation with the Chair, to make any final minor amendments to the Statement of Accounts 2021-22 and Pension Fund Annual Report 2021-22 arising from the external audit prior to the signing by the auditor;

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

2021/22 Statement of Accounts (Appendix 1)

1. The Accounts and Audit (England) Regulations 2015, require Local Authorities to prepare Statement of Accounts in accordance with proper practices. Previous timetable deadlines have meant that the draft Statement of Accounts must be published by 31st May with the audited version being published by 31st July each year. Following the Coronavirus pandemic the legislative requirements have been relaxed and this has continued for 2021-22. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) revised the deadlines to 31st July 2022 for the draft accounts and 30th November 2022 for the audited accounts.
2. Whilst the draft accounts were published by the 31st of July 2022, the deadline for the audited accounts (30th of November 2022) was not met as the auditors experienced delays in finalising the audit work on the valuation of property, plant and equipment and investment property and there was a national issue in relation to accounting for infrastructure assets which impacted every local authority with material infrastructure balances.

3. Due to the initially protracted nature of the 2021/22 audit arising from the impact of the implementation of the new ledger, issues with PPE and IP valuations and the national infrastructure issue, a new national issue arose that delayed the concluding of the audit. The issue relates to the Council's reporting of its assets and liabilities associated to its membership of the Harrow Pension Fund.
4. All audit work in the above-mentioned areas have now been completed and the 2021/22 Statement of Accounts has been updated with all the agreed adjustments.
5. There has been one further change since the September 2023 GARMS meeting. Community Assets balance was reinstated to the historic costs from a nominal value (£7m). There has been no change to the outturn position.

Pension Fund Annual Report 2021/22 (Appendix 2)

6. The Pension Fund Committee considered the draft Pension Fund Annual Report on 12 October 2022 and will be asked to consider the Pension Fund external Audit Completion Report and approve the Pension Fund Annual Report at their next meeting.

Audit completion Updates (Appendices 3A & 4A)

7. The Audit Completion Updates (**Appendices 3A & 4A**) accompany the Statement of Accounts and contain a summary of audit conclusions and significant findings from the external auditors, updating the committee on the conclusion of open matters for both the Council and Pension Fund accounts.

8. The Audit Completion Updates refer to the Audit Completion Reports for both the Council (**Appendix 3B**) and Pension Fund accounts (**Appendix 4B**) that were issued in May 2023 and June 2023 respectively. These have also been attached for reference.

9. The external auditor's draft audit opinion for LBH (**Appendix 3C**) states that the financial statements :-

    - give a true and fair view of the financial position of the Council as at 31st March 2022 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 2021/22 as amended by the Code.

    The work on value for money remains open.

10. The external auditor's draft audit opinion for LBH Pension Fund (**Appendix 4C**) states that the financial statements

    - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2022; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update

Draft Auditor's Annual Report 2020/21 & 2021/22 (Appendix 5)

11. The Interim Auditor's Annual Report (AAR) summarises the work undertaken by the auditors for the years ending 31 March 2021 and 31 March 2022. It contains a commentary on the audit opinion on the financial statements, findings and recommendations and summary of the VFM work. The report will be issued in final after clearance of some queries around VFM and agreement of the fees schedule in Section 4 of the report.

Legal Implications

The requirements of the Accounts and Audit Regulations 2015 are set out in the body of the report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

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

Separate risk register in place? **No**

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

Equalities implications / Public Sector Equality Duty

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

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

Council Priorities

The external audit provides assurance that the Council has managed its finances and delivered value for money in accordance with all the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer:
Signed by the Interim Director of Finance and Assurance

Sharon Daniels

Date: 20 November 2023

Statutory Officer:
Signed on behalf of the Monitoring Officer

Caroline Eccles

Date: 21 November 2023

Chief Officer:
Signed by the Interim Director of Finance and Assurance

Sharon Daniels

Date: 20 November 2023

Mandatory Checks

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

Section 4 - Contact Details and Background Papers

Contact: Purvi Shah (Interim Chief Accountant)
Email: purvi.shah@harrow.gov.uk

Background Papers: N/A

If appropriate, does the report include the following considerations?

1	Consultation	No
2	Priorities	No

Appendix One - # Statement of Accounts

2021 - 2022

Harrow COUNCIL LONDON

London Borough of Harrow

Statement of Accounts

2021 - 2022

1. Narrative Report

Message from the Interim Director of Finance and Assurance

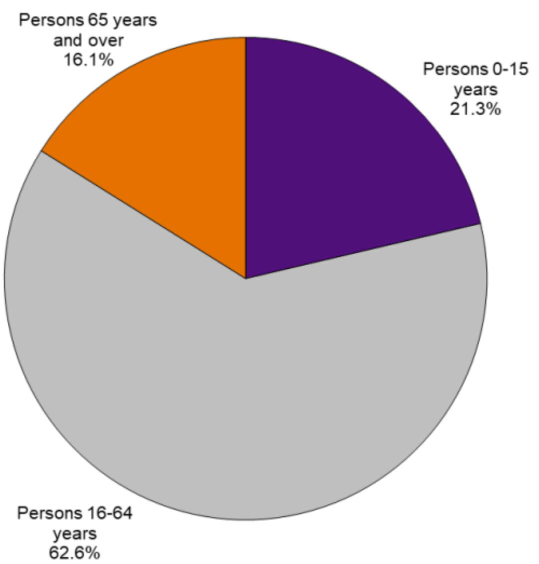
As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2021-22. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2021-22.

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

Figure 1: Harrow's population by broad age groups, Mid-2020
Source: 2020 Mid-Year Estimates, ONS, Crown Copyright



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 250,367 (2020 Population estimates: published on 25 June 2021). 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 15,500 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:

Chief Executive

Corporate Director - Community and Regeneration

Corporate Director - People's

Corporate Director - Resources

Director of Finance and Assurance

Director of Legal & Governance

Director of Adult Social Services

Director of Public Health

Director of HR and Organisational Development

Director of Strategy and Partnerships

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

Resources Directorate	**People's Directorate**
Business Support	Adult Services
Finance and Insurance	Children's Services
Strategy	Public Health
Revenues and Benefits	
ICT	**Community**
Procurement	Environmental Services
Access Harrow	Housing General Fund
Human Resources	Enterprise and Planning
Legal and Governance	Cultural Services
Internal Audit/CAFT	Regeneration

1.2 Summary of the Financial Performance of the Council

Revenue Budget

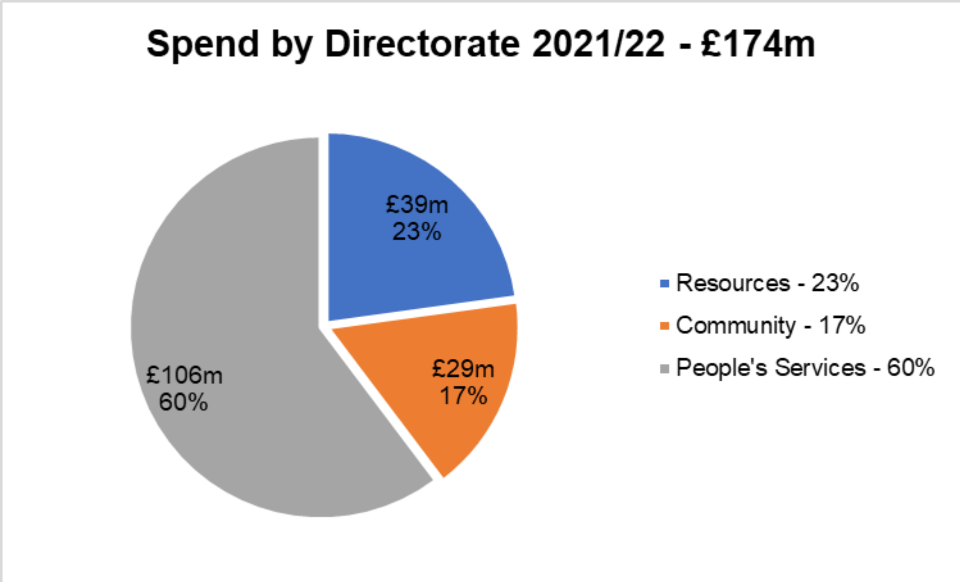
As the Local Government remains at the forefront of the response to both the public health and economic crisis caused by Covid 19, it continues to have a significant but lesser impact on local government finances than in 2020/21. The Council received 2021/22 allocations of (£6.1m) for Covid support grant, (£1.6m) for Controlling Outbreak Management Fund and (£1.1m) for compensation for loss of income as well as a number of other more specific grants/income sources. In addition, the Council administered £17.3m of grants to businesses and residents.

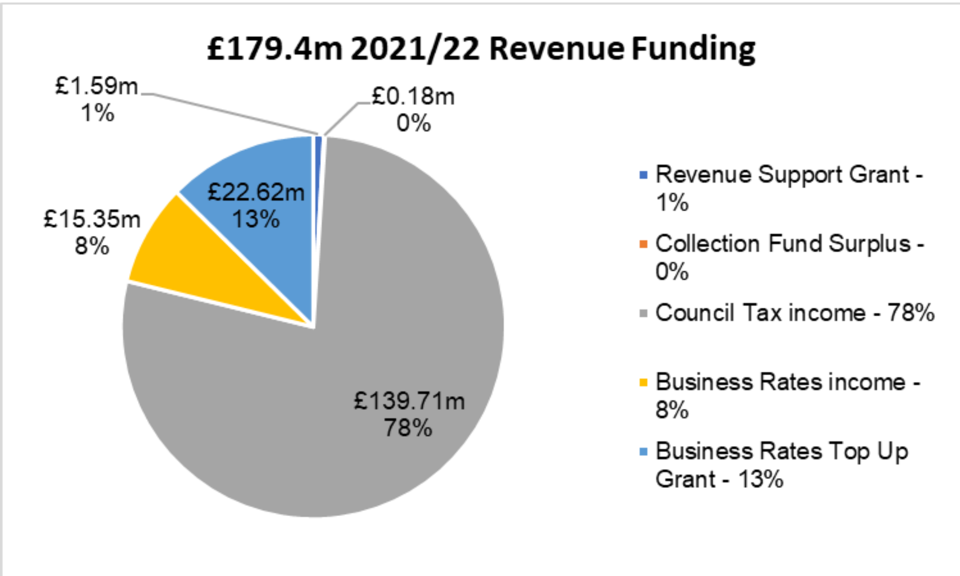
As the nation continues to learn to live with and cope with Covid 19, the Council delivered its services within the approved budget of £179.4m, and contained the pressures arising from the challenging financial environment and managed the risks around demand pressures.

The Council has maintained its General Fund Balances at £10m in 2021-22. 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. General Fund Reserves (Capital and Revenue) have increased from £66.9m to £69.1m in 2021-22 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
Directorate costs	
People - Adult Services and Public Health	71,294
People - Children and Families	35,075
Community	32,909
Resources	39,553
Total - Directorate	**178,831**
Other Corporate Budgets	
Corporate Items	3,484
Commercial	(2,876)
Net Expenditure	**179,439**
Transfer to Reserves:	
Contribution to Reserves	0
Net Expenditure	**179,439**
Funded by :	
Revenue Support Grant	
Collection Fund Surplus	
Council Tax income	
Business Rates income	
Business Rates Top Up Grant	
Total	**0**
Surplus for the year	
General Fund balance at 31 March 2022	

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





Capital Programme 2021-22

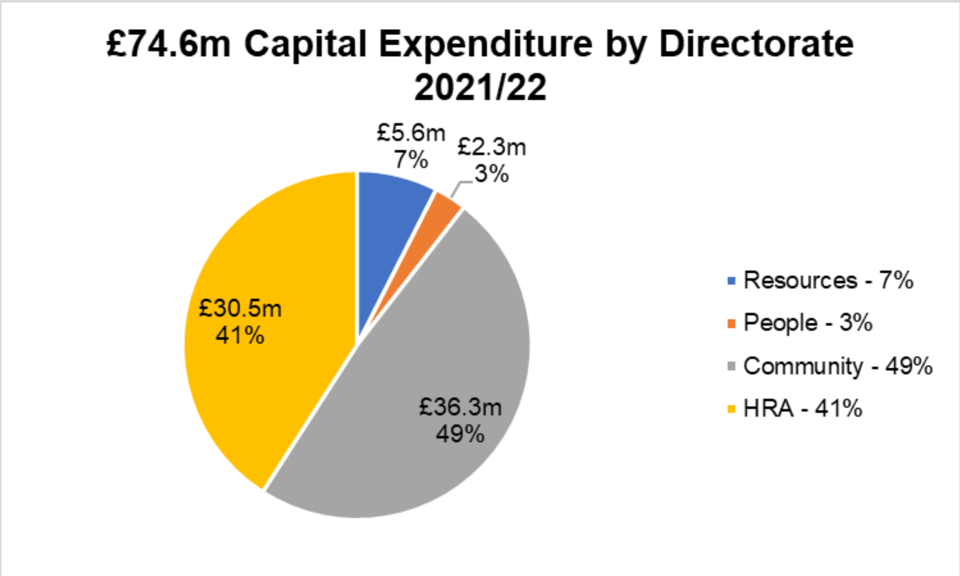
During 2021-22, the Council invested £74.6m on developing or acquiring capital assets. This was mainly funded from £35.9m borrowing and the balance of £38.7m funded from external grants, Community Infrastructure Levy (CIL) contributions, revenue contributions and capital receipts.

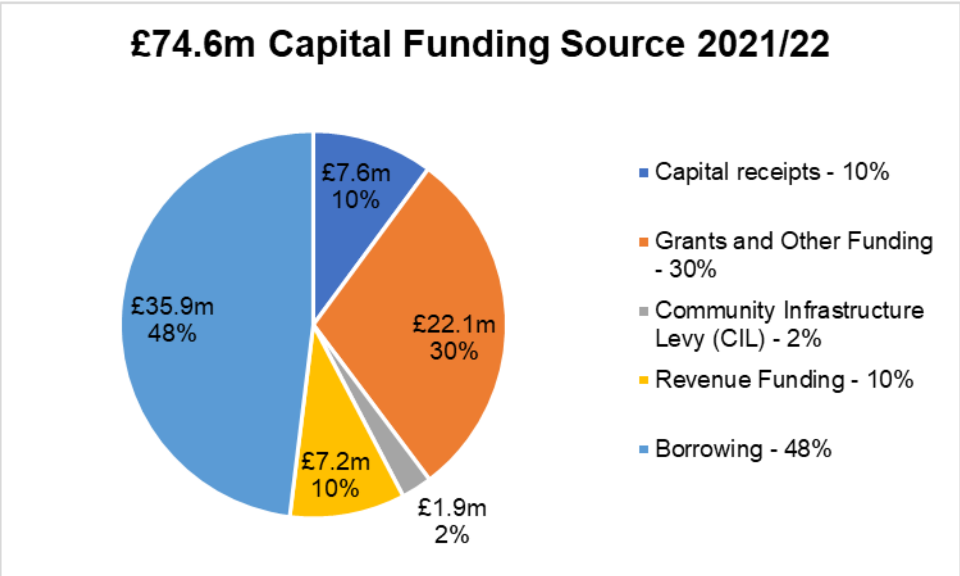
Major projects included in the capital programme were:

- Continued investment in new technology to improve Council Services;
- Highways improvement programme and Street Lighting Improvements;
- Improvements to parks;
- Completion of the new Depot and Civic Hub at Forward Drive;
- Provision of disabled facility grants to private sector tenants;
- Purchase of homes in Harrow for temporary accommodation;

- Completion of the Haslam House redevelopment;
- Progress of the Waxwell Lane development (completion expected in 2022/23);
- Continuation of the Harrow High Streets Programme;
- Improvements to the Council's housing stock including the Grange Farm development;
- Continuation of the Building Council Homes for Londoners Programme.

The following charts show how the £74.6m was spent by Directorate and also how the Capital Programme was funded:





Housing Revenue Account (HRA)

The Council's ambition to increase housing supply by 639 units through the Mayor of London's Building Council Homes for Londoners' Programme is progressing with 118 homes having been completed as at March 2022, 129 homes under construction and a further 392 in the planning and development stage.

Collection Fund

The in-year Council tax collection rate for 2021-22 was 98.72%. This is over 1% higher than the target of 97.25% expected, moving council tax collection rates closer to pre-covid levels. Business rate collection was 95.07%, about 2% below the target of 97%. This has improved compared to 2020-21 (89.07%) but collection performance for local taxation will remain challenging due to both the time businesses will need post pandemic to recover and the cost of living crisis and the impact to the economy in the short term. The overall position for the Collection Fund is a net deficit of £20.2m (NDR £20.4m deficit; Council Tax £0.145m surplus) of which £6.0m is Harrow's share. This is mostly carried over from the previous year but also due to additional business rate reliefs announced by Central Government for which the local authority was fully compensated via s31 grants.

Treasury Management

The main focus for Treasury Management is to maintain the value of investments, to ensure cash balances are maintained in a way to support the capital programme and maintain an adequate level of working capital, to seek optimum returns within these parameters and to minimize borrowing costs. The Monetary Policy Committee increased base rate 3 times from 0.10% as at 31st March 2021 to 0.75% as at 31st March 2022. Investment returns was 0.02% for 2021/22.

During 2021-22, there was no change to borrowing. Total Borrowing at year end was £422m and the average interest rate was 3.46%. The strategy to fund capital expenditure was to use cash balances in-year, in recognition of the unfavorable gap between investment returns and borrowing cost.

Pensions

The Pension Fund is maintained at a level to meet the Council's long-term liability for pension benefits. In the year to 31 March 2022, the Fund's net assets increased to £1,018.0m, largely due to the increase in the market value of investments. The Fund's investment performance for the year was 5.7%.

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 £452m as at 31st March 2022. This is £66m less than the net liabilities of £518m twelve months earlier reflecting both investment returns and the reduction in the discount rate applied to the value of future pension liabilities (see note 5.40.5).

The Pension Fund is required to have sufficient funds available to meet its pension liabilities when they fall due. To achieve this, an actuarial valuation of the Fund is carried out every three years. As part of that valuation, the level of employer contributions is fixed for the next three years, and it is the level of those contributions which impacts on the Council's budget and hence on the council tax. The current strategy is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by limiting increases over a period of time. At the last valuation, carried out in March 2019, the fund was assessed as being 94% funded, corresponding to a shortfall of £52m. The Council's contribution rate for the financial year 2021-22 was 16% of pensionable pay plus £7.315m, which equated to approximately 24.53% of pensionable pay.

Harrow's 2021-22 Achievements
The national and local response to the Covid-19 pandemic has been unprecedented. For the Council this has involved action across many spheres, both with regard to our community leadership role and as provider of universal and specialist services.

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

- Worked with the NHS to deliver one of the most successful Covid testing and vaccination programmes in NW London;
- Our Customer Services (Access Harrow) and Careline teams continued to provide access to key services alongside a seven-day Covid hotline and outbound telephone support to the 24,000 clinically extremely vulnerable residents;
- Over 7,000 families were supported with food deliveries since the start of the pandemic, and we continued to support the most vulnerable with advice and support;
- Provided £17.3m in business grants and launched the Harrow Economic Strategy to support the economic recovery from the pandemic;
- A Priority Enforcement Team now in place to tackle a range of environmental issues such as fly tipping and Houses of Multiple Occupation;
- Maintained the standard of our educational outcomes despite the impact of the Covid-19 pandemic;
- Youth Health Champion project launched to give young people the skills, knowledge and confidence to promote healthy lifestyles to their peers;
- The *Harrow Conversation* undertaken, to engage stakeholders (including the council, GPs, NHS Trusts, voluntary and community sector and service user representatives) to shape the next stages of development for local health and social care integration in Harrow.

1.3 Outlook for the Future

Following the 2022 Local Election result, Harrow Council intends to change its vision to '***Put Residents First***' through a refreshed Corporate Plan. Future actions and service delivery will be anchored to this new vision, whether it be handling customer enquiries, cleaning the streets or new initiatives.

Regeneration

The Council has a critical role in place shaping, ensuring that the homes built, meet the needs of current and future communities, whilst making sure that in such developments the infrastructure built supports the need of residents and the community. With the Harrow Strategic Development Partnership, and the key sites in the borough targeted for development there is a clear opportunity to ensure that community need is met by building the right homes in the right places.

One-hour free Parking

Although there is a need to recognise the importance of shifting to more sustainable modes of transport, the use of the car is still an important need for residents. One-hour free parking will support residents going about their daily business and support our local economy.

The Harrow Card

Other Councils have successfully implemented a residents' card, which offers local discounts (including parking), helping to incentivise residents to spend their hard earned down time (and money) in Harrow, be it shopping, eating in restaurants, or using the many leisure facilities in the borough. The council will develop a business case to consider bringing such a card into Harrow, and in doing so shape the offers and deals around the needs of our residents.

Fly tipping, bulky waste, street cleaning

The council intends to support residents with services that allow quick and efficient removal of waste or ease of access to our Waste and Recycling Centre. For those few that want to fly tip and break the rules, which also includes people coming to Harrow and dumping rubbish, we will improve our enforcement approach and make examples of those we successfully prosecute.

Treat residents and businesses as valued customers

A key intention is to create a positive customer experience, improving responsiveness to residents, businesses, and other partners. Our most vulnerable residents are supported by the People's Directorate such as Adults and Children's Social Care. It is important that we also treat these more vulnerable residents with the care and respect they need and deserve.

We are also proposing to carry out a review of our logo, so that residents get better recognition of the high-quality services the Council delivers. We intend to ask partners to help with this so that any changes are at zero extra cost to residents.

Over the coming months we will set out more of our specific priorities and plans to put residents first through a refreshed Corporate Plan and treating them and all our many and diverse businesses as valued customers.

Value for Money

It is important that residents feel that the Council offers good value for money, especially with the current challenges around the cost of living. Ensuring that Council spend adds value is vital, so that inefficiencies can be reduced and the experience of residents is enhanced, be that through better use of digital technology or changes to service delivery.

The Covid-19 pandemic continues to have a legacy impact on the Council's finances and service delivery. Where there is a need to lobby the Government for a better deal for residents, again, the Council will lead this, so that residents ultimately gain from such actions.

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

In 2022-23, a Revenue budget of £183.3m was set along with a 2.99% increase in Council Tax which was approved by the Council in February 2022. The 2.99% increase reflected a 1.99% increase in respect of the traditional council tax increase and 1.0% for the Adult Social Care precept (ASC).

The General Fund Balance as at 31st March 2022 remains just above £10m (£10.008m). The Earmarked and Non-Earmarked Reserves are £69.1m as at 31st March 2022, which compares with £66.9m at the 1st April 2021. 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 legacy impact of Covid-19, the impact of Brexit also still remains uncertain as does the impact of Russia's invasion on the Ukraine. Amongst all this uncertainty, the UK's rate of inflation (9.1% May 2022) is the highest it's been in 40 years.

The Secretary of State for the Department of Levelling Up, Housing and Communities recently announced (June 2022) that councils will receive a two-year settlement which will cover the financial years 2023-24 and 2024-25 and whilst this is welcomed (following 4 years of one-year settlements), there remains uncertainty about the impact on Harrow until further details emerge. This continues to create a challenging environment for the 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 MTFS – Medium Term Financial Strategy (2022-23 to 2024-25) was set based on the most accurate information available at the time. Based on this information, the MTFS shows a significant budget gap which the council is in the process of addressing to ensure financial sustainability.

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 2021-22;
- 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 Expenditure and Funding Analysis (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 2022, valued in accordance with proper accounting practices. The net value of these assets and liabilities is matched by the value of the Council's reserves. Usable Reserves can be used to provide services, subject to any statutory limitations on their use. Unusable Reserves cannot be used to provide services. These include reserves holding unrealised gains and losses on assets, which will only become available to provide services if the assets are sold, and reserves holding timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. Cash flows from operating activities show how the operations of the Council are funded by way of taxation, grant income and receipts from services provided by the Council. Cash flows from investing activities shows cash flows intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
- **Housing Revenue Account (HRA)** shows the true economic cost in the year of providing housing services, valued in accordance with proper accounting practices. Differences between the true economic cost of providing housing services and the level of expenditure allowed by regulations to be funded by rental income is explained in the Statement of Movement on the HRA Balance.
- **The Collection Fund** is an agent's statement reflecting the Council's statutory obligation to maintain a separate Collection Fund. The statement shows tax income collected from local taxpayers and the distribution of this money to the Council, the Government and the GLA.

- **Annual Governance Statement** sets out the framework within which the effectiveness of the Council's internal controls (including financial controls) are managed and reviewed each year. The review reports on significant weaknesses, areas identified for improvement and the actions taken to strengthen these areas.
- **The Pension Fund Account** provides information about the financial position, performance and financial adaptability of the Fund. It shows contributions to the Council's Pension Fund for employees during the year, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund.

1.6 Receipt of further Information and acknowledgements

If you would like to receive further information about these accounts, please do not hesitate to contact me at Sharon.Daniels@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.

Sharon Daniels CPFA
Interim Director of Finance and Assurance
29 November 2023

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 2022 and its income and expenditure for the year ended 31st March 2022.

Sharon Daniels CPFA
Interim Director of Finance and Assurance
29 November 2023

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 29 November 2023.

Councillor Kantilal Rabadia
Chairman (GARMSC)
29 November 2023

3 Audit Opinion & Certificate

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

TO BE INCLUDED ON COMPLETION OF AUDIT

For and on behalf of Mazars LLP, Statutory Auditor

Chartered Accountants

4 Presentation of Financial Statements

4.1 Comprehensive Income and Expenditure Statement

2020-21 Gross Expenditure £000	2020-21 Gross Income £000	2020-21 Net Expenditure /(Income) £000		Notes	2021-22 Gross Expenditure £000	2021-22 Gross Income £000	2021-22 Net Expenditure /(Income) £000
117,719	(49,841)	67,878	People - Adult Services and Public Health		133,289	(59,353)	**73,936**
193,937	(160,219)	33,718	People - Children and Families		229,238	(162,669)	**66,569**
105,874	(43,426)	62,448	Community		122,738	(50,718)	**72,020**
171,948	(141,608)	30,340	Resources		164,288	(143,356)	**20,932**
25,909	(32,089)	(6,180)	Housing Revenue Account	6.1	28,141	(33,076)	**(4,935)**
615,387	(427,183)	188,204	**Cost of Services**		677,694	(449,172)	**228,522**
14,547	(2,729)	11,818	Other Operating Income and Expenditure	5.8	10,896	(3,049)	**7,847**
26,347	(8,247)	18,100	Financing and Investment Income and Expenditure	5.9	28,685	(7,283)	**21,402**
0	(224,395)	(224,395)	Taxation and Non-Specific Grant Income	5.10	0	(241,579)	**(241,579)**
		(6,273)	**(Surplus) Deficit on Provision of Services**				**16,192**
		(34,663)	(Surplus) Deficit on revaluation of property, plant & equipment	5.25.1			**(14,395)**
		95,179	Remeasurements of net pension liability	5.25.4			**(95,951)**
		60,516	**Other Comprehensive (Income) and Expenditure**				**(110,346)**
		54,243	**Total Comprehensive (Income) and Expenditure**				**(94,154)**

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 2020 brought forward	(10,008)	(7,526)	(57,149)	(18,705)	(7,741)	(35,388)	(136,517)	(333,021)	(469,538)
Movement in reserves during 2020-21									
Total Comprehensive Expenditure and (Income) (Note 4.1)	(5,230)	(1,043)	0	0	0	0	(6,273)	60,516	54,243
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	(21,194)	1,382	0	4,354	1,329	(2,153)	(16,282)	16,282	0
Net (Increase)/Decrease	(26,424)	339	0	4,354	1,329	(2,153)	(22,555)	76,798	54,243
Movements in earmarked reserves (Note 5.7)	26,424	913	(27,336)	0	0	0	1	(1)	0
(Increase)/Decrease in 2020-21	0	1,252	(27,336)	4,354	1,329	(2,153)	(22,554)	76,797	54,243
Balance at 31 March 2021 carried forward (Note 4.3)	**(10,008)**	**(6,274)**	**(84,485)**	**(14,351)**	**(6,412)**	**(37,541)**	**(159,071)**	**(256,224)**	**(415,295)**
Balance at 31 March 2021 brought forward (Note 4.3)	**(10,008)**	**(6,274)**	**(84,485)**	**(14,351)**	**(6,412)**	**(37,541)**	**(159,071)**	**(256,224)**	**(415,295)**
Movement in reserves during 2021-22									
Total Comprehensive Expenditure and (Income) (Note 4.1)	**30,942**	**(14,750)**	**0**	**0**	**0**	**0**	**16,192**	**(110,346)**	**(94,154)**
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	**(32,775)**	**15,475**	**0**	**1,072**	**(931)**	**(14,597)**	**(31,755)**	**31,755**	**0**
Net (Increase)/Decrease	**(1,833)**	**725**	**0**	**1,072**	**(931)**	**(14,597)**	**(15,563)**	**(78,591)**	**(94,154)**
Movements in earmarked reserves (Note 5.7)	**1,833**	**(129)**	**(1,704)**	**0**	**0**	**0**	**0**	**0**	**0**
(Increase)/Decrease in 2021-22	**(0)**	**596**	**(1,704)**	**1,072**	**(931)**	**(14,597)**	**(15,563)**	**(78,591)**	**(94,154)**
Balance at 31 March 2022 carried forward (Note 4.3)	**(10,008)**	**(5,678)**	**(86,189)**	**(13,279)**	**(7,343)**	**(52,138)**	**(174,634)**	**(334,815)**	**(509,449)**

4.3 Balance Sheet

31-Mar-21 £000		Notes	31-Mar-22 £000
1,283,843	Property Plant and Equipment	5.11	**1,296,339**
77,155	Investment Property	5.13	**78,458**
6,102	Intangible Assets	5.15	**9,227**
15,700	Long Term Debtors	5.17	**15,370**
1,382,800	**Long Term Assets**		**1,399,393**
0	Assets Held for Sale	5.14	**3,989**
17,616	Short Term Investments	5.16	**20,117**
0	Inventories		**169**
64,053	Short Term Debtors	5.18	**56,624**
61,468	Cash and Cash Equivalents	5.19	**77,992**
143,137	**Current Assets**		**158,891**
(4,560)	Short Term Borrowing	5.20	**(9,830)**
(125,287)	Short Term Creditors	5.21	**(135,207)**
(4,836)	Provisions	5.22	**(4,613)**
(134,683)	**Current Liabilities**		**(149,650)**
(5,971)	Provisions	5.22	**(4,900)**
(422,358)	Long Term Borrowing	5.16	**(417,325)**
(534,488)	Other Long Term Liabilities	5.23	**(467,108)**
(13,142)	Capital Grants Receipts in Advance	5.35.3	**(9,853)**
(975,959)	**Long Term Liabilities**		**(899,186)**
415,295	**Net Assets**		**509,449**
(159,071)	Usable Reserves	5.24	**(174,634)**
(256,224)	Unusable Reserves	5.25	**(334,815)**
(415,295)	**Total Reserves**		**(509,449)**

4.4 Cash Flow Statement

2020-21 £000		Notes	2021-22 £000
6,273	Net (deficit)/surplus on the provision of services	4.1	(16,192)
60,460	Adjustments to net deficit on the provision of services for non cash movements	5.26.1	108,355
(17,953)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.26.1	(43,926)
48,780	Net cash flow from Operating Activities		48,237
(24,724)	Investing Activities	5.26.2	(30,641)
(1,194)	Financing Activities	5.26.3	(1,072)
22,862	Net increase/(decrease) in cash and cash equivalents		16,524
38,606	Cash and cash equivalents at the beginning of the reporting period	5.19	61,468
61,468	Cash and cash equivalents at the end of the reporting period	5.19	77,992

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 2021-22 financial year and its position as at 31st March 2022. 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 2021-22 supported by International Financial Reporting Standards (IFRS).

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

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

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

Going Concern

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

Primacy of Legislative Requirements

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

Accruals of Income and Expenditure

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

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

5.1.2 Cash and Cash Equivalents

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

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

5.1.3 Material Items of Income and Expense

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

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

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

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

5.1.5 Charges to Revenue for Non-Current Assets

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

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

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

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

5.1.6 Accounting for Council Tax and NDR

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

Council Tax collected belongs proportionately to the Council and the Greater London Authority. NDR collected by the Council belongs to the Council (30%), to the Department for Levelling Up, Housing & Communities (33%) and to the Greater London Authority (37%).

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

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

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

5.1.7 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

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

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

Discretionary Benefits

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

5.1.8 Events After the Reporting Period

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

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

5.1.9 Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

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

Financial Assets Measured at Amortised Cost

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

Expected Credit Loss Model

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

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

5.1.10 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised. Internally generated assets are capitalised where the project is technically feasible and is intended to be completed. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are initially measured at cost and measured subsequently at amortised cost. The depreciable amount of an intangible asset is amortised on a straight-line allocation over a useful life of 10 years to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Intangible assets are tested for impairment whenever there is an indication that the asset might be impaired with any losses posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account.

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 current value. The difference between current 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 current 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 are held at historic cost.

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

The Council has a rolling programme that ensures all PPE included in the Balance Sheet at current 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 current 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;
- Plant, furniture and equipment – straight-line allocation: 5 years;
- Vehicles – straight-line allocation: 8 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 and Assets held for sale

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.

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

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

5.1.18 Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England and Scotland] [1996 Wales], which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

Part of the highways network	Useful life
Carriageways	20
Footways and cycle tracks	20
Structures (bridges, tunnels and underpasses)	80 to 100 years
Street lighting	25
Traffic management systems	20

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component 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).

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

The authority has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

5.1.19 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets, assets held for sale 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.

5.1.20 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.

5.1.21 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.

5.1.22 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.

5.1.23 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.

5.1.24 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.

5.1.25 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.

5.1.26 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.

Group Accounts

The Council's interests in subsidiary companies are set out in note 5.44. The Council has assessed that subsidiary company transactions are not material to the financial statements. Group accounts have not therefore been prepared.

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 (£1.367bn)	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Adjustments to valuations and remaining useful economic lives have also been made on the basis of approved regeneration proposals. Assets valued are at fair value are estimated based on quoted prices in active markets or other observable inputs for the type of asset being valued (fair value hierarchy levels 1 and 2). The fair value of some of the Council's investment properties and surplus assets cannot be estimated based on quoted prices in active markets or other observable inputs such as similar assets in active markets. In these case's fair value is measured using the most recent valuations adjusted to current valuation by the use of indexation and impairment review (fair value hierarchy level 3).	If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall. Any reduction in asset values will result in a reduction in the Council's overall net asset position.
Provisions (£9.5m)	Provisions are estimated on the basis of current knowledge of the amount that will eventually be paid. It is possible that the amounts eventually paid may be more than expected.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.
Outstanding Debts provision (£29m)	Provisions have been made for debt owed to the Council for which payment is doubtful. In the current economic climate, it is not certain that the amount provided for will be adequate. The economic impact of the Covid-19 pandemic has made the estimation of the level of provisions needed more difficult. There is greater uncertainty about the economic viability of debtors and hence their ability to settle their debts.	Provisions may not be adequate where there is a deterioration in collection rates caused by default i.e. debtors not being able to pay the amounts they owe the Council. These additional costs of default would have to be met from the Council's general fund.
Business Rates (£2m)	The Council must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data and the analysis of successful appeals to date as at the end of the reporting period.	If the refunds payable are higher than the provision, the difference will reduce the balance on the Collection Fund and reduce the Council's share of business rates income in future years.

Pensions Liability (£452.3m)	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Pooled property funds within the Pension Fund are valued by the asset managers using professional valuers as set out in the fund arrangements.	The actuarial loss or gain provided by the actuary's calculation can be significant. This charge to the Comprehensive Income & Expenditure Statement is notional as it is not charged to the General Fund and does not affect Council tax levels. If the future investment returns are different from the actuarial assumptions, it will not affect the council tax. However, if the Pension Fund assets and liabilities vary significantly from those forecast by the actuary, it could mean that either higher or lower pension contributions would be payable by the Council in the future.

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

The following accounting standard changes are not yet reflected in the 2021-22 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be adopted by the Code in 2024-25 but will allow councils to adopt the standard voluntarily in 2022-23 and 2023-24;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
  - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
  - IAS 37 (Onerous contracts) – clarifies the intention of the standard
  - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
  - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances

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.

2020-21				**2021-22**		
Net Expenditure Chargeable to General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis Note 5.5.1 £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000		**Net Expenditure Chargeable to General Fund and HRA Balances £000**	**Adjustments between Funding and Accounting Basis Note 5.5.1 £000**	**Net Expenditure in Comprehensive Income and Expenditure Statement £000**
70,963	(3,085)	67,878	People - Adult Services and Public Health	**68,567**	**5,369**	**73,936**
43,901	(10,183)	33,718	People - Children and Families	**37,097**	**29,472**	**66,569**
72,155	(9,707)	62,448	Community	**29,115**	**42,905**	**72,020**
(12,259)	42,599	30,340	Resources and Commercial	**44,660**	**(23,728)**	**20,932**
1,252	(7,432)	(6,180)	Housing Revenue Account	**597**	**(5,532)**	**(4,935)**
176,012	12,192	188,204	**Net Cost of Services**	**180,036**	**48,486**	**228,522**
(174,760)	(19,717)	(194,477)	Other Income & Expenditure	**(179,439)**	**(32,891)**	**(212,330)**
1,252	(7,525)	(6,273)	**Surplus or Deficit**	**597**	**15,595**	**16,192**
(17,534)			Opening General Fund and HRA Balance	**(16,282)**		
1,252			Plus Surplus on General Fund and HRA Balance in Year	**597**		
(16,282)			Closing General Fund and HRA Balance as at 31 March *	**(15,685)**		

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

2021-22

	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Earmarked Reserves £000 (Note c)	Non-Specific Grant Income £000 (Note d)	Other Differences £000 (Note e)	Total Adjustments £000 (Note f)
People - Adult Services and Public Health	(275)	(2,943)	0	0	(2,151)	**(5,369)**
People - Children and Families	(11,891)	(8,146)	346	0	(9,781)	**(29,472)**
Community	(48,233)	(6,263)	1,098	0	10,493	**(42,905)**
Resources and Commercial	18,093	2,147	1,557	(51,724)	53,655	**23,728**
Housing Revenue Account	(341)	(949)	129	0	6,693	**5,532**
Cost Of Services	(42,647)	(16,154)	3,130	(51,724)	58,909	**(48,486)**
Other income and expenditure	(833)	0	0	51,724	(18,000)	**32,891**
Difference between General Fund and HRA (Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	**(43,480)**	**(16,154)**	**3,130**	**0**	**40,909**	**(15,595)**

2020-21

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

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

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

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

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

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

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

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

2021-22	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(29,051)	(949)	0	0	0	30,000
Depreciation	(36,783)	(7,944)	0	0	0	44,726
Revaluation movements	(19,352)	3	0	0	0	19,348
Premiums and Discounts on Debt Restructure	400	45	0	0	0	(445)
Movements in market value of Investment Properties	1,921	0	0	0	0	(1,921)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	6,278	0	0	0	0	(6,278)
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	252	0	0	0	0	(252)
Transfer to Dedicated Schools Grant Reserve	(277)	0	0	0	0	277
Revenue expenditure funded from capital	(1,738)	0	0	0	0	1,738
Non Current assets written out on disposal	(2,084)	(2,180)	0	0	0	4,264
Total Adjustments to Revenue Resources	**(80,433)**	**(11,024)**	**0**	**0**	**0**	**91,456**
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	20,974	10	0	0	0	(20,984)
Capital expenditure funded from revenue balances	2,025	129	0	0	0	(2,154)
Capital grants and contributions	22,477	14,121	0	0	(22,021)	(14,577)
Transfer of sale proceeds credited to the CIES	2,181	5,147	(7,328)	0	0	0
Administrative cost of non-current asset disposals	0	(63)	63	0	0	0
Payment to the Housing Capital Receipts Pool	0	(775)	775	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,931	0	(7,931)	0	0
Total Adjustments between Revenue and Capital Resources	**47,657**	**26,500**	**(6,490)**	**(7,931)**	**(22,021)**	**(37,715)**
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	7,000	0	(7,000)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	7,562	0	0	(7,562)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	7,424	(7,424)
Total Adjustments to Capital Resources	**0**	**0**	**7,562**	**7,000**	**7,424**	**(21,986)**
Total Adjustments	**(32,776)**	**15,476**	**1,072**	**(931)**	**(14,597)**	**31,755**

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

5.7 Earmarked reserves

	Balance at 31-Mar-20	Transfers Out 2020-21	Transfers In 2020-21	Balance at 31-Mar-21	Transfers Out 2021-22	Transfers In 2021-22	Balance at 31-Mar-22
	£000	£000	£000	£000	£000	£000	£000
Earmarked Reserves:							
Business Risk Reserve	(7,526)	2,176	0	(5,350)	3,683	(301)	(1,968)
Adults Social Care	0	0	(1,969)	(1,969)	0	(1,800)	(3,769)
Childrens Social Care	0	0	0	0	834	(3,942)	(3,108)
Budget Planning Reserve	(2,629)	0	(14,060)	(16,689)	2,600	(8,401)	(22,490)
Capacity Building Reserve	(3,221)	1,221	0	(2,000)	148	(1,321)	(3,173)
Collection Fund Reserve	0	0	(8,925)	(8,925)	8,925	(4,635)	(4,635)
PFI Sinking Funds	(4,037)	0	(86)	(4,123)	300	(72)	(3,895)
Projects in Progress	(3,224)	3,224	(2,041)	(2,041)	2,041	(1,331)	(1,331)
Revenue Grant Reserve	(7,069)	1,228	(2,972)	(8,813)	3,786	(1,605)	(6,632)
Public Health	(1,847)	20	(545)	(2,372)	0	(302)	(2,674)
CIL - Harrow	(7,788)	3,095	(2,038)	(6,731)	2,057	(2,435)	(7,109)
Dedicated Schools Grant Reserve *	2,944	0	(2,944)	0	0	0	0
Other Earmarked Reserves	(9,197)	4,157	(2,852)	(7,892)	2,418	(2,827)	(8,301)
Total Earmarked Reserves	(43,594)	15,121	(38,432)	(66,905)	26,792	(28,972)	(69,085)
Locally Managed School Balances	(12,761)	0	(3,113)	(15,874)	347	0	(15,527)
HRA Earmarked Reserves	(794)	0	(912)	(1,706)	129	0	(1,577)
Total	(57,149)	15,121	(42,457)	(84,485)	27,268	(28,972)	(86,189)

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

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

Adults and Childrens Social Care Reserves: Funding earmarked for future social care pressures.

Collection Fund Reserve: Cash set aside to fund future year collection fund deficits.

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

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

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

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

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

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

5.8 Other operating income and expenditure

2020-21 £000		2021-22 £000
	Levies	
187	London Boroughs Grants Committee	187
297	London Pension Fund Authority	298
8,479	West London Waste Authority (WLWA)	9,219
205	Lee Valley Regional Park Authority	212
200	Environment Agency	205
9,368	Sub Total Levies	10,121
5,179	Payments to the Government Housing Capital Receipts Pool	775
(2,729)	Losses/(gains) on the disposal of non current assets	(3,049)
11,818	**Total**	7,847

5.9 Financing and investment income and expenditure

2020-21 £000		2021-22 £000
16,918	Interest payable and similar charges	18,166
9,429	Net interest on the net defined benefit liability	10,519
(1,237)	Interest receivable and similar income	(1,217)
(7,010)	Income in relation to investment properties & changes in their fair value	(6,066)
18,100	**Total**	21,402

5.10 Taxation and non-specific grant income

2020-21 £000		2021-22 £000
(130,854)	Council tax income	(142,366)
(4,906)	Business Rates Retention	(10,891)
(22,623)	Business Rates Top-Up Grant	(23,802)
(28,395)	COVID Emergency Funding	(7,184)
(3,716)	New Home Bonus Grant	(3,185)
(12,564)	Section 31 Grants	(7,245)
(8,040)	Other General Grants	(10,308)
(13,297)	Capital grants and contributions (Note 5.35.2)	(36,598)
(224,395)	**Total**	(241,579)

5.11 Property, plant and equipment

2021-22	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	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
Cost or Valuation								
At 1 April 2021	472,799	588,289	61,628	1	78,448	17,357	**1,218,522**	**48,403**
Reinstatement of historic cost **	0	0	0	4,972	0	0	**4,972**	**0**
Reversal of accumulated depreciation on revaluation	(6,989)	(7,502)	0	0		0	**(14,491)**	0
Additions	0	0	0	0	66,660	0	**66,660**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,258)	(25,676)	0	0	0	0	**(26,934)**	2,916
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services		16,986	0	0	0	0	**16,986**	0
Derecognition - Disposals	(2,179)	0	0	0		(1,464)	**(3,643)**	0
Derecognition - Other*	0	0	(1,081)	0	0	0	**(1,081)**	
Reclassification - Assets held for sale (5.14)	0	0		0	(3,989)	0	**(3,989)**	0
Reclassifications/ Transfer - Other	21,355	41,988	9,787	2,591	(80,356)	6,100	**1,465**	1,407
At 31 March 2022	**483,728**	**614,085**	**70,334**	**7,564**	**60,763**	**21,993**	**1,258,467**	**52,726**
Accumulated Depreciation								
At 1 April 2021	(6,989)	(12,049)	(34,921)	0	0	(182)	**(54,141)**	(3,470)
Reversal of accumulated depreciation on revaluation	6,989	7,502	0	0	0	0	**14,491**	0
Depreciation charges for 2021-22	(7,609)	(19,025)	(6,610)	0	0	0	**(33,244)**	(725)
Derecognition - Depreciation on Disposal	0	0	0	0	0	(11)	**(11)**	0
Derecognition - Other	0	0	1,081	0	0	0	**1,081**	0
At 31 March 2022	**(7,609)**	**(23,572)**	**(40,450)**	**0**	**0**	**(193)**	**(71,824)**	**(4,195)**
Net Book Value								
At 31 March 2022	**476,119**	**590,513**	**29,884**	**7,564**	**60,763**	**21,800**	**1,186,643**	**48,531**
At 31 March 2021	465,810	576,240	26,707	1	78,448	17,175	1,164,381	44,933

* The gross book value of fully depreciated assets that are no longer in use.
** This is a correction in the current year of prior period errors in applying the correct accounting treatment for community assets

Restated 2020-21	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	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
Cost or Valuation								
At 1 April 2020	449,655	558,983	58,712	1	70,952	16,697	**1,155,000**	45,818
Reversal of accumulated depreciation on revaluation	(6,755)	(8,119)	0	0	0	0	**(14,874)**	0
Additions	3,269	7,624	1,690	441	27,936	0	**40,960**	9
Revaluation increases/(decreases) recognised in the Revaluation Reserve	19,087	14,273	0	0	0	1,303	**34,663**	2,576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	7,932	0	(467)	0	(70)	**7,395**	0
Derecognition - Disposals*	(2,228)	0	0	0	0	0	**(2,228)**	0
Reclassification - Intangible Assets (5.17)**	0	0	0	0	(1,167)	0	**(1,167)**	0
Reclassifications/ Transfer	9,771	7,596	1,226	26	(19,273)	(573)	**(1,227)**	0
At 31 March 2021	**472,799**	**588,289**	**61,628**	**1**	**78,448**	**17,357**	**1,218,522**	**48,403**
Accumulated Depreciation								
At 1 April 2020	(6,755)	(10,574)	(28,745)	0	0	(172)	**(46,246)**	(2,783)
Reversal of accumulated depreciation on revaluation	6,755	8,119	0	0	0	0	**14,874**	0
Depreciation charges for 2020-21	(7,350)	(9,594)	(6,176)	0	0	(10)	**(23,130)**	(687)
Derecognition - Depreciation on Disposal	361	0	0	0	0	0	**361**	0
At 31 March 2021	**(6,989)**	**(12,049)**	**(34,921)**	**0**	**0**	**(182)**	**(54,141)**	**(3,470)**
Net Book Value								
At 31 March 2021	**465,810**	**576,240**	**26,707**	**1**	**78,448**	**17,175**	**1,164,381**	**44,933**
At 31 March 2020	442,900	548,409	29,967	1	70,952	16,525	1,108,754	43,035

* The gross book value of fully depreciated assets that are no longer in use.
** This is a prior period adjustment reclassifying intangible assets worth £6m that were classified as AUC (restated valued have been disclosed in Note 5.15).

5.11.1 Highways Infrastructure Assets

Highways Infrastructure Assets Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets [Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets for England and Wales Local Authorities] this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

Highways Infrastructure Assets	**2021-22**	**2020-21**
	£000	£000
Net book value (modified histoirical cost) at 1 April	119,462	121,919
Additions	1,656	8,902
Depreciation	(11,422)	(11,359)
Net Book Value at 31 March	**109,696**	**119,462**

5.11.2 Property, Plant and Equipment

	2021-22	**2020-21**
	£000	£000
Infrastructure Assets	109,696	119,462
Other PPE assets	1,186,643	1,164,381
	1,296,339	**1,283,843**

5.11.3 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;
- Plant, furniture and equipment – 5-10 years;
- Vehicles – 8 years;
- Infrastructure assets – 10-80 years; and
- Freehold land – not depreciated.

5.11.4 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 £13.7m (£32.7m as at 31st March 2021). This expenditure will be incurred in 2022-23 and future years. The major capital commitments are as follows:

- HRA Building Council Homes for London scheme £7.0m (£21.1m as at 31st March 2021)
- Redevelopment of the Council's central depot £2.6m (£4.4m as at 31st March 2021)
- Redevelopment of Waxwell Lane £nil (£2.1m as at 31st March 2021)

5.11.5 Revaluations

The Council's rolling programme that ensures all Property, Plant and Equipment (PPE) included in the Balance Sheet at current value is revalued at least every five years and reviewed at year-end to ensure that the carrying amount is not materially different from current value. Valuations of non-HRA property assets are normally carried out internally at 1st April each year except for surplus and investment properties, assets held for sale and properties with greater than £450k of capital expenditure spent on them in-year which are valued at 31st March each year.

Specialist and out of borough investment properties have been valued by Crosthwaites, Fleurets, Gerald Eve and Knight Frank. All other valuations have been carried out by the Council's qualified internal valuer. 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 current 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 2021. The Land Registry Index is used to calculate the movement in property values between 1st April 2021 and 31st March 2022. 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	29,883	109,697	60,765	0	200,345	0
Valued at fair value:								
As at 31st March 2022	476,119	394,311	0	0	0	21,800	892,230	78,457
As at 31st March 2021	0	130,208	0	0	0	0	130,208	0
As at 31st March 2020	0	38,598	0	0	0	0	38,598	0
As at 31st March 2019	0	15,482	0	0	0	0	15,482	0
As at 31st March 2018	0	11,914	0	0	0	0	11,914	0
Total Cost or Valuation as at 31st March 2022	**476,119**	**590,513**	**29,883**	**109,697**	**60,765**	**21,800**	**1,288,777**	**78,457**

5.11.6 Valuation of Surplus Assets

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

2020-21 £000		2021-22 £000
1,475	Surplus assets valued using level 2 inputs	0
15,700	Surplus assets valued using level 3 inputs	21,800
17,175	Balance at end of the year	21,800

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

2020-21 £000		2021-22 £000
16,525	Balance of surplus assets valued using level 3 inputs at 1st April	15,700
0	Disposal of assets during the year	0
925	Increase in valuations during the year	0
(1,750)	Reclassification from surplus assets to other land & buildings	6,100
15,700	Balance of surplus assets valued using level 3 inputs at 31st March	21,800

5.11.7 Trust, Foundation, Voluntary Aided and Academy Schools

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

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

5.12 Heritage assets

The Council's heritage assets are as detailed below. With the exception of the Headstone Manor Listed Buildings which are operational assets valued at an Existing Use Value, 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

2020-21 £000		2021-22 £000
72,927	Balance at start of the year	**77,155**
0	Additions	**2**
0	Disposals	**(620)**
4,228	Net gains/(losses) from fair value adjustments	**1,920**
77,155	Balance at end of the year	**78,457**

2020-21 £000		2021-22 £000
71,195	Investment properties valued using level 2 inputs	**73,115**
5,960	Investment properties valued using level 3 inputs	**5,342**
77,155	Balance at end of the year	**78,457**

Reference is made of the Investment Property rental income at note 5.38.2 – The Council as Lessor (Operating Leases).

5.14 Assets held for sale

The Council has held some assets for sale this year:

2020-21 £000		2021-22 £000
0	Net carrying amount at 1st April	0
0	Assets re classified as held for sale from Property, Plant & Equipment	2,524
0	Additions in year	1,465
0	Net gains/(losses) from fair value adjustments	0
0	Net carrying amount at 31st March *	**3,989**

* All these units have subsequently been sold in the financial year 2022-23

5.15 Intangible assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

Intangible assets have a useful life of 10 years.

2020-21 Restated AUC £000	2020-21 Restated Intangibles £000		2021-22 AUC £000	2021-22 Intangibles £000
1,167	0	Net carrying amount at 1st April	**6,102**	**0**
4,935	0	Additions	**3125**	**0**
0	0	Reclassification	**(9,227)**	**9,227**
6,102	0	Net carrying amount at 31st March	**0**	**9,227**

The 2020-21 figures have been restated to show the split between intangible asset projects reclassified from PPE that is in progress and completed project

5.16 Financial instruments

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

	Long-term		Current	
	31-Mar-22	31-Mar-21	**31-Mar-22**	31-Mar-21
	£000	£000	**£000**	£000
Investments				
Short term investments	**0**	0	**20,117**	17,616
Cash and cash equivalents	**0**	0	**77,992**	64,967
Total investments	**0**	0	**98,109**	82,583
Debtors				
Long term debtors	**15,370**	15,699	**0**	0
Financial assets carried at amortised cost	**0**	0	**31,182**	27,657
Total Debtors	**15,370**	15,699	**31,182**	27,657
Borrowings				
Financial liabilities at amortised cost	**(417,325)**	(422,358)	**(9,830)**	(8,058)
Total borrowings	**(417,325)**	(422,358)	**(9,830)**	(8,058)
Other Liabilities				
PFI and finance lease liabilities	**(14,836)**	(16,265)	**(1,422)**	(1,306)
Total other liabilities	**(14,836)**	(16,265)	**(1,422)**	(1,306)
Creditors				
Financial liabilities carried at amortised cost	**0**	0	**(81,755)**	(39,863)
Total creditors	**0**	0	**(81,755)**	(39,863)

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 exclude £25.4m (£36.7m in 2020-21). The creditors balance excludes £52.0m (£84.4m in 2020-21).

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 2020-21 £000	Financial Assets Measured at amortised cost 2020-21 £000	Total 2020-21 £000		Financial Liabilities Measured at amortised cost **2021-22** **£000**	Financial Assets Measured at amortised cost **2021-22** **£000**	**Total** **2021-22** **£000**
16,283	0	16,283	Interest Expenses	**16,215**	**0**	**16,215**
0	635	635	Impairment Losses	**0**	**1,939**	**1,939**
16,283	635	16,918	**Interest payable and similar charges**	**16,215**	**1,939**	**18,154**
0	(1,237)	(1,237)	Interest income	**0**	**(1,217)**	**(1,217)**
0	(1,237)	(1,237)	**Interest and investment income**	**0**	**(1,217)**	**(1,217)**
16,283	(602)	15,681	**Net gain/(loss) for the year**	**16,215**	**722**	**16,937**

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

Fair value of assets and liabilities

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

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

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

Carrying Amount 2020-21 £000	Fair Value 2020-21 £000	Difference 2020-21 £000		Carrying Amount 2021-22 £000	Fair Value 2021-22 £000	Difference 2021-22 £000
17,616	17,616	0	Investments	**20,117**	**20,117**	**0**
15,699	31,849	16,150	Assets held at amorrtised cost	**15,370**	**28,252**	**12,882**
64,967	64,967	0	Cash and Cash Equivalents	**78,013**	**78,013**	**0**
(426,964)	(696,293)	(269,329)	Borrowing	**(427,156)**	**(630,293)**	**(203,137)**

5.17 Long term debtors

31-Mar-21 £000		31-Mar-22 £000
15,568	West London Waste Authority	**15,250**
132	Other Loans	**120**
15,700	**Total**	**15,370**

5.18 Short term debtors

31-Mar-21 £000		31-Mar-22 £000
39,022	Business Rates & Council Tax *	**26,608**
49,439	Trade debtors	**55,996**
4,571	Other debtors	**3,201**
(28,979)	Less: Provision for expected credit losses	**(29,181)**
64,053	**Total**	**56,624**

*The decrease in Business Rates & Council Tax debtors is due to the reduction in the carried forward Collection Fund Deficit thereby reducing the Central Government and GLA share (£4,842k and £5.451k respectively). Refer to Section 7 of the accounts

The provision for expected credit losses is made up as follows:

31-Mar-21 £000		31-Mar-22 £000
(13,883)	Business Rates & Council Tax	**(12,152)**
(10,721)	Trade debtors: Housing benefits	**(10,983)**
(1,923)	Trade debtors: Housing	**(2,277)**
(1,894)	Trade debtors: Adults services	**(3,311)**
(556)	Other trade debtors	**(458)**
(28,979)		**(29,181)**

5.19 Cash and cash equivalents

31-Mar-21 £000		31-Mar-22 £000
129	Cash held by the Authority	**96**
(3,498)	Bank current accounts	**10**
64,837	Short-term deposits with Banks and Building Societies	**77,886**
61,468	**Total Cash and Cash Equivalents**	**77,992**

5.20 Short term borrowing

31-Mar-21 £000		31-Mar-22 £000
(2,791)	Public Works Loan Board	**(7,791)**
(566)	Other Financial Institutions	**(548)**
(1,035)	Pension Fund	**(1,384)**
(168)	Other Loans	**(107)**
(4,560)	**Total**	**(9,830)**

5.21 Short term creditors

31-Mar-21 £000		31-Mar-22 £000
(10,316)	Business Rates & Council Tax	**(10,269)**
(96,750)	Trade Creditors	**(103,018)**
(18,221)	Other Creditors	**(21,920)**
(125,287)	**Total**	**(135,207)**

5.22 Provisions

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	**Total £000**
Short Term				
Balance at 1 April	(1,100)	(870)	(2,866)	**(4,836)**
Additional provisions made	(23)	(600)	(1,200)	**(1,823)**
Transferred to/(from) Long Term	(1,071)	0	0	**(1,071)**
Amounts used	1,094	870	1,044	**3,008**
Unused amounts reversed	0	0	109	**109**
Balance at 31 March	(1,100)	(600)	(2,913)	**(4,613)**
Long Term				
Balance at 1 April	(5,971)	0	0	**(5,971)**
Transferred to/(from) Short Term	1,071	0	0	**1,071**
Balance at 31 March	(4,900)	0	0	**(4,900)**

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 £1.25m 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.

5.23 Other long term liabilities

31-Mar-21 £000		**31-Mar-22 £000**
(2,739)	Finance Lease Liability (Note 5.38.1)	**(2,135)**
(13,526)	PFI Lease Liability (Note 5.39)	**(12,701)**
(518,223)	IAS19 Pension Liability (Note 5.40.5)	**(452,272)**
(534,488)	**Total**	**(467,108)**

5.24 Usable reserves

31-Mar-21 £000		Note	**31-Mar-22 £000**
(10,008)	General Fund	4.2	**(10,008)**
(84,485)	Earmarked Reserves	5.7	**(86,189)**
(6,274)	Housing Revenue Account	6.1	**(5,677)**
(6,412)	Major Repairs Reserve	6.2.4	**(7,343)**
(14,351)	Capital Receipts Reserve	5.24.1	**(13,279)**
(37,541)	Capital Grants and Contributions Unapplied	5.24.2	**(52,138)**
(159,071)	**Total Usable Reserves**		**(174,634)**

5.24.1 Capital receipts reserve

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

General Fund 2020-21 £000	HRA 2020-21 £000	Total 2020-21 £000		General Fund 2021-22 £000	HRA 2021-22 £000	Total 2021-22 £000
(4,572)	(14,133)	(18,705)	Balance unapplied at 1 April	(2,394)	(11,957)	(14,351)
0	(162)	(162)	Receipts in year - Others	(2,180)	0	(2,180)
0	(4,494)	(4,494)	Receipts in year - Right to Buy	0	(5,147)	(5,147)
0	60	60	Disposal Costs	0	63	63
0	5,178	5,178	Pooling payment to the DLUHC	0	775	775
2,178	1,594	3,772	Applied during the year - others	0	4,079	4,079
0	0	0	Applied during the year - Right to Buy	0	3,482	3,482
(2,394)	(11,957)	(14,351)	**Balance unapplied at 31 March**	(4,574)	(8,705)	(13,279)

5.24.2 Capital grants and contributions unapplied

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

General Fund 2020-21 £000	HRA 2020-21 £000	Total 2020-21 £000		General Fund 2021-22 £000	HRA 2021-22 £000	Total 2021-22 £000
(29,552)	(5,836)	(35,388)	Balance unapplied at 1 April	(31,682)	(5,859)	(37,541)
(3,332)	(23)	(3,355)	Receipts in year	(18,906)	(5,290)	(24,196)
1,202	0	1,202	Applied during the year	2,175	7,424	9,599
(31,682)	(5,859)	(37,541)	**Balance unapplied at 31 March**	(48,413)	(3,725)	(52,138)

5.25 Unusable reserves

31-Mar-21 £000		Notes	31-Mar-22 £000
(212,994)	Revaluation Reserve	5.25.1	(221,131)
(595,728)	Capital Adjustment Account	5.25.2	(593,532)
11,128	Financial Instruments Adjustment Account	5.25.3	10,683
518,223	Pensions Reserve	5.25.4	452,271
12,291	Collection Fund Adjustment Account	5.25.5	6,014
7,133	Accumulating Compensated Absences Adjustment Account	5.25.6	6,881
3,731	Dedicated Schools Grant Reserve *		4,007
(8)	Deferred Capital Receipts Reserve		(8)
(256,224)	**Total Unusable Reserves**		(334,815)

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

5.25.1 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.

2020-21 Total £000		2021-22 General Fund £000	2021-22 HRA £000	2021-22 Total £000
(182,432)	**Balance at 1 April**	**(121,009)**	**(91,985)**	**(212,994)**
(67,203)	Upward revaluation of property, plant & equipment	**(34,302)**	**0**	**(34,302)**
15,931	Less: reversal of past downward valuations charged to Provision of Services	**10,903**	**0**	**10,903**
(51,272)	Upward revaluation of assets charged to the revaluation reserve	**(23,398)**	**0**	**(23,398)**
25,145	Downward valuation of property, plant & equipment	**5,088**	**111**	**5,199**
(8,536)	Less: downward valuations charged to Provision of Services	**(3,650)**	**(4)**	**(3,654)**
	Recognition of assets not previously on Balance Sheet	**1,438**	**107**	**1,545**
16,609	Downward valuations charged to the revaluation reserve	**7,745**	**1,258**	**9,003**
(217,095)	(Surplus) / Deficit on revaluation of non-current assets not posted to (Surplus) / Deficit on the Provision of Services	**(136,663)**	**(90,727)**	**(227,390)**
4,030	Difference between fair value depreciation and historical cost depreciation	**5,069**	**294**	**5,362**
71	Accumulated gains on assets sold or scrapped	**777**	**119**	**896**
4,101	Amount written off to the Capital Adjustment Account	**5,846**	**413**	**6,259**
(212,994)	**Balance at 31 March**	**(130,817)**	**(90,314)**	**(221,131)**

5.25.2 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.

2020-21 General Fund £000	2020-21 HRA £000	2020-21 Total £000		2021-22 General Fund £000	2021-22 HRA £000	2021-22 Total £000
(303,178)	(268,157)	(571,335)	**Balance at 1 April**	**(321,711)**	**(274,017)**	**(595,728)**
26,812	7,677	34,489	Reversal of depreciation charged to the CIES	**36,783**	**7,944**	**44,727**
(7,474)	79	(7,395)	Asset Impairment/ (Reversal of Impairment)	**19,345**	**3**	**19,348**
0	1,868	1,868	Non Current assets written out on Disposal	**2,084**	**2,180**	**4,264**
1,246	0	1,246	Revenue expenditure funded from capital under statute	**1,738**	**0**	**1,738**
(3,408)	(693)	(4,101)	Amounts written off from the revaluation reserve	**(5,846)**	**(412)**	**(6,258)**
(2,178)	(1,594)	(3,772)	Use of the Capital Receipts Reserve	**0**	**(7,561)**	**(7,561)**
0	(8,993)	(8,993)	Use of the Major Repairs Reserve	**0**	**(7,000)**	**(7,000)**
(7,449)	(3,695)	(11,144)	Capital grants credited to CIES	**(2,573)**	**(19,430)**	**(22,003)**
(18,644)	(9)	(18,653)	Minimum Revenue Provision	**(20,974)**	**(10)**	**(20,984)**
(3,210)	(500)	(3,710)	Revenue Contribution to Capital Outlay	**(2,025)**	**(129)**	**(2,154)**
(4,228)	0	(4,228)	Movements in the market value of Investment Properties debited/credited to CIES	**(1,921)**	**0**	**(1,921)**
(321,711)	(274,017)	(595,728)	**Balance at 31 March**	**(295,100)**	**(298,432)**	**(593,532)**

5.25.3 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.

2020-21 £000		2021-22 £000
11,573	**Balance at 1 April**	**11,128**
	Premiums and Discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements:	
(400)	General Fund	**(400)**
(45)	HRA	**(45)**
11,128	**Balance at 31 March**	**10,683**

5.25.4 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.

Refer to note 5.40 for more details.

2020-21 £000		2021-22 £000
407,120	**Balance at 1 April**	**518,223**
95,179	Remeasurement of the net defined benefit liability	**(95,952)**
39,547	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	**53,624**
(23,623)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(23,624)**
518,223	**Balance at 31 March**	**452,271**

5.25.5 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.

2020-21 £000		2021-22 £000
(2,495)	**Balance at 1 April**	**12,291**
14,786	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	**6,277**
12,291	**Balance at 31 March**	**6,014**

5.25.6 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.

2020-21 £000		2021-22 £000
4,556	**Balance at 1 April**	**7,133**
(4,556)	Settlement or cancellation of accrual made at the end of the preceding year	**(7,133)**
7,133	Amounts accrued at the end of the current year	**6,881**
7,133	**Balance at 31 March**	**6,881**

5.26 Notes to the Cash Flow Statement

5.26.1 Operating activities

2020-21 £000		2021-22 £000
	The cash flows for operating activities include the following items:	
16,918	Interest payable & similar charges	**18,166**
(1,237)	Interest and Investment income	**(1,217)**
(7,010)	Other investment income	**(6,064)**
	The surplus or deficit on the provision of services has been adjusted for the following non cash movements:	
15,924	Adjustment for pension funding	**30,001**
507	Increase/(Decrease) in Provision	**(1,294)**
27,094	Impairment and Depreciation	**64,075**
2,576	Accumulated Absence	**(252)**
1,868	Carrying amount of non-current assets disposed	**4,264**
(4)	Other non cash items charged to CIES	**(203)**
(4,228)	Movement in the value of investment properties	**(1,920)**
(22,672)	Billing authority Collection Fund adjustments	**11,115**
	Items on an accrual basis	
(3,026)	(Increase)/Decrease in Debtors	**(5,946)**
42,421	Increase/(Decrease) in Creditors	**8,515**
60,460	**Adjustments for non cash movements**	**108,355**
(4,656)	Proceeds from the sale of non-current assets	**(7,328)**
(13,297)	Capital grants credited to surplus or deficit on the provision of services	**(36,598)**
(17,953)	**Adjustments for investment and financing activities**	**(43,926)**

5.26.2 Investing activities

2020-21 £000		2021-22 £000
(55,000)	Purchase of property, plant and equipment	**(69,107)**
19,305	Capital grants received in year	**33,309**
4,656	Proceeds from the sale of property, plant and equipment and investment property	**7,328**
5,999	Proceeds from short-term and long-term investments	**(2,501)**
316	Other long term loans granted	**330**
(24,724)	**Net cash flows from Investing Activities**	**(30,641)**

5.26.3 Financing activities

2020-21 £000		2021-22 £000
(948)	Cash receipts/ (payments) for the Increase/ (reduction) of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(1,314)**
(246)	Cash receipts/ (repayments) of short-term and long-term borrowing	**242**
(1,194)	**Net cash flows from financing activities**	**(1,072)**

5.27 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.

2020-21 £000	Expenditure/Income	Notes	2021-22 £000
	Expenditure		
209,173	Employee benefits expenditure		**225,624**
115,914	Housing benefits		**104,316**
227,612	Other service expenses		**238,547**
30,388	Support service recharges (excl. employee costs)		**43,317**
32,301	Depreciation and impairment		**65,889**
40,893	Other expenditure	5.8 - 5.9	**39,582**
656,281	**Total expenditure**		**717,275**
	Income		
(113,218)	Fees, charges and other service income		**(133,847)**
(313,966)	Revenue grants included within cost of services	5.35.1	**(315,326)**
(235,370)	Other income	5.8 - 5.10	**(251,910)**
(662,554)	**Total income**		**(701,083)**
(6,273)	**(Surplus)/Deficit on Provision of Services**		**16,192**

5.28 Road charging schemes under the Transport Act 2000

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

2020-21 £000		2021-22 £000
(5,777)	Penalty Charge Notices	**(7,430)**
(643)	On street meters	**(970)**
(596)	Residents Permits	**(858)**
(7,016)	Total income	**(9,258)**
2,114	Enforcement contract/costs	**2,616**
1,253	Other expenditure	**550**
3,367	Total expenditure	**3,166**
(3,649)	Total (surplus) for the year ending 31 March 2021	**(6,092)**
	Utilisation of Surplus	
3,649	Concessionary fares	**6,092**
3,649		**6,092**

5.29 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.

2020-21 £000		2021-22 £000
	Funding provided to the pooled budget	
(8,189)	· Harrow Contribution	**(8,188)**
(16,271)	· NHS Harrow CCG Contribution	**(17,129)**
(24,460)		**(25,317)**
	Revenue Expenditure met from the pooled budget:	
12,904	· Harrow Council	**13,267**
9,835	· NHS Harrow CCG	**10,328**
22,739		**23,595**
	Capital Expenditure met from the pooled budget:	
1,721	· Harrow Council - Disabled Facilities Grants	**1,722**
1,721		**1,722**
0	Surplus for the year	**0**

5.30 Members' Allowances

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

2020-21 £000		2021-22 £000
891	Allowances	**921**
891	Total	**921**

5.31 Remuneration

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

5.31.1 Remuneration bands

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

Remuneration band	Number of Council Employees			
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum
	2021-22	**2021-22**	**2020-21**	**2020-21**
£50,000 - £54,999	**158**	**2**	140	1
£55,000 - £59,999	**98**	**1**	76	1
£60,000 - £64,999	**78**	**1**	61	1
£65,000 - £69,999	**34**	**1**	37	0
£70,000 - £74,999	**30**	**0**	17	1
£75,000 - £79,999	**25**	**1**	20	0
£80,000 - £84,999	**21**	**1**	16	1
£85,000 - £89,999	**7**	**0**	3	0
£90,000 - £94,999	**5**	**0**	4	0
£95,000 - £99,999	**5**	**0**	3	0
£100,000 - £104,999	**2**	**0**	5	0
£105,000 - £109,999	**5**	**0**	3	0
£110,000 - £114,999	**1**	**0**	3	0
£115,000 - £119,999	**1**	**0**	3	0
£120,000 - £124,999	**4**	**0**	2	1
£125,000 - £129,999	**3**	**0**	0	0
£135,000 - £139,999	**0**	**1**	0	0
£155,000 - £159,999	**0**	**0**	0	1
£190,000 - £194,999	**0**	**0**	0	1
	477	**8**	393	8

5.31.2 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 £		Total Remuneration including employers pension contributions £	
		2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Sean Harriss (Chief Executive)	1	228,801	226,050	0	0	228,801	226,050
Charlie Stewart (Corporate Director - Resources)		162,555	160,293	40,427	39,865	202,982	200,158
Paul Hewitt (Corporate Director - People Services)	1	153,036	150,774	0	0	153,036	150,774
		544,392	**537,117**	**40,427**	**39,865**	**584,819**	**576,982**

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 £		Total Remuneration including employers pension contributions £	
		2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Corporate Director - Community	2	18,580	150,774	0	0	18,580	150,774
Acting Corporate Director - Community	3	125,269	0	31,154	0	156,423	0
Corporate Director - Community	4	77,083	0	19,171	0	96,254	0
Director Legal and Governance		157,234	147,054	37,781	35,268	195,015	182,322
Director of Finance		138,726	136,674	34,501	33,991	173,227	170,665
Director of Adult Social Services		135,176	133,322	33,618	33,157	168,794	166,479
		652,068	**567,824**	**156,225**	**102,416**	**808,293**	**670,240**

Note 1 The officer is not a member of the pension scheme.
Note 2 The Corporate Director left the Council on 2 May 2021. The Corporate Director was not a member of the pension scheme.
Note 3 The officer acted in the role from 26 April 2021 to 12 September 2021. The salary is for the entire year.
Note 4 The Corporate Director commenced on 13 September 2021.

5.32 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	
	2021-22	2020-21	**2021-22**	2020-21	**2021-22**	2020-21	**2021-22**	2020-21
							£000	£000
£0 - £20,000	**24**	4	**3**	6	**27**	10	**165**	81
£20,001 - £40,000	**4**	5	**2**	6	**6**	11	**171**	318
£40,001 - £60,000	**3**	0	**0**	1	**3**	1	**144**	40
£60,001 - £80,000	**0**	1	**0**	0	**0**	1	**0**	77
£80,001 - £100,000	**0**	0	**0**	1	**0**	1	**0**	99
£160,001 - £180,000	**1**	0	**0**	0	**1**	0	**165**	0
Total	**32**	10	**5**	14	**37**	24	**645**	615

'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

2020-21 £000		**2021-22 £000**
454	Exit payments not provided for in 2020-21	**645**
161	Employment provision (within note 5.22)	**0**
615	**Included in cost of services**	**645**

5.33 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:

2020-21 £000		**2021-22 £000**
	Fees payable to external auditors in respect of:	
133	External audit services carried out by the appointed auditor for the year	**153**
27	Certification of grant claims and returns for the year	**27**
160	Total	**180**

5.34 Dedicated Schools Grant

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

Details of the deployment of DSG receivable are as follows:

2020-21 £000		Central Expenditure £000	Expenditure £000	Total £000
226,283	Final DSG for 2021-22 before academy recoupment			**239,668**
(94,538)	Academy and high needs figure recouped for 2021-22			**(102,266)**
131,745	Total DSG after academy recoupment for 2021-22			**137,402**
269	Plus: Brought forward from 2020-21			**0**
(269)	Less: Carry forward to 2022-23 agreed in advance			**0**
131,745	Agreed budgeted distribution in 2021-22	55,820	81,582	**137,402**
434	In-year adjustments	(343)	0	(343)
132,179	Final budget distribution for 2021-22	**55,477**	**81,582**	**137,059**
(55,947)	Less: Actual central expenditure	(56,306)	0	**(56,306)**
(76,759)	Less: Actual ISB deployed to schools	0	(81,582)	**(81,582)**
(527)	**In year carry forward to 2022-23**	**(829)**	**0**	**(829)**
269	Plus: Carry forward to 2022-23 agreed in advance			**0**
0	Carry forward to 2022-23			**0**
0	DSG unusable reserve at the end of 2020-21			**(258)**
0	Addition to DSG unusable reserve at the end of 2021-22			**(829)**
0	Total of DSG unusable reserve at the end of 2021-22			**(1,087)**
(258)	Net DSG position at the end of 2021-22			**(1,087)**

5.35 Grants income

5.35.1 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:

2020-21 £000	Grant	Awarding Body	2021-22 £000
(132,448)	Dedicated Schools Grant	Department for Education	**(137,543)**
(4,948)	Pupil Premium	Department for Education	**(3,807)**
(2,693)	Universal Infant Free School Meals	Department for Education	**(2,232)**
(2,744)	Private finance initiative	Various	**(2,509)**
(11,150)	Public Health	Department of Health	**(11,310)**
(9,596)	COVID-19 Grants	Various	**(12,652)**
(91,109)	Rent Allowance	Department of Work and Pensions	**(78,440)**
(25,681)	HRA Rent Rebate	Department of Work and Pensions	**(26,807)**
(2,612)	New Burdens	Department of Work and Pensions	**(2,616)**
(2,806)	Workforce Capacity Grant	Department for Levelling Up, Housing & Communities	**(4,337)**
(6,407)	EFA 6th Form Funding	Young People's Learning Agency	**(3,105)**
(6,468)	Improved Better Care Fund	Department for Levelling Up, Housing & Communities	**(6,468)**
(15,304)	Other Grants	Various	**(23,500)**
(313,966)	**Total Revenue Grants included in the Comprehensive Income and Expenditure Account**		**(315,326)**

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

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

2020-21 £000	Grant	Awarding Body	2021-22 £000
(3,121)	LA Capital Maintenance and Basic Need Grant	Department for Education	**(17,774)**
(3,025)	HRA Grange Farm Phases 1 & 2	Greater London Authority	**(1,903)**
0	HRA RTB Buy Back Grant	Greater London Authority	**(4,404)**
0	HRA New Build Programme	Greater London Authority	**(6,725)**
(903)	Section 20 & 106 income	Various	**(1,384)**
(6,248)	Other	Various	**(4,409)**
(13,297)	**Total Capital Grants included in Comprehensive Income and Expenditure Account**		**(36,599)**

5.35.3 Capital grants receipts in advance

2020-21 £000	Grant - Capital	Awarding Body	2021-22 £000
(3,750)	Borough Intervention Agreement	Greater London Authority	**(3,750)**
(2,483)	Decarbonisation Scheme Funding	Department for Business, Energy & Industrial Strategy	**(1,348)**
(2,281)	Housing Infrastructure Funding	Greater London Authority	**0**
(746)	Section 106 Capital Receipts	Various	**(738)**
(3,882)	Other Capital Grants	Various	**(4,017)**
(13,142)			**(9,853)**

5.36 Related parties

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

Material transactions between the Council and its subsidiaries are disclosed in note 5.44.

5.36.1 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 5.29.

Members and senior officers

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

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

The Council has significant influence over the decisions of 3 local charities due to a significant number of Members also being trustees on their governing bodies. In 2021-22 the Council made the following payments for grants and services:

Organisation	Amount £000
West House and Heath Robinson Museum	14
Harrow Association of Disabled People	34
Harrow Heritage Trust	1

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

5.36.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2020-21 £000	
23,206	Employers Pension Contributions to the Fund
(908)	Administration expenses paid by the Fund
1,035	Cash Due to the Fund

5.37 Capital Financing

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

2020-21 £000		2021-22 £000
564,610	Opening Capital Financing Requirement	**573,154**
	Capital Investment	
53,570	Property, Plant and Equipment	**72,906**
0	Investment Property	**2**
1,246	Revenue Expenditure Funded from Capital under Statute	**1,738**
	Sources of finance	
(3,772)	Capital receipts	**(7,561)**
(11,144)	Government grants and other contributions	**(22,001)**
	Sums set aside from revenue:	
(3,710)	· Direct revenue contributions	**(2,154)**
(18,653)	· Minimum Revenue Provision	**(20,984)**
(8,993)	· Major Repairs Reserve	**(7,000)**
573,154	*Closing Capital Financing Requirement*	**588,100**
	Explanation of movements in year	
27,197	Increase in unsupported borrowing	**35,930**
(18,653)	Minimum Revenue provision	**(20,984)**
8,544	*Increase in Capital Financing Requirement*	**14,946**

5.38 Leases

5.38.1 The Council as Lessee

Finance Leases

Assets acquired under finance leases are included as part of Vehicles, Plant, Furniture and Equipment in the Property, Plant and Equipment balance in the Balance Sheet. The book value of these assets is £2.5m (£3.1m in 2020-21). Outstanding lease liabilities are £2.7m (£3.3m in 2020-21) and minimum lease payments of £3.6m (£4.4m in 2020-21) will be made over the next 1 to 6 years.

Operating Leases

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

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

31-Mar-21 £000		**31-Mar-22 £000**
3,199	Not later than one year	**3,096**
1,548	Later than one year and not later than five years	**1,117**
2,088	Later than five years	**2,026**
6,835		**6,239**
3,473	Min. lease payments charged to revenue in 21-22	**3,236**

5.38.2 The Council as Lessor

Finance Leases

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

Although the legal form of the transfer arrangement is a lease, and the Council retains the freehold, the transfer of schools to Academy status are treated as in substance a disposal in the Council's balance sheet. No maintained schools transferred to Academy status in 2021-22.

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 £4.3m in 2021-22 (£4.5m in 2020-21).

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

31-Mar-21 £000	Land and Buildings	31-Mar-22 £000
4,722	Not later than one year	**4,423**
15,400	Later than one year and not later than five years	**13,637**
15,603	Later than five years	**11,401**
35,725		**29,461**

*2020-21 figures restated to exclude service charges

5.39 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

2020-21 £000		2021-22 £000
(10,030)	Balance outstanding at start of year	**(9,577)**
1,374	Lease repayments during the year	**1,394**
(921)	Finance charge	**(880)**
(9,577)	Balance outstanding at year end	**(9,063)**

NRCs

2020-21 £000		2021-22 £000
(4,888)	Balance outstanding at start of year	**(4,695)**
599	Lease repayments during the year	**621**
(406)	Finance charge	**(389)**
(4,695)	Balance outstanding at year end	**(4,463)**

5.39.1 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 2022-23	1,284	832	565	125	2,806
Payable within 2 to 5 years	7,007	2,882	1,925	(193)	11,621
Payable within 6 to 10 years	8,075	2,267	4,518	641	15,501
Payable within 11 to 12 years	2,377	261	2,055	468	5,161
Total	**18,743**	**6,242**	**9,063**	**1,041**	**35,089**

5.39.2 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 2022-23	260	370	260	275	1,165
Payable within 2 to 5 years	1,261	1,257	1,165	1,279	4,962
Payable within 6 to 10 years	1,890	987	1,955	2,100	6,932
Payable within 11 to 12 years	1,108	138	1,083	1,054	3,383
Total	**4,519**	**2,752**	**4,463**	**4,708**	**16,442**

5.40 Defined benefit pension schemes

5.40.1 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.

5.40.2 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 gains of £16m have been recognised in the Movement in Reserves Statement up to and including 2021-22 (losses of £108m in 2020-21).

Expected employer contributions for 2022-23 are £20.9m, excluding any contributions in respect of unfunded benefits.

2020-21 £000		2021-22 £000
	Cost of Services:	
29,845	• current service cost	44,217
273	• past service and settlement costs	96
0	• (Gain)/loss on settlements	(4,408)
	Financing and Investment Income and Expenditure	
25,352	• interest cost	27,839
(15,923)	• interest income on scheme assets	(17,320)
0	• Effect of business combinations & disposals	3,200
39,547	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**53,624**
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
14,582	• changes in demographic assumptions	483
258,858	• changes in financial assumptions	(70,848)
(166,684)	• return on plan assets	(32,049)
(11,577)	• changes in other experience	6,462
95,179		**(95,952)**
134,726	Total Post Employment Benefit Charged to the CIES	**(42,328)**
23,623	Actual amount charged to the General Fund balance in the year	**23,624**

5.40.3 Reconciliation of present value of the scheme liabilities

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

2020-21 £000		2021-22 £000
(1,104,073)	Opening balance at 1 April	(1,389,177)
(29,845)	Current service cost	(44,217)
(25,352)	Interest cost	(27,839)
(5,667)	Contributions by scheme participants	(5,704)
	Remeasurement (gains)/losses arsing from changes in:	
(14,582)	Demographic Assumptions	(483)
(258,858)	Financial Assumptions	70,848
11,577	Other Experience	5,370
37,668	Benefits paid	35,963
	Unfunded Benefits paid	2,498
0	Effect of settlements	4,408
(45)	Past service costs	(96)
0	Effect of business combinations & disposals	(3,627)
(1,389,177)	Closing balance at 31 March	(1,352,056)

5.40.4 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 £49.4m (2020-21: £182.6m).

2020-21 £000		**2021-22 £000**
696,953	Opening balance at 1 April	870,954
15,923	Interest income on plan assets	17,320
166,684	Remeasurement gain/(loss)	32,049
(228)	Effects of settlements	0
23,623	Employer contributions	23,624
5,667	Contributions by scheme participants	5,704
(37,668)	Benefits paid	(35,963)
0	Effect of business combinations & disposals	(11,832)
	Unfunded benefits paid	(2,498)
	Effect of business combinations & disposals	427
870,954	Closing balance at 31 March	**899,785**

5.40.5 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.

	2021-22 £000	2020-21 £000	2019-20 £000	2018-19 £000	2017-18 £000
Present value of liabilities	**(1,352,056)**	(1,389,177)	(1,104,073)	(1,212,805)	(1,116,211)
Fair value of assets	**899,785**	870,954	696,953	807,216	760,920
Net deficit in the scheme	**(452,271)**	(518,223)	(407,120)	(405,589)	(355,291)

5.40.6 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 2022.

The principal assumptions used by the actuary have been:

2020-21		2021-22
	Long-term expected rate of return on assets in the scheme:	
26.3%	Equity investments	5.7%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.2	Men	22.0
24.6	Women	24.4
	Longevity at 65 for future pensioners:	
23.5	Men	23.3
26.9	Women	26.7
	Financial assumptions:	
3.6%	Rate of increase in salaries	3.9%
2.9%	Rate of increase in pensions (CPI)	3.2%
2.0%	Rate for discounting scheme liabilities	2.7%
	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%

5.40.7 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-21		**31-Mar-22**
14.0%	Debt Securities - Corporate Bonds	14.0%
1.0%	Private Equity	1.0%
6.0%	Real Estate: UK Property	7.0%
	Investment Funds and Unit Trusts:	
53.0%	Equities	53.0%
23.0%	Other	22.0%
3.0%	Cash and Equivalents	3.0%
100%		**100%**

5.40.8 History of experience gains and losses

	2021-22	2020-21	2019-20	2018-19	2017-18
	%	%	**%**	%	%
Differences between the expected and actual return on assets	3.56	19.14	-17.05	4.09	2.22
Experience gains and (losses) on liabilities	-0.40	-0.83	-3.93	0.07	-0.02

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

	Increase in present value of scheme liabilities	
	%	£000
0.1% decrease in the real discount rate	2	21,829
0.1% increase in rate of increase in salaries	0	2,079
0.1% increase in the rate of increase in pensions	1	19,579
1 year increase in member life expectancy	4	54,082

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 above did not change from those used in the previous period.

5.41 Teachers' Pension Scheme

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

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

In 2021-22 the Council made £8.71m (£8.54m in 2020-21) of employer contributions to the TPA. The current contribution rate is 23.68% (23.68% in 2020-21). The Council expects to make around £9.5m of employer contributions to the TPA.

5.42 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 Department for Levelling Up Housing and Communities' 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 or 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-22	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-22	Estimated maximum exposure to default and uncollectability 31-Mar-22
	£000	%	%	**£000**
UK Banks	**96,386**	0.00	0.00	**0**
UK Money Market Funds	**1,617**	0.00	0.00	**0**
Customers	**20,354**	1.09	18.49	**4,616**
Total	**118,357**			**4,616**

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-21		**Amount at 31-Mar-22**
£000		**£000**
8,839	Less than three months	15,677
1,127	Three to six months	1,672
852	Six months to one year	773
1,625	More than one year	2,232
12,443	**Total Debtors**	**20,354**

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-21		**31-Mar-22**
£000		**£000**
	Source of Loan:	
(348,461)	Public Works Loan Board	**(343,461)**
(73,800)	Market Loans	**(73,800)**
(97)	Other financial institutions	**(64)**
(422,358)	**Total**	**(417,325)**
	Analysis of loans by maturity:	
(5,033)	1-2 years (1.4.2023 - 31.3.2024)	**(21)**
(54)	3-5 years (1.4.2024 - 31.3.2027)	**(43)**
(20,010)	6-10 years (1.4.2027 - 31.3.2032)	**(20,000)**
(397,261)	More than 10 years (1.4.2032 onwards)	**(397,261)**
(422,358)	**Total**	**(417,325)**

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 £117m (£95m in 2020-21). With the base rate currently fixed at 1.25%, 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 £1.17m.

5.43 Trust funds

Trust funds do not represent assets of the Council and are therefore not included in the Balance Sheet. The Council acts as a custodian for various trust funds. The balance of these trust funds at 31 March 2022 was £211k (£214k at 31 March 2021).

In addition the Council acts as administrator for the Edward Harvist Charity. Charity funds are held in a permanent endowment fund. Income from the investment is distributed to 5 Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of their residents. The value of Charity funds at 31 March 2022 was £11.4m (£10.8m at 31 March 2021).

5.44 Interests in subsidiary companies

The Council controls the following subsidiary companies:

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

Concilium Assets LLP is owned 95% by Harrow and 5% by Concilium Group Ltd. The LLP paid £406k to the Council in 2021-22 (£451k in 2020-21) mostly for the lease of residential properties.

Sancroft Community Care Ltd and Concilium Business Services Ltd are 100% owned by Concilium Group Ltd. The Council paid £1,977k to Sancroft Community Care Ltd in 2021-22 (£1,906k in 2020-21) for provision of residential care services.

5.45 Events after the reporting period

The Statement of Accounts was authorised for issue by the Director of Finance on XX XXX 2023. There have been post balance sheet adjustments in the defined benefit pension schemes and Infrastructure assets which is now reflected in the financial statements and notes.

6 Housing Revenue Account

6.1 Housing Revenue Account (HRA)

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

2020-21 £000		Note	2021-22 £000	£000
	Expenditure			
8,025	Repairs and maintenance		**9,265**	
9,500	Supervision and management		**10,142**	
156	Rents, rates, taxes and other charges		**140**	
7,664	Depreciation of non current assets	6.2.3	**7,931**	
79	Impairment of non-current assets		**0**	
37	Debt management costs		**37**	
25,461	**Total Expenditure**			**27,515**
	Income			
(28,310)	Dwelling rents (gross)	6.2.1	**(28,820)**	
(513)	Non-dwelling rents (gross)	6.2.2	**(496)**	
(1,868)	Charges for services and facilities		**(2,040)**	
(1,398)	Contributions towards expenditure		**(1,548)**	
0	Impairment of non-current assets		**(4)**	
(32,089)	**Total Income**			**(32,908)**
(6,628)	**Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**			**(5,393)**
448	HRA's share of Corporate and Democratic Core			**457**
(6,180)	**Net cost of HRA Services**			**(4,936)**
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
(2,729)	Loss (Gain) on sale of HRA Fixed Assets			**(2,904)**
5,179	Pooling payments in respect of Right to Buy disposals			**775**
6,422	Interest payable and similar charges			**6,446**
(19)	Interest & investment income			**(10)**
(3,717)	Capital grants & contributions receivable			**(14,121)**
(1,044)	**(Surplus) Deficit for the year on HRA services**			**(14,750)**

Statement of Movement on the HRA Balance

2020-21 £000		Note	2021-22 £000
(7,526)	**Balance on HRA at end of the previous year**		**(6,274)**
(1,044)	(Surplus)/deficit for the year on the HRA Income & Expenditure Statement		**(14,750)**
2,774	Adjustment between accounting basis and funding basis under regulations	6.2.9	**15,475**
1,730	Net increase or decrease before transfers from reserves		**725**
(478)	Transfer to reserves	6.2.9	**(129)**
1,252	**(Increase)/decrease in year on the HRA**		**596**
(6,274)	**Balance on HRA at end of the current year**		**(5,678)**

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 0.65% of lettable properties were vacant (0.77% in 2020-21). The average de-pooled rents were £115.94 per week (£113.56 in 2020-21). There was an average rent increase of 2.1% over the previous year. The average increase, after taking into account service charges, was 2.05%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 63.0% of garages were vacant (61.5% in 2020-21).

6.2.3 HRA Fixed Assets

	Land £000	Dwellings £000	Assets under construction £000	Shops £000	Garages £000	Community Halls £000	**Total £000**
Net book value as at 1 April 2021	215,041	250,769	20,300	4,880	4,671	7,974	**503,635**
Revaluations and additions	21,015	(944)	9,174	699	674	86	**30,704**
Disposals	(1,015)	(1,137)	0	0	0	0	**(2,152)**
Gross book value as at 31 March 2022	**235,041**	**248,688**	**29,474**	**5,579**	**5,345**	**8,060**	**532,187**
Depreciation for year	0	(7,609)	0	(39)	(170)	(113)	**(7,931)**
Net book value as at 31 March 2022	**235,041**	**241,079**	**29,474**	**5,540**	**5,175**	**7,947**	**524,256**

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 2021 would have been £1,608m (£1,530m at 1st April 2020), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,142m (2020-21 £1,087m).

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-21 £000	Transfer to Reserve £000	Capital Expenditure £000	Debt Repayment £000	**Balance 31-Mar-22 £000**
Analysis of the Movement	(6,412)	(7,931)	6,274	726	(7,343)

6.2.5 Capital Expenditure and Funding Statement

2020-21 £000		2021-22 £000
	HRA Capital Expenditure	
3,793	Dwellings & garages	6,402
8,744	New build	24,127
12,537	**Total**	**30,529**
	Financed by:	
8,342	Major Repairs Reserve	6,274
0	Capital receipts - Right to Buy, Affordable Housing & other	7,185
3,695	Contributions & Grants	16,255
500	Revenue Funding	129
0	Borrowing	686
12,537	**Total**	**30,529**

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 5.24.1.

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 5.40.

Housing Revenue Account Statistics

2020-21 Total	Housing Stock	Houses	Flats	Bungalows	2021-22 Total
105	4 or more bedrooms	103	2	2	**107**
1,343	3 bedrooms	1,245	104	1	**1,350**
1,399	2 bedrooms	545	843	26	**1,414**
1,897	1 bedroom	4	1,774	134	**1,912**
4,744	LBH managed stock as at 31 March	1,897	2,723	163	**4,783**
743	Garages				**743**
1,156	Leaseholders				**1,147**
	Summary of change in stock				
4,823	Stock as at 1 April				**4,744**
	Add/ (Less)				
(21)	Sales				**(22)**
(62)	Demolitions				**0**
3	New builds & Acquisitions				**61**
1	Transfer from General Fund				**0**
4,744	**Total HRA stock at 31 March**				**4,783**
	Measures of performance & information for disclosure notes to HRA				
£57.03	Average weekly costs per dwelling of management and maintenance				**£56.55**
£1.569m	Rent arrears (current and former tenants)				**1.492m**
96.43%	Rent collection rate (BVPI 66a)				**96.45%**
2.58%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				**2.00%**
0.77%	Rent loss through voids				**0.65%**
£151k	Write offs in year				**£55k**
£684k	Provision for bad debts				**£780k**

6.2.8 Statement of Movement on the HRA Balance

2020-21 £000		2021-22 £000
	Adjustment between accounting basis and funding basis under regulations	
45	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	**45**
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
2,729	Gain (Loss) on sale of HRA fixed assets	**2,904**
2,774		**2,949**
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/(from) Pensions Reserve :	
(348)	Net charges made for retirement benefits in accordance with IAS19	**(949)**
	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	
(79)	Impairment	**3**
500	Capital expenditure funded from revenue balances	**129**
9	Minimum revenue provision	**10**
3,718	Capital grants and contributions	**14,121**
(7,677)	Depreciation transfer	**(7,944)**
7,664	Transfer to the Major Repairs Reserve	**7,931**
	Transfers to/(from) other reserves	
(5,178)	Pooling payments to DLUHC financed through capital reserves	**(775)**
913	Other	**0**
(478)		**12,526**
2,296		**15,475**

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 taxpayers and distribution to Local Authorities (London Borough of Harrow and the GLA).

7.1 Statement of Income and Expenditure

2020-21		2021-22		
		Business Rates & Crossrail	Council Tax	Total
£000		£000	£000	£000
	Income			
(165,216)	Income from Council Tax	0	(174,269)	(174,269)
(25,063)	Income Collectable from Business Ratepayers	(35,545)	0	(35,545)
(1,071)	Income Collectable from Business Ratepayers - BRS	(734)	0	(734)
(191,350)	**Total Income**	(36,278)	(174,269)	(210,548)
	Expenditure			
	Apportionment of Previous year surplus / deficit			
45	Central Government	(9,098)	0	(9,098)
2,112	Harrow Council	(8,258)	186	(8,072)
481	Greater London Authority	(10,201)	60	(10,141)
	Precepts, demands and shares			
16,437	Central Government	16,880	0	16,880
148,434	Local Demand (Harrow)	15,346	139,706	155,051
48,611	Greater London Authority	19,654	31,779	51,433
	Impairment of debts / appeals			
3,784	Write offs of uncollectable amounts	610	1,340	1,951
9,189	Increase in bad debt provisions	(709)	(1,847)	(2,556)
1,000	Increase / (decrease) in provision for appeals	(900)	0	(900)
244	Costs of Collection	245	0	245
230,337	**Total Expenditure**	23,569	171,224	194,793
38,987	Movement on Fund balance: (Surplus) / Deficit for the year	(12,710)	(3,045)	(15,755)
(3,026)	(Surplus) / Deficit brought forward *	33,061	2,900	35,961
35,961	**(Surplus) / Deficit carried forward**	20,351	(145)	20,206

* The large brought forward deficits on the Collection Fund are a consequence of the COVID-19 pandemic, most notably the retail sector suffering losses due to mandated closedowns.

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:

2020-21 Band D Ratio	2020-21 Property Numbers	2020-21 Council Tax £		Valuation Bands	2021-22 Band D Ratio	2021-22 Property Numbers	2021-22 Council Tax £
6/9	371	1,237.45	A =	Not exceeding £40,000	6/9	**392**	**1,308.24**
7/9	1,885	1,443.71	B =	£40,001 - £52,000	7/9	**1,994**	**1,526.28**
8/9	14,977	1,649.95	C =	£52,001 - £68,000	8/9	**14,665**	**1,744.32**
1	25,386	1,856.19	D =	£68,001 - £88,000	1	**25,041**	**1,962.36**
11/9	24,137	2,268.68	E =	£88,001 - £120,000	11/9	**24,099**	**2,398.44**
13/9	10,789	2,681.17	F =	£120,001 - £160,000	13/9	**10,926**	**2,834.52**
15/9	9,577	3,093.65	G =	£160,001 - £320,000	15/9	**9,602**	**3,270.60**
2	2,334	3,712.38	H =	£320,001 +	2	**2,452**	**3,924.72**
	89,456			**Total**		**89,171**	
	(1,789)			Adjustment for non-collection		**(1,784)**	
	87,667			**Council tax base**		**87,387**	

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 2021-22, split between relevant preceptors at the following percentages: the Council (30%), the GLA (37%) and the Department for Levelling Up, Housing & Communities (33%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £134.5m (£138.8m in 2020-21). The national non-domestic rate multiplier for 2021-22 remained the same at 51.2p (51.2p in 2020-21) with a lower multiplier for small businesses also remaining the same at 49.9p (49.9p in 2020-21).

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

Throughout 2021/22 Members and staff working for Harrow Council strived to achieve the Council's vision, priorities and outcomes as outlined in the Harrow Borough Plan 2030. Arrangements are in place to ensure that the intended positive outcomes for residents are achieved. To ensure good governance these arrangements are agreed and documented and together form the authority's governance structure.

8.2 Responsibility

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

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

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

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

A new Administration was elected in May 2022 and a review of the Council's priorities is underway as a result.

8.3 Effectiveness of Key Elements of the Governance Framework

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

Bearing this in mind and taking into account the ongoing impact of the pandemic on resources the approach to the annual review process for 2020/21 was revised with a higher-level approach being taken generally with some deep dives into a few specific known risk areas, utilising work already undertaken or planned wherever possible. The 2021/22 annual review process has reverted to reviewing the basic building blocks via a Council-wide evidence based self-assessment against the CIPFA Framework along with a Management Assurance exercise to obtain assurance on key elements from senior managers within Directorates.

The effectiveness of key elements during 2021/22 is covered below:

8.3.1 Behaviour of Members and Staff

Codes of Conduct that define standards of behaviour for Members and staff have been developed and are included in the Council's Constitution. Mechanisms are in place to deal with Member and staff transgressions from these codes and policies are also in place for dealing with whistleblowing and conflicts of interest. The Council values are incorporated into the staff induction programme as well as the performance appraisal process.

During 2021/22 the Resources Directorate and the People Directorate maintained electronic Register of Interests for staff however the Place Directorate had neither a hard copy nor an electronic version in place. Action is currently being taken to rectify this.

In 2021/22 there were 6 Staff Induction sessions held and 85 staff attended. There were also 5 Manager Induction sessions undertaken and 51 managers attended.

The Corporate Induction covered:
- 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)

During 2020/21, in light of the impact of the covid-19 pandemic on the council, a simplified appraisal form was introduced (to review and plan staff performance and development objectives) and pending review of the staff appraisal and development system as part of the people strategy. This form continued to be used during 2021/22 however appraisals were unable to be recorded corporately during 2020/21 and 2021/22 due to the implementation phase of the new accounting, procurement and HR system (Dynamics 365).

Thus there was no corporate monitoring of the performance appraisals process during 2021/22 and the Management Assurance exercise has confirmed that only around 50% of staff received appraisals. However the staff pulse survey undertaken in November 2021 confirmed that 71% of staff had regular conversations with their manager about their work and their development and 86% of staff stated that they were clear about what was expected of them.

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 (CFO) is responsible for identifying any proposal, decision or course of action that will involve incurring unlawful expenditure.

The Coronavirus Act 2020 which came into force on 25 March 2020 and associated primary and secondary legislation (statutory instruments) amongst other things:

- allowed council meetings and court hearings to be held virtually;

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

Parts of the Act and associated primary and secondary legislation have now been repealed and in response to this the Council during 2021/22:
- re-instated in person council decision meetings during May 2021.
- held the 2020/21 Annual Council Meeting virtually on 05 May 2021;
- held local elections in May 2022
- successfully dealt with hospital discharges into care during 2021/22;
- re-instated the system of registering deaths in person from March 2022
- had no school closures

No reports on likely contraventions of any enactment or rule of law were made by the Monitoring Officer during 2021/22 and the CFO's clearance of Cabinet decision reports ensured that any proposals, decisions or courses of action that potentially involved incurring unlawful expenditure were identified.

8.3.3 Acting in the Public Interest

During 2021/22 the Council can demonstrate a commitment to openness and acting in the public interest. This has been achieved via the implementation of a governance structure which includes codes of conduct, a Standards Committee (GARMS), registers of interests, gifts and hospitality, a whistleblowing policy, a corporate complaints process, a Corporate Anti-fraud & Corruption Strategy, Financial Regulations and Contract Procedure Rules and a Scrutiny Function.

The Constitution was updated during 2021/22:
- May 2021
- Sep 2021
- Nov 2021
- Feb 2022

All versions can be found on the Council's website.

In April 2022 a local MP mentioned the significant governance gap identified in the 2020/21 Annual Governance Statement in Parliament, it was also reported in the Sun newspaper and as a result the Metropolitan Police confirmed the allegations, arrests and on-going police investigation. The names of the four former Council employees involved were also disclosed on Twitter (by 'Anony Mous'). Whilst this information was known by a number of Members, Council Staff and the Police it is not clear how this confidential information was made public. As no compliant was received regarding the release of the information no investigation was undertaken and therefore no conclusion can be drawn on whether or not this was in the public interest or whether the Council's governance structure was breached.

There were 4,314 complaints received in 2021/22. The most frequent services to receive complaints were Waste/Recycling, Concessionary Travel and Housing. There were 86 complaints sent to the Local Government Ombudsman although they only felt the need to investigate nine of which they upheld 78% (seven) in the resident's favour. Once advised by the LGO, the Council complied with their advice in all cases.

8.3.4 Communication and Consultation

The Communications Team are responsible for communicating the actions of the Council through a number of channels, including press releases and media management, marketing campaigns and brand management, internal communications, Harrow Council publications and social media.

Details of consultations can be found on the Council website. During 2021/22, 25 consultations with residents were undertaken covering a range of topics including new provision for children with special educational needs, the Council budget for 2022/23, various parking schemes, licensing, and the Council's Gambling Policy.

8.3.5 The Harrow Borough Plan 2020-2030

The Borough Plan 2020-2030 was developed during 2019/20 using feedback from the 2019 resident's survey and consultation with Cabinet Members (individually and collectively) and key partners. It replaced the Harrow Ambition Plan. Along with an overarching priority to address socio-economic inequality and disadvantage, 8 key priorities have been identified. These have been structured as 3 foundation areas for maintenance/incremental improvement and 5 areas where there are significant challenges requiring step-change improvement. In addition two crosscutting themes were identified in November 2020. This is illustrated below: -

Cross cutting themes:

- **Tackling disadvantage**
- **Tackling racial disproportionality**

8.3.6 Putting the Vision into Practice

The Council's intention to engage more widely on the Borough Plan was paused due to the pandemic, however the Borough Plan was used to drive the partnership response to Covid-19 and the partnership principles were used to guide the Council's recovery. A report on key achievements against the plan was published in February 2022 covering progress made and future intentions against each of the eight priority areas and the two cross cutting themes specifically looking at tackling inequality. The council re-affirmed its commitment to delivering on the Borough Plan priorities at its Council meeting on 24 February 2022.

Following local elections in May 2022 there was a change in Administration at the Council and a new Vision and Priorities have been agreed with work currently underway to develop a new corporate plan for 2022/23 onwards.

8.3.7 Decision-making

Under the Coronavirus Act 2020 regulations The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and other associated primary and secondary legislation decision making was undertaken via virtual (computer generated) meetings of the Cabinet and other committees during 2020/21. These regulations were revoked in May 2021 and all decisions made by Cabinet and other committees during 2021/22 were made at in person meetings.

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), the Chief Financial Officer, the Head of Procurement, the Head of Internal Audit (for risk management implications) and also by the relevant Corporate Director before they are presented to the decision makers (Council, Cabinet, Committees).

8.3.8 Measuring Performance and External Assurance

Corporate performance reporting was put on hold during the pandemic and remained so during 2021/22. Performance monitoring has continued at service level e.g. social care, education, housing, environment to ensure that service standards and quality were maintained. All services were affected by Covid so part of this monitoring was to understand changes in demand, pressures, areas of capacity that could be redeployed. Additional Covid related monitoring was put in place e.g. Gold reporting, a wide range of Public Health data - testing, vaccination, building occupancy, school attendance for children in need and key workers and much more.

Capital and revenue financial performance were reported at a minimum quarterly to the Corporate Strategic Board, Cabinet and all Members throughout the pandemic. During 2021/22 performance was reported monthly to CSB and Cabinet with the Treasury Management mid-year Review 2021/22 being reported to Cabinet in December 2021 and the Annual Report and Outturn 2021/22 being reported to Cabinet in July 2022.
The 2021/22 Management Assurance exercise has confirmed that performance continued to be monitored by Directorates for approximately 80% of services with reports made both externally where appropriate and internally to Directorate Management and Portfolio Holders.

In terms of external assurance reviews undertaken during 2021/22 these were fewer than in years prior to the pandemic and included the annual engagement meeting with Ofsted (Children) that was positive; the annual review of Legal Services by LEXCEL confirming compliance; PSN compliance, Data security and Protection compliance; Payment Card Industry Data Security compliance; Estates Services review (Housing) with an action plan covering 30 recommendations and the monthly Housemark Pulse survey.

8.3.9 External Audit

The required deadline for the publication of the final 2020/21 accounts under The Accounts and Audit (Amendment) Regulations 2021was 30 November 2021. During 2021/22 the authority provided timely support, information and responses to the Council's external auditors, Mazars. This required timeline was not met as the external auditors did not complete their audit and sign-off the accounts until 26 January 2022 providing an unqualified opinion on the financial statements however the opinion on the value for money conclusion remains outstanding. The final accounts have now been published on the Harrow Council website.

The audit of the 2021/22 accounts started late July 2022 with the amended deadline to sign off the accounts being 30 November 2022, in line with changes to the Accounts and Audit Regulations (Amended) 2022. This deadline was not met. It is expected that the accounts will now be signed off by 30 November 2023.

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. The roles and responsibilities of other managers and staff are defined and documented in Role Profiles attached to each post.

8.3.11 Capacity & Capability

Throughout 2020/21 managing the Covid 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. This strategy was successful and priority services were maintained throughout the pandemic and throughout 2021/22. However throughout 2021/22 there was a lack of strategic leadership capacity caused by the significant demands on the senior leadership team and a heavy reliance on interims in senior posts. A new Corporate Director of Community (renamed the Place Directorate in April 2022) was appointed during 2021/22 and a new Chief Executive has now been appointed following the departure of the current Chief Executive in June 2022 who was in place since January 2018. The new Chief Executive started in September 2022 with the Corporate Director of People acting as Interim Chief Executive and as Head of Paid Service from June till September. A new Corporate Director People has also been appointed and started at the Council in September 2022.

8.3.12 Financial Management

The Council's financial management arrangements during 2021/22 conformed with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015).* During 2021/22 the Council delivered its services within the approved budget of £179m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures.

The Council has maintained its General Fund Balances at £10m in 2021/22. This maintains the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further changes to Central Government funding. Earmarked Reserves have increased from £66.9m to £69.1m in 2021/22.

8.3.13 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.

8.3.14 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 2021/22.

8.3.15 Development Needs

On election Members are given induction training this takes place on mass after the local elections and individual after by-elections if required. Ad hoc training is undertaken throughout the year that is non-mandatory.

Following the local government elections in May 2022, new Members received a range of induction training including a welcome evening was held for all elected members on 10th May to cover an overview of the Council's functions, code of conduct, agile working, personal safety, and IT & Data Protection. From May – July 2022 a series of training sessions some mandatory some non-mandatory were held for members covering for example the Council's finances, code of conduct, safeguarding.

The People Strategy for the Council is being developed through the Modernisation programme called Great People Great Culture. This is one of the four pillars of the modernisation agenda. Progress with this during 2021/22 will be reported in the final AGS.

There are six pillars to this strategy of: -

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

The Organisational Development Plan is being built around these pillars and for 2021/22 reflected early priorities identified by CSB.

8.3.16 Managing Risks

The framework for identifying and managing risks consists of a series of Directorate Risk Registers that feed into an overarching Corporate Register that clearly identifies the owner of each risk. The Corporate Risk Register was reviewed and updated four times during 2021/22 for Q1 in May 2021, for Q2 in August 2021, for Q3 in November 2021 and for Q4 in February 2022. Each update was presented to the Corporate Strategic Board (CSB) for review and challenge and Q1, Q2 and Q3 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. Q4 was not presented to the GARMS Committee as the April GARMS Committee meeting was cancelled due to the local elections.

Risks relating to COVID 19 have been included in the Corporate Risk Register since Quarter 4 2019/20, throughout 2020/21 and 2021/22. These risks changed throughout this period in response to the progress of the pandemic and covered the impact on the provision of services, the impact on the recovery of the Council’s operations post pandemic, the impact on the Harrow Community and the financial impact on the Council.

During Q1 2022/23 the key risk was reviewed and reframed to ensure the both the risk, and its causes/drivers and key actions, were consistent with the Council returning to a business-as-usual approach to service delivery and of managing Covid19 in endemic rather than pandemic terms and also consistent with its Living with Covid Strategy.

The risk management implications section of the report template for Cabinet and other Committee decision reports requires risks to decisions to be identified along with mitigations and red, amber, green (RAG) assurance ratings to be included. This is supported by guidance for report authors and a requirement for this section of the reports to be reviewed and signed-off by the Head of Internal Audit who is operationally responsible for the Corporate Risk Management function.

The Management Assurance exercise for 2021/22 confirmed that Directorate Risk Registers were in place for each Directorate with the Resources and People Risk registers being updated quarterly throughout 2021/22.

8.3.17 Counter Fraud and Anti-corruption Arrangements

The Council has a three year Corporate Anti-Fraud Strategy 2016- 2019 outlining its approach to tackling fraud that is reviewed annually. The refreshed Local Government Fighting Fraud & Corruption Locally Strategy (FFCL) was published online on 26 March 2020 and during 2020/21 the intention was for the authorities’ own strategy to be reviewed and updated to reflect any changes and best practice that the new FFCL Strategy recommended. However, this was not achieved and was rolled forward to 2021/22 along with an assessment against the checklist contained within the strategy outlining best practice for dealing with fraud and corruption in local authorities. Work undertaken on the significant governance gap identified in 2021/22 (outline in section 5 below) has further delayed the Strategy being updated, however it is currently being updated and it is planned to be presented to the GARMS Committee meeting in January 2024.

8.3.18 Scrutiny

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

- Health
- Community
- People
- Resources

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

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

During 2021/22 O&S met 10 times, P&F 3 times and H&SC 3 times.

8.3.19 Internal Audit

The Internal Audit Service is required to comply with the Public Sector Internal Audit Standards and to be reviewed externally against these standards every five years and internally on a regular basis. An external peer review in June 2017 confirmed that the service ‘generally complies’ with the Public Sector Internal Audit Standards and the 2019 internal review against these standards confirmed this assessment. A further review is due to be undertaken during 2022/23.

Internal Audit had another challenging year in 2021/22 with audit work continuing to be undertaken remotely, three vacant posts and a major investigation (into the significant governance gap – see section 5) impacting on the completion of the 2021/22 Internal Audit Plan. As a result a significant portion of the plan will be rolled forward to future plans in 2022/23 or 2023/24 where still relevant.

Internal Audit work during 2021/22 was performed in conformance with the Public Sector Internal Audit Standards.

8.3.20 Audit Committee

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

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

The GARMS Committee did not produce an Annual Report 2020/21 which would usually be produced in 2021/22 and presented to Council to confirm that the committee had successfully fulfilled its purpose/role and responsibilities as outlined in its agreed Terms of Reference and the 2021/22 annual report has yet to be drafted.

The Governance, Audit, Risk Management & Standards Committee met 5 times during 2021/22 with the meeting due to take place in April 2022 being cancelled due to the local elections.

8.3.21 Joint Working/Council Trading Companies

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

Throughout 2021/22 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

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

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

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

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

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

The Council also runs a shared legal service (HBPL) for which it is the lead authority however this is not a separate legal entity.

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 Concilium Business Services and Sancroft Community Care Ltd were reviewed and updated and assurance obtained that reasonable governance arrangements are in place. Governance arrangements have not been reviewed for Concilium Group Limited as it is merely a holding company and the governance arrangements for Concilium Assets LLP were reviewed in 2020/21 and again it was confirmed that reasonable governance arrangements are in place.

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

The paragraphs above outline the separate bodies set up by the Council and their relationship with the Council however the annual review of governance has highlighted that these bodies are not yet publishing their board agenda, minutes and annual reports.

8.4. Level of Assurance

The analysis of assurances from the annual review of governance 2021/22 indicates that **a reasonable level of governance is in place across the Council.** This is a deterioration from previous years with an increased number of minor governance gaps identified relating to the lack of monitoring and absent or out-of-date policies however work is already underway to address many of the gaps identified and a formal action plan will be produced to track progress. Whilst it could be argued that the lack of corporate performance monitoring and reporting is a significant gap in governance this is compensated for by robust financial performance monitoring and performance monitoring in service areas being in place throughout 2021/22.

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 2021/22 is: **Good with some significant improvements required in a few areas.** This is a qualified opinion based on a significantly lower number of reviews undertaken than in a typical year. The original plan included 23 reviews that would have resulted in the issuing of a report if completed, however due to the considerable amount of work required on the significant governance gap during 2021/22 only five of these reviews were undertaken. In addition, reviews of the operation of Council's core financial systems, Housing Benefits, Treasury Management, Housing Rents, Business Rates, Capital Expenditure, Corporate Accounts Receivable, Corporate Accounts Payable, Payroll and Council Tax during 2021/22 demonstrated a sound level of control in place with seven receiving a green assurance rating and two amber/green assurances, a slight overall improvement from 2020/21. One red assurance report, relating to the significant governance gap and two red/amber assurance reports relating to schools were issued during the year. All recommendations made to improve control were agreed by management.

8.5. Previous Significant Governance Issues

In August 2021 the Council were alerted to a significant governance gap by a third party. This gap involved allegations of fraud and corruption that are subject to an ongoing police criminal investigation and as such no detailed information can be provided.

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

A detailed Internal Audit review was undertaken of the system involved and all recommendations made were agreed by Management. A follow up in 2022/23 indicated that the implementation of the agreed recommendations relies upon the introduction of a new IT system which has been delayed. Further follow up will be undertaken in 2023/24. Internal Audit and the Corporate Anti-fraud team also undertook extensive work to support the Police criminal investigation during 2021/22.

The independently led review concluded that 'Whilst direct responsibility for any fraud must rest with anyone found guilty of perpetrating it and whilst it is not possible to prevent fraud from happening entirely, the Council does recognise the importance of putting in place a range of controls designed to mitigate against that risk and make it less likely to happen. Those steps are essentially in place in terms of corporate frameworks.' Five recommendations were made to further strengthen these and the implementation of these will be followed up along with the Internal Audit recommendations in September.

The output of the Internal Audit review of the system along with the resulting action plan was presented to the GARMS Committee on the 30 November 2022 and has been fed into the 2021/22 annual review of governance..

8.6. Significant Governance Issue 2020/21

The above gap identified in the 2020/21 AGS remained a significant gap throughout 2021/22 although the fraud itself was stopped. Action will continue during 2022/23 to address all the recommendations made in both the internal and external reports.

8.7. Conclusion

The annual review of governance 2021/22 confirmed that overall appropriate governance arrangements were in place in the majority of areas of the Council with only one significant governance gap being identified.

8.8. Declaration

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

Cllr Paul Osborn
Leader
Date: 07.11.23

Alex Dewsnap
Managing Director
Date: 07.11.23

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2021-22

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31st March 2022 and its income and expenditure for the year.

Sharon Daniels CPFA
Interim Director of Finance
29 November 2023

Harrow Pension Fund Account as at 31 March 2022

2020-21 £'000		Notes	2021-22 £'000
	Dealings with members, employers and others directly involved in the fund		
(34,661)	Contributions	7	(36,058)
(2,027)	Transfers in from other pension funds	8	(3,066)
(89)	Other income		(33)
(36,777)			**(39,157)**
35,592	Benefits	9	36,974
3,908	Payments to and on account of leavers	10	6,141
0	Other Expenditure		0
39,500			**43,115**
2,723	**Net (additions)/withdrawals from dealings with members**		**3,958**
5,155	Management expenses	11	5,331
7,878	**Net (additions)/withdrawals including fund management expenses**		**9,289**
	Return on investments		
(6,745)	Investment income	12	(7,030)
(191,359)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(52,286)
(198,104)	**Net return on investments**		**(59,316)**
(190,226)	**Net (increase)/decrease in the net assets available for benefits during the year**		(50,027)
(777,758)	**Opening net assets of the scheme**		(967,984)
(967,984)	**Closing net assets of the scheme**		**(1,018,011)**

Net Assets Statement as at 31 March 2022

31 March 2021 £'000		Notes	31 March 2022 £'000
	Investment assets		
933,374	Investments	14	996,706
9,083	Derivative contracts	14	1,191
20,675	Cash with investment managers	14	17,004
963,132			**1,014,901**
4,399	Cash deposits	14	7,288
967,531			**1,022,189**
	Investment liabilities		
(947)	Derivative contracts	14	(5,232)
966,584			**1,016,957**
1,662	Current assets	21	2,154
140	Long Term Debtors	21A	140
968,386			**1,019,251**
(402)	Current liabilities	22	(1,240)
967,984	**Net assets of fund available to fund benefits at the period end**		**1,018,011**

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.

Sharon Daniels CPFA
Interim Director of Finance
29 November 2023

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2022

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

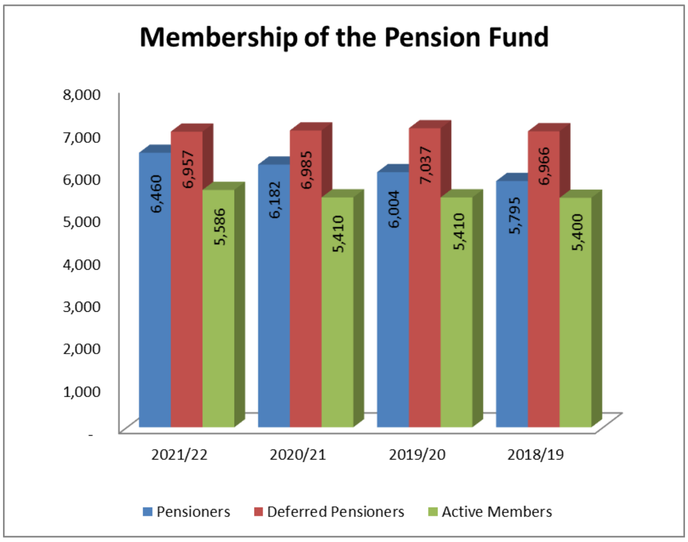
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

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



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	6011	5741	3574	15,326	80.64
Nower Hill	Scheduled Body	38	143	168	349	1.83
Stanmore College	Scheduled Body	99	153	92	344	1.80
Heathland and Whitefriars	Scheduled Body	19	86	190	295	1.54
Hatch End High	Scheduled Body	36	131	77	244	1.28
Rooks Heath	Scheduled Body	27	98	115	240	1.26
Park High	Scheduled Body	15	84	116	215	1.13
Canons High	Scheduled Body	17	80	112	209	1.10
Bentley Wood	Scheduled Body	12	90	68	170	0.89
Harrow High	Scheduled Body	17	59	80	156	0.82
St Dominics 6th form college	Scheduled Body	45	33	54	132	0.69
Aylward Primary School	Scheduled Body	9	32	76	117	0.62
Pinner High School	Scheduled Body	3	8	104	115	0.61
Priestmead School	Scheduled Body	4	6	93	103	0.54
Salvatorian Academy	Scheduled Body	21	51	17	89	0.47
St Georges Primary	Scheduled Body	5	5	78	88	0.46
St John Fisher	Scheduled Body	3	8	60	71	0.37
St Josephs Primary	Scheduled Body	4	4	62	70	0.37
Welldon Park School	Scheduled Body	3	5	56	64	0.34
Earlsmead Academy	Scheduled Body	7	11	37	55	0.29
Alexandra Academy	Scheduled Body	5	16	30	51	0.27
Sacred Heart High School	Scheduled Body	2	6	35	43	0.23
Avanti House Secondary Scho	Scheduled Body	0	4	38	42	0.22
St Bernadettes	Scheduled Body	7	5	30	42	0.22
St Jerome	Scheduled Body	1	2	38	41	0.22
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Avanti House Primary School	Scheduled Body	1	11	18	30	0.16
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	7	7	0.04
NLCS	Community Admission Body	43	46	47	136	0.72
Evergreen	Admitted Body	0	0	19	19	0.10
ISS Catering	Admitted Body	3	1	11	15	0.08
SOS Ltd	Admitted Body	0	0	7	7	0.04
Brayborne Facilities Services	Admitted Body	0	0	6	6	0.03
SOS Longfield	Admitted Body	0	0	5	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Evergreen Harrow High	Admitted Body	1	0	4	5	0.03
PSC Ltd	Admitted Body	0	0	4	4	0.02
PSC Roxeth	Admitted Body	0	0	4	4	0.02
PSC Vaughan	Admitted Body	0	0	3	3	0.02
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Aylward	Admitted Body	1	0	2	3	0.02
Evergreen LBH	Admitted Body	0	1	2	3	0.02
		6,460	6,957	5,586	19,003	100

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

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

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

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

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

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

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

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

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021-22 financial year and its position as at 31 March 2022. 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 2021-22' 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 2021-22.

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). Derivatives are used by the Fund to reduce its exposure to the risk of fluctuations in currency values in its global equity portfolio. They are valued on the basis of the change in the relative values of sterling and the currency being hedged between the point at which the derivatives were purchased and the balance sheet date.

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 with the exception of current liabilities. 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. Current Liabilities are shown at amortised cost - given the short-term nature of these liabilities there are unlikely to be any gains or losses arising from these before settlement.

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 Utmost (Previously Equitable Life) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

g) Contingent Liabilities

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

h) Contingent Assets

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

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

i) Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2021-22 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented on 1st April 2024;
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
- Property, Plant and Equipment – Proceeds before intended use (Amendments to IAS16)

These changes in accounting standards are in our view unlikely to have a material impact on the Pension Fund accounts and might be subject to change

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future employer contribution 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 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £23.4m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £1.6m • a 0.1% increase in Pension benefits would increase the liability by approximately £21.6m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £5.4m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Fair value – basis of valuation (Note 16)	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets. This fall in asset prices/values was more than offset by the subsequent recovery during 2020 and 2021. However, there has been a fall back in 2022 to date, due in part to geopolitical events (the Russian invasion of Ukraine and its impact on commodity prices) and their knock-on effect on inflation. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. At the current time, it is still not possible to predict accurately the long term impact of Covid-19 on property investments in some locations and sectors of the economy.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
Pooled Property Fund	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. For 2020/21, following the impact of Covid-19 on global markets, our fund managers advised that valuations were reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight could be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – was attached to valuations of pooled property fund assets than would normally be the case. They have not applied the same caveat to the valuations reported as at 31 March 2022.	The total property pooled investments in the financial accounts are £71.33m. There is a risk that these investments may be understated 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 2021-22 for which the accounts have been adjusted.

The valuation of the Pension Fund's investment assets will fluctuate from time to time as a result of economic factors and market movements. Since March 2022, global investment markets have been volatile for a number of reasons. As a result, the value of the Fund's investment assets had fallen from £1018.011million at 31 March 2022 to £950.884million at 30 November 2022 (a fall of 6.6%). However, the Fund's actuary advises that the impact of the increase in Gilt yields in the same period is likely to have reduced the Fund's liabilities significantly. Furthermore, the Fund is an "open" pension scheme, which means it has a long time horizon before many of its liabilities will fall due for payment.
Therefore, the change in asset valuations is treated as a non-adjusting post balance sheet event.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2020-21		2021-22
£'000		£'000
(7,402)	**Employees' contributions**	**(7,659)**
	Employers' contributions:	
(18,995)	Normal contributions	(19,646)
(8,192)	Deficit recovery contributions	(8,564)
(72)	Pension strain contributions	(189)
(27,259)	**Total employers' contributions**	**(28,399)**
(34,661)	**Total contributions receivable**	**(36,058)**

By type of employer

2020-21		2021-22
£'000		£'000
(26,336)	Administering Authority	(27,028)
(7,385)	Scheduled bodies	(7,765)
(796)	Community admission body	(746)
(144)	Transferee admission bodies	(519)
(34,661)		**(36,058)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2020-21		2021-22
£'000		£'000
0	Group transfers	(2,499)
(2,027)	Individual transfers	(567)
(2,027)		**(3,066)**

NOTE 9: BENEFITS PAYABLE

By category

2020-21 £'000		2021-22 £'000
30,791	Pensions	31,640
4,097	Commutation and lump sum retirement benefits	4,672
704	Lump sum death benefits	662
35,592		**36,974**

By type of employer

2020-21 £'000		2021-22 £'000
33,505	Administering Authority	34,367
1,711	Scheduled bodies	2,214
313	Community admission body	250
63	Transferee admission bodies	143
35,592		**36,974**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020-21 £'000		2021-22 £'000
43	Refunds to members leaving service	54
228	Group transfers	2,350
3,637	Individual transfers	3,737
3,908		**6,141**

NOTE 11: MANAGEMENT EXPENSES

2020-21 £'000		2021-22 £'000
713	Administrative costs	888
3,840	Investment management expenses	3,828
602	Oversight and governance costs	615
5,155		**5,331**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2021-22	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	1,773	1,735	38
Pooled Investments - Alternatives	948	937	11
Pooled Investments - Other	1,034	963	71
Derivatives	63	63	0
Custodian	10	10	0

	Total	Management Fees	Other Fees
	3,828	**3,708**	**120**

The Fund does not pay any of its investment managers through performance fee arrangements.

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

NOTE 12: INVESTMENT INCOME

2020-21		**2021-22**
£'000		**£'000**
(2,899)	Pooled Investments - Private equity	(2,975)
(859)	Pooled Investments - Property	(1,712)
(2,987)	Pooled investments - Other	(2,343)
(6,745)		**(7,030)**

NOTE 13: EXTERNAL AUDIT COSTS

2020-21		**2021-22**
£'000		**£'000**
(19)	Payable in respect of external audit	(16)
(19)		**(16)**

NOTE 14: INVESTMENTS

Market value 31 March 2021 £'000		**Market value 31 March 2022 £'000**
	Investment assets (Pooled)	
525,161	Pooled equities investments	541,760
122,361	Pooled bonds investments	135,362
201,053	Pooled alternative investments	197,553
16,099	Pooled infrastructure	45,180
61,561	Pooled property investments	71,330
926,235		**991,185**
	Investment assets (Other)	
150	Equity in London CIV	150
6,989	Private equity	5,371
9,083	Derivative contracts: forward currency	1,191
20,675	Cash with investment managers	17,004
963,132		**1,014,901**
4,399	**Cash deposits**	7,288
967,531	Total investment assets	**1,022,189**

	Investment liabilities	
(947)	Derivative contracts: forward currency	(5,232)
(947)	Total investment liabilities	**(5,232)**
966,584	All investments	**1,016,957**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	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 2022
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	525,161	235,605	(267,409)	48,403	**541,760**
Pooled bonds investments	122,361	101,876	(80,730)	(8,145)	**135,362**
Pooled alternative investments	201,053	101,512	(112,309)	7,297	**197,553**
Pooled property investments	61,561	0	(448)	10,217	**71,330**
Pooled infrastructure	16,099	25,582	0	3,499	**45,180**
Equity in London CIV	150	0	0	0	**150**
Private equity	6,989	0	(273)	(1,345)	**5,371**
Derivative contracts	8,136	3,571	(8,108)	(7,640)	**(4,041)**
	941,510	**468,146**	**(469,277)**	**52,286**	**992,665**
Cash with investment managers	20,675				**17,004**
Cash deposits	4,399				**7,288**
	25,074				**24,292**
Net investment assets	**966,584**				**1,016,957**

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	394,247	68,000	(75,447)	138,361	**525,161**
Pooled bonds investments	111,463	2,937	(70)	8,031	**122,361**
Pooled alternative investments	171,230	0	(4,271)	34,094	**201,053**
Pooled property investments	64,140	0	(258)	(2,321)	**61,561**
Pooled infrastructure	700	16,227		(828)	**16,099**
Equity in London CIV	150	0		0	**150**
Private equity	8,025	0	(303)	(733)	**6,989**
Derivative contracts	(4,760)	6,069	(7,928)	14,755	**8,136**
	745,195	**93,233**	**(88,277)**	**191,359**	**941,510**

Cash with investment managers	28,153	**20,675**
Cash deposits	2,641	**4,399**
	30,794	**25,074**
Net investment assets	**775,989**	**966,584**

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021	Percentage of Fund	Manager	Investment assets	Market value 31 March 2022	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
120,618	12	LCIV	Developed world equities-active	127,495	13
101,226	10	LCIV	Multi asset credit	0	0
0	0	LCIV	Alternative credit fund	103,777	10
67,238	7	LCIV	Sustainable equities	73,314	7
16,099	2	LCIV	Infrastructure funds	45,180	4
0	0	LCIV	Global bond fund	46,816	5
247,574	26	BlackRock	Global equities - passive	269,113	26
552,755	57		Total LCIV	665,695	65
Investments managed outside of the London CIV					
61,561	6	LaSalle	Pooled property	71,330	7
12,726	1	BlackRock	Cash with investment managers	11,027	1
97,538	10	BlackRock	Bonds - fixed interest	46,463	5
24,823	3	BlackRock	Bonds - index-linked active	42,083	4
4,399	1	Cash Deposits	Cash with Banks	7,288	0.5
89,731	9	GMO	Emerging markets equities-active	71,838	7
99,827	10	Insight	Diversified growth fund	93,776	9
7,949	1	JP Morgan	Cash with investment managers	5,977	0.5
150	0	LCIV	UK equities-passive	150	0
6,989	1	Pantheon	Private equity	5,371	1
8,136	1	Record	Forward currency contracts	(4,041)	(0)
413,829	43		Total - Managers	351,262	35
966,584	**100**		**Total Investments**	**1,016,957**	**100**

NOTE 14C: INVESTMENTS MORE THAN 5% of the net assets of the Fund:

Market value 31 March 2021	% of total fund	Investment assets	Market value 31 March 2022	% of total fund
£'000			£'000	
247,574	26	Blackrock Equity Beta Portfolio	269,113	26
97,538	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	46,463	5
89,731	9	GMO Emerging Domestic Opportunities Equity Fund	71,838	7
99,827	10	Insight Broad Opportunities Fund	93,776	9
61,561	6	LaSalle Investors UK Real Estate Fund of Funds	71,330	7
120,618	12	LCIV Global Equity Focus Fund	127,495	13
101,226	10	LCIV Multi Asset Credit	0	0
0	0	LCIV Alternative Credit Fund	103,777	10
67,238	7	LCIV Sustainable Equity Fund	73,314	7
0	0	LCIV Global bond fund	46,816	5
885,313	**90**	**Total over 5% holdings**	**903,922**	**89**

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 2022 £25.9m (7.25%) compared to £24.4m (6.60%) as at 31 March 2021.

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	CHF	7,201	GBP	(5,914)	32	
One to six months	GBP	2,433	AUD	(4,244)	7	
One to six months	GBP	5,842	CAD	(9,569)	22	
Over six months	GBP	25,543	EUR	(29,670)	346	
One to six months	GBP	5,045	HKD	(51,712)	20	
Over six months	GBP	10,912	JPY	(1,662,200)	491	
One to six months	GBP	726	NOK	(8,249)	10	
One to six months	GBP	109	NZD	(205)	0	
One to six months	GBP	2,810	SEK	(34,259)	13	
One to six months	GBP	907	SGD	(1,612)	2	
Over six months	GBP	86,414	USD	(113,445)	241	
Up to one month	JPY	765,400	GBP	(4,785)	7	
Up to one month	AUD	4,244	GBP	(2,429)		(8)
Up to one month	CAD	9,569	GBP	(5,843)		(22)
Up to one month	EUR	14,979	GBP	(12,695)		(32)
One to six months	GBP	2,287	AUD	(4,244)		(135)
One to six months	GBP	5,552	CAD	(9,569)		(268)
One to six months	GBP	11,778	CHF	(14,402)		(140)
One to six months	GBP	241	EUR	(288)		(2)
Over six months	GBP	12,646	EUR	(14,979)		(69)
One to six months	GBP	4,930	HKD	(51,712)		(86)
Over six months	GBP	4,820	JPY	(765,400)		(8)
One to six months	GBP	692	NOK	(8,249)		(25)
One to six months	GBP	103	NZD	(205)		(5)
One to six months	GBP	249	SEK	(3,077)		(2)
One to six months	GBP	883	SGD	(1,612)		(22)
One to six months	GBP	5,416	USD	(7,323)		(147)
Over six months	GBP	162,875	USD	(219,567)		(3,943)
Up to one month	HKD	51,712	GBP	(5,037)		(20)
One to six months	JPY	65,700	GBP	(420)		(9)
Over six months	JPY	65,700	GBP	(421)		(9)
Up to one month	NOK	8,249	GBP	(727)		(10)
Up to one month	NZD	205	GBP	(109)		(0)
Up to one month	SEK	18,668	GBP	(1,529)		(7)
Up to one month	SGD	1,612	GBP	(907)		(2)
Up to one month	USD	113,445	GBP	(86,440)		(261)
Open forward currency contracts at 31 March 2022					**1,191**	**(5,232)**
Net forward currency contracts at 31 March 2022						**(4,041)**
Prior year comparative						
Open forward currency contracts at 31 March 2021					**9,083**	**(947)**

Net forward currency contracts at 31 March 2021	**8,136**

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 Investments - Alternative Credit / Bonds	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	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	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
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2022 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2022	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	6.52%	5,371	5,722	5,021
Pooled investments - Infrastructure	7.03%	45,180	48,357	42,004
Pooled investments - property funds	4.10%	71,330	74,255	68,406
		121,881	128,334	115,431

	Assessed valuation range (+/-)	Valuation at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	7.47%	6,989	7,511	6,467
Pooled investments - Infrastructure	7.11%	16,099	17,243	14,954
Pooled investments - property funds	2.20%	61,561	62,913	60,209
		84,649	87,667	81,630

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 2022	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	541,760			541,760
Pooled bonds investments	88,546	46,816		135,362
Pooled alternative investments	93,776	103,777		197,553
Pooled property investments			71,330	71,330
Pooled infrastructure			45,180	45,180
Private equity			5,371	5,371
Derivative contracts: forward currency		(4,041)		(4,041)
Cash Deposits / Other	24,292	150		24,442
Total	**748,374**	**146,702**	**121,881**	**1,016,957**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	525,161			525,161
Pooled bonds investments	122,361			122,361
Pooled alternative investments	99,827	101,226		201,053
Pooled property investments			61,561	61,561
Pooled infrastructure			16,099	16,099
Private equity			6,989	6,989
Derivative contracts: forward currency		8,136		8,136
Cash Deposits / Other	25,074	150		25,224
Total	**772,423**	**109,512**	**84,649**	**966,584**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

Period 2021/22	Market Value 31 March 2021	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Private Equity	6,989	0	0	0	(273)	(1,345)	5,371
Pooled - Infrastructure	16,099	0	0	25,582	0	3,499	45,180
Pooled - property	61,561	0	0	0	(448)	10,217	71,330
	84,649	0	0	25,582	(721)	12,371	121,881

Period 2020/21	Market Value 31 March 2020	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Private Equity	8,025	0	0	0	(303)	(733)	6,989
Pooled - Infrastructure	700	0	0	16,227	0	(828)	16,099
Pooled - property	64,140	0	0	0	(258)	(2,321)	61,561
	72,865	0	0	16,227	(561)	(3,882)	84,649

NOTE 17: FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2021				31 March 2022		
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			
525,161	0	0	Pooled equities investments	541,760	0	0
122,361	0	0	Pooled bonds investments	135,362	0	0
201,053	0	0	Pooled alternative investments	197,553	0	0
16,099	0	0	Pooled Infrastructure	45,180	0	0
61,561	0	0	Pooled property investments	71,330	0	0
150	0	0	Equity in London CIV	150	0	0
6,989	0	0	Private equity	5,371	0	0
9,083	0	0	Derivative contracts	1,191	0	0
0	26,109	0	Cash	0	25,676	0
0	767	0	Debtors	0	910	0
942,457	**26,876**	**0**		**997,897**	**26,586**	**0**
			Financial liabilities			
(947)	0	0	Derivative contracts	(5,232)	0	0
0	0	(402)	Creditors	0	0	(1,240)
(947)	**0**	**(402)**		**(5,232)**	**0**	**(1,240)**

941,510	**26,876**	**(402)**		**992,665**	**26,586**	**(1,240)**
	967,984		**Grand Total**		**1,018,011**	

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on a regular basis.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equities holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Equities	14.10
Bonds	7.90
Alternatives	7.00

Pooled Property	4.10
Private Equity	6.50

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2022	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	537,719	14.10	613,538	461,901
Pooled bond investments	135,362	7.90	146,056	124,669
Pooled alternative investments	197,553	7.00	211,382	183,724
Pooled property investments	71,330	4.10	74,255	68,406
Private Equity	5,371	6.50	5,721	5,022
Pooled Infrastructure	45,180	7.00	48,343	42,018
Equity - London CIV	150	0.00	150	150
Total	**992,665**		**1,099,445**	**885,890**

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	533,297	14.20	609,025	457,569
Pooled bond investments	122,361	7.70	131,783	112,939
Pooled alternative investments	201,053	7.10	215,328	186,778
Pooled property investments	61,561	2.20	62,915	60,207
Private Equity	6,989	7.50	7,513	6,465
Pooled Infrastructure	16,099	7.10	17,242	14,956
Equity - London CIV	150	0.00	150	150
Total	**941,510**		**1,043,956**	**839,064**

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 2022 and 31 March 2021 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 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	24,292	0	24,292	24,292
Fixed interest securities	46,463	465	46,928	45,998
Global bond fund	46,816	468	47,284	46,348
Total change in assets available	**117,571**	**933**	**118,504**	**116,638**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	25,074	0	25,074	25,074
Fixed interest securities	97,538	975	98,513	96,562
Total change in assets available	**122,612**	**975**	**123,587**	**121,636**

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 7.2%

A 7.2% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

The Fund is now invested in the LCIV Global Bond. The underlying manager hedges currency exposure within its mandate.

Currency Exposure - asset type	Asset Value as at 31 March 2022	Change to net assets	
		Value on increase	Value on decrease
		+7.2%	-7.20%
	£'000	£'000	£'000
Overseas Pooled Equities	516,310	553,484	479,136

Currency Exposure - asset type	Asset Value as at 31 March 2021	Change to net assets	
		Value on increase	Value on decrease
		+7.1%	-7.1%
	£'000	£'000	£'000
Overseas Pooled Equities	496,012	531,229	460,795

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 2022 was £24.3m (31 March 2021: £25.1m). This was held with the following institutions.

Summary	Rating	Balances at 31 March 2021
		£'000
Bank accounts		
Royal Bank of Scotland	A+ (Fitch)	4,399
JP Morgan	Aa1 (Moodys)	7,949
BlackRock	AAAmmf (Fitch)	12,726
		25,074

Summary	Rating	Balances at 31 March 2021	Balances at 31 March 2022
		£'000	**£'000**
Bank accounts			
Royal Bank of Scotland	A+ (Fitch)	4,399	7,288
JP Morgan	Aa1 (Moodys)	7,949	5,977
BlackRock	AAAmmf (Fitch)	12,726	11,027
		25,074	**24,292**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £121.9m. This represented 11.98% of the total Fund assets (31 March 2021: £84.6m).

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 2022. The next valuation takes place as at 31 March 2025.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers).
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2022 actuarial valuation, the Fund was assessed as 96% funded (94% at the March 2019 valuation). This corresponded to a deficit of £39m (2019 valuation: £52m).

Contribution increases for some employers are being phased in over the 3 years' ending 31 March 2026.

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	2022
	%	%	%
Price inflation (CPI)	2.1	2.3	2.7
Salary increases	2.4	3.0	3.7
Pension increases	2.1	2.3	2.7
Funded basis discount rate	3.8	4.3	4.4

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 2021 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.5% p.a.

The average future life expectancy at age 65 based on the Actuary's Fund-specific mortality review is as follows:

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

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2021		31 March 2022
£m		£m
(1,556)	Present value of promised retirement benefits	(1,502)
967	Fair value of scheme assets	1,017
(589)	**Net Liability**	**(485)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2022 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2020-21	2021-22
	% pa	% pa
Inflation/pensions increase rate assumption	2.9	3.2
Salary increase rate	3.6	3.9
Discount rate	2.0	2.7

NOTE 21: CURRENT ASSETS

31 March 2021		31 March 2022
£'000		£'000
	Short Term Debtors:	
561	Contributions due - employers	768
66	Sundry debtors	2
1,035	Cash owed to Fund	1,384
1,662		**2,154**

NOTE 21A: LONG TERM DEBTORS

31 March 2021		31 March 2022
£'000		£'000
140	Lifetime Tax Allowances	140
140		**140**

NOTE 22: CURRENT LIABILITIES

31 March 2021		31 March 2022
£'000		£'000
(119)	Sundry creditors	(191)
0	Transfer values	(752)
(283)	Benefits payable	(297)
(402)		**(1,240)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2021		Market value 31 March 2022
£'000		£'000

2,676	Prudential Assurance	2,681
617	Clerical Medical	577
237	Utmost (Previously Equitable Life)	237
3,530		**3,495**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However, to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled monthly, and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2021		31 March 2022
£'000		£'000
(20,663)	Employer's Pension Contributions to the Fund	(21,187)
908	Administration expenses paid to the Council	1,078
1,035	Cash held by the Council	1,384

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 & Assurance (S151 Officer) and the Pension Fund Manager.

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

31 March 2021		31 March 2022
£'000		£'000
105	Short-term benefits	112
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2022 totalled £77.8m (31 March 2021: £53.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and commitments in the LCIV Infrastructure Fund and LCIV Renewable 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 2021/22

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Laura McInroy FFA

24 June 2022

For and on behalf of Hymans Robertson LLP

Appendices

Glossary of Terms

The glossary's definitions are intended to provide a clear and concise explanation of the technical terms used in this publication.

Accounting Standards: By law Local Authorities are required to follow "proper accounting practices" which are set out both in Acts of Parliament and in professional Codes including the Code of Practice on Local Authority Accounting in the United Kingdom.

Accrual: a sum included in the financial statements to cover income and expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made by the end of the period.

Active Member: A Pension Fund member who is paying contributions into the fund.

Actuarial Valuation: a valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Actuary: an independent professional who advises on the financial position of the Pension Fund.

Agency Services: the provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

Amortised Cost: a method by which a financial asset or liability is measured in the balance sheet after deducting any repayments and after adding or subtracting cumulative amortisation calculated using the effective interest rate method. The amortisation adjusts the carrying value of the instrument from its initial value to its value at maturity over the life of the contract.

Bad Debt Provisions: amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Capital Expenditure: expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads etc.

Capital Grants: money received from government departments and other statutory bodies towards the Council's capital expenditure.

Community Assets: assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal, such as parks and open spaces, and historic buildings.

Contingency: money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Liability: is either; a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or b) present obligation that arises from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core: comprises all activities that a local Council engage in specifically because they are an elected, multipurpose organisation. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. It includes costs relating to the corporate management and democratic representation.

Council Tax: a locally determined taxation charge based on domestic property values set by both the billing and precept authorities at a level determined by the council tax base for the area

Creditors: amounts owed by the Council for goods and services received where payment has not been made at the end of the financial year.

Current Asset: an asset held, which will be consumed or cease to have value within the next financial year. Examples are stocks and debtors.

Current Liability: an amount which will become payable or could be called in within the next financial year. Examples are creditors and cash overdrawn.

Current Service Cost: the increase in the present value of Pension Fund liabilities expected to arise from current year service.

Debtors: amounts owed to the authority for goods and services provided but not received at the end of the financial year.

Dedicated Schools Grant (DSG): a specific grant for the funding of schools and which is ring fenced to the Schools Budget.

Deferred Member: A Pension Fund member who had left employment, or who has ceased to be an active member of the pension scheme whilst remaining in employment, but retains an entitlement to a pension from the Fund.

Depreciated Replacement Cost (DRC): the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Depreciation: the measure used to determine the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves: amounts set aside for a specific purpose or a particular service or type of service.

Fair Value: the price at which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Finance Leases: a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the leasee.

General Fund: the account that covers the net cost of all services other than the provision of Council housing for rent.

Housing Revenue Account (HRA): a statutory account which contains all expenditure and income relating to the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund. Local Council's are not allowed to make up any deficit on the HRA from the General Fund.

Impairment: a reduction in the carrying value of a non-current asset below it's previously assessed carrying value due to obsolescence, damage or adverse change in the statutory environment.

Infrastructure Assets: a classification of non-current assets which have no market value, and which exist primarily to facilitate transportation and communication requirements (e.g. highways and footpaths) and similar environmental works.

Levies: payments to London-wide bodies, e.g. Environment Agency, Lee Valley Regional Park and West London Waste Authority. The cost of these bodies is borne by the local Council in the area concerned, based on their Council tax base, and is met from the General Fund.

Minimum Revenue Provision (MRP): the minimum amount which must be charged to the Council's revenue account and set aside as provision for credit liabilities.

Net Realisable Value: the amount at which an asset could be sold after the deduction of any direct selling costs.

Non-Distributable Cost: these include overheads for which no user benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members past service.

Non-Domestic Rate (NDR): a flat rate in the pound set by Central Government and levied on businesses in the borough. NDR is now shared between the Council (30%), Central Government (33%) and the Greater London Authority (37%).

If the Council's baseline is greater than its funding baseline, it pays tariff payments to the Government. If the Council's NDR baseline is less than its funding baseline it receives top-up payments from the Government.

Operating Lease: a lease under which the asset can never become the property of the lessee.

Precepts: a charge on the Collection Fund by another public body (a precepting authority), determined by legislation.

Pension Fund: the Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer, employees and from investment income.

Post Balance Sheet Events: are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

Prior Year Adjustments: those material adjustments applicable to prior years arising from changes in accounting policies or correction of fundamental errors.

Property, Plant and Equipment: tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Provisions: monies set aside for liabilities and losses which are likely to be incurred but where exact amounts or dates are uncertain.

Private Finance Initiative (PFI): PFI is the procurement of public services and assets by a public body where the private sector is responsible for the design, construction, finance and operation of an asset or service for a specified time after which it is transferred back into the public sector.

Public Works Loan Board (PWLB): a government agency that provides long term and medium term loans to Local Authorities at interest rates only slightly higher than those at which the government itself can borrow.

Related Party: the relationship between a senior officer, elected Member, and their families, with another body that has, or might develop a business relationship with the Council.

Revenue Expenditure: the day-to-day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. These costs would include salaries and wages, premises and the costs of supplies and services.

Revenue Support Grant: the main grant received from central government to support the Council's revenue expenditure.

Taxbase: the number of Band D equivalent properties in a local authority's area. The council tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

Trust Funds: money held in trust by the Council for a specified purpose.

The Code of Practice (The Code): aims to specify the principles and practices of accounting required to prepare a Statement of Accounts which presents fairly the financial position and transactions of the Council.

Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
BCF	Better Care Fund
BRS	Business Rate Supplement
CCG	Clinical Commissioning Group
CFR	Capital Financing Requirement
CIES	Consolidated Income & Expenditure Statement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance and Accountancy
CSB	Corporate Strategic Board
DSG	Dedicated Schools Grant
DRC	Depreciated Replacement Cost
EFA	Expenditure Funding Analysis
EUV	Existing Use Value
EUV-SH	Existing Use Value – Social Housing
GARMS	Governance, Audit, Risk Management and Standards Committee
HRA	Housing Revenue Account
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LIBID	London Interchange Bid Rate
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MiRS	Movement in Reserves Statement
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NPV	Net Present Value
PFI	Private Finance Initiative
PPE	Property, Plant & Equipment
PWLB	Public Works Loan Board
RCCO	Revenue Contribution to Capital Outlay
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
VAT	Value Added Tax
WLWA	West London Waste Authority

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Appendix Two - London Borough of Harrow Pension Fund Annual Report and Financial Statements for the year ended 31 March 2022

CONTENTS

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 2022. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Appointed Actuary on page 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 become available through LCIV and has been active in the transfer of assets under management to LCIV to access new asset classes and to gain efficiencies and fee reductions.

During 2021-22, the Pension Fund Committee continued its review of the Fund's Investment strategy. The realignment of the passive equity holdings managed by Blackrock into a Low Carbon passive equity fund was completed, as was the realignment of the Bond portfolio – which is now divided between passive Index Linked Gilts, Sterling corporate bonds (both managed by Blackrock) and the LCIV Global Bond Fund. A commitment of £50m was made to the LCIV Renewables Infrastructure Fund - of which approximately £13m was drawn down in 2021-22. There were further drawdowns against the earlier commitment to invest £68m of fund assets in the LCIV Infrastructure Fund, a total of £31m being invested at 31 March 2022. Finally, the Committee decided to redeem its Emerging Market Equity Portfolio with GMO, and to invest the proceeds in the LCIV Emerging Market equity Fund. That realignment will be completed in July 2022.

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 2021-22, the Pension Board met four times and considered a range of reports on pension administration performance and pension fund governance arrangements, as well as reviewing four policies before these were adopted by the Committee.

Pension Board and Pension Fund Committee members 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 2021-22.

The net assets of the Fund as at 31 March 2022 were £1,018m compared to £968m as at 31 March 2021. The Fund's overall investment return for the year was 5.7%.

D. Calvert

Dawn Calvert - CPFA
Director of Finance and Assurance
13th July 2022

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Nitin Parekh (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Keith Ferry Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	Vacant - Unison Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance & Assurance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon
Investment Managers	LaSalle Global Partner Solutions BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Pantheon Ventures Record Currency Management Limited London LGPS CIV Ltd
AVC Providers	Clerical Medical Utmost (Previously Equitable Life) Prudential Assurance
Custodian	JP Morgan
Auditor	Mazars
Performance Measurement	Pensions and Investment Research Consultants
Bankers	Natwest PLC

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 four 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:
https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1297&Year=0

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:
https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1336&Year=0

PENSION SCHEME ADMINISTRATION AND PERFORMANCE

Pension Section overview

The Pensions Team acts as the main point of contact for any membership enquiries. The team is responsible for all aspects of Local Government Pension Scheme administration; setting up new members, monitoring and maintenance of pension member records, employer contributions payment of benefits, transfer payments and Additional Voluntary Contributions. The team is also responsible for monitoring and cleansing members' data to ensure it is fit for purpose and meets the requirements imposed on the Fund by the regulators, the Fund Actuary and HMRC. The team produces annual benefits statements, newsletters and maintains the pensions website https://www.harrowpensionfund.org

The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2021-22 all Annual Benefit Statements were issued on time.

Performance Monitoring 2021-22

SERVICE	National Benchmarking Target	Harrow Achievement %
Issue letter notifying of dependent's benefit	5 days	76.47
Calculation and notification of ill health estimate	10 days	100
Calculation and notification of retirement benefits estimate	10 days	95.51
Issue letter to new pension provider detailing transfer-out quote	10 days	98.53
Calculation and notification of deferred benefits	10 days	96.72
Calculation and notification of retirement benefits	5 days	91.67
Process refund and issue payment	5 days	87.50
Calculation and notification of ill health benefits	5 days	90
Issue statutory notification on receipt of transfer funds	10 days	83.33

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law during 2021-22.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. There was one new complaint referred through the internal procedure during the year – this complaint was resolved in June 2022.

The costs of running the Pension Fund are shown below:

Process	2019-20	2020-21	2021-22
Investment management expenses			
Total Cost (£000)	4,050	3,840	3,828
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	219	207	201
Administration costs			
Total Cost (£000)	721	713	888
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	39	38	47
Oversight & governance costs			
Total Cost (£000)	634	602	615
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	34	32	32
Total cost per member (£)	**292**	**277**	**281**

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, which has occurred despite the rise in the value of investments during the year, reflects the benefit of fee reductions negotiated by the London Collective Investment Vehicle, as more of the Fund is now invested in the LCIV or in passive funds at rates negotiated by LCIV.

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs. The significant increase in 2021-22 reflects the new contract for the Pensions Administration system and the initial licensing fee payable.

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 2021-22 reflected the initial work required for the triennial valuation as at 31 March 2022.

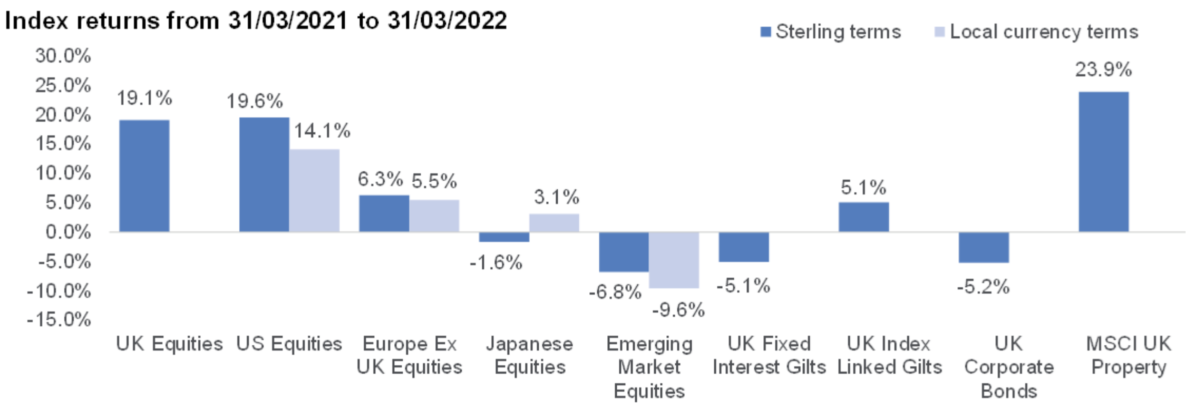
INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon, April 22)

- Global equities generated positive returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.
- The Russian invasion of Ukraine created significant market volatility and economic uncertainty over Q1 2022. G7 sanctions against Russia are likely to slow GDP growth this year and cause further supply chain disruption. While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence. The UK indicated it would phase out Russian oil imports by the end of the year, and the European Union stated that it would reduce dependency on Russian energy by two-thirds this year. Germany also halted approval for the commercial use of Nord Stream 2, their natural gas pipeline sourced from Russia, although Nord Stream 1 remains operational.
- US equities posted the strongest local and sterling returns over the year, helped by their high exposure to large technology companies. After approving a $1.9tn economic relief package, the US Senate passed a $1.2tn bipartisan infrastructure bill. However, President Biden's ambitious $1.75tn "Build Back Better" bill suffered a significant setback after his fellow Democratic Senator, Joe Manchin, opposed the bill due to rising inflation, a surging pandemic, and global uncertainty. In Q1 2022, the US equity market started poorly as inflation concerns led to the expectation of a faster than anticipated tightening of monetary policy, which weighed on the performance of sectors such as Information Technology and Consumer Discretionary. However, Economic data continue to be robust. The US economy added 678,000 jobs in February 2022 (above the previous month's upwardly revised 481,000 jobs) and the unemployment rate fell to 3.8%.
- UK equities were the second-best performing equity market in sterling terms over the last year. The reopening of the global economy bolstered the UK's Energy and Industrials sectors during 2021. However, the UK reported approximately 5 million Covid-19 cases in Q4 2021 due to the newly discovered Omicron variant, dampening equity returns relative to other regions such as the US and Europe over Q4. UK equities rebounded strongly over Q1 due to their tilt towards the Energy and Materials sectors. This performance was driven by fears over the supply of oil and other key commodities impacted by the conflict in Ukraine.
- Emerging markets (EM) were the worst-performing market in local currency and sterling terms over the last twelve months. The rise in interest rates by major central banks resulted in EM returns lagging other markets. State regulatory clampdowns across many of China's corporate sectors, and China's zero-tolerance covid policy causing several Chinese cities to enter strict lockdown dampened economic growth. Russian equities collapsed in price and MSCI and FTSE Russell removed "uninvestable" Russian equities from their widely-tracked emerging markets indices although the weight of Russia is not that large in the equity universe.
- On a global sector level, Energy (43.3%), Health Care (13.7%) and Technology (13.3%) were the best performing sectors in local currency terms. Communication Services (-6.4%) was the worst-performing sector, followed by Consumer Discretionary (-3.9%) and Industrials (4.1%).
- Sterling ended the twelve months 1.1% lower on a trade-weighted basis. In Q4 2021, the Bank of England (BoE) raised its benchmark interest rate by 15bps to 0.25% to combat inflation. In Q1 2022, the BoE increased its benchmark interest by another 50 bps to 0.75%. The expectation of higher interest rates and diminishing Brexit fears had improved sentiment over much of 2021, but the outbreak of war in Ukraine led to significant flows towards the US dollar.
- Brent crude oil prices rose by 69.8% to $108/BBL over the last twelve months. Economic recovery and a cutback in production over the pandemic supported oil prices. In Q3 2021, OPEC+ reached an agreement to increase crude oil production by 400,000 barrels a day from August until the end of 2022, although this pace disappointed expectations. In the fourth quarter, the momentum in oil prices dropped as Omicron, and resurgent Covid fears surfaced. However, crude oil prices rose sharply during the first quarter as geopolitical tensions due to the Russia-Ukraine war further exacerbated supply fears.
- Yields fell in Q2 2021 as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter of 2021, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike

expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding Omicron. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In Q1 2022, yields rose strongly across maturities due to expectations of future rate hikes. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.1%, whilst index-linked gilts rose by 5.1% over the last twelve months. Index-linked gilts significantly outperformed nominal gilts due to increased breakevens driven by expectations of more persistent inflation.

- Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 24bps to 130bps.
- UK commercial property returned 23.9% over the period, supported by an income return of 5.1% and an 18.0% increase in capital values. The easing of lockdown restrictions helped the retail sector as it returned 20.8% over the year. Meanwhile, the office sector returned 6.7% over the year, whilst industrials continued to outperform with a return of 42.3%.



Source: FactSet, MSCI (Equities, Property), iBoxx (Corporate Bonds), FTSE (Gilts)

Investment Policy

The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

The assets of the Fund are invested with the primary objective of being to achieve a return that is sufficient to meet the funding objective, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks, including currency fluctuations.

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

The cumulative cost of pooling for the Pension Fund to 31 March 2022 is £0.614m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2022 to the agreed allocation

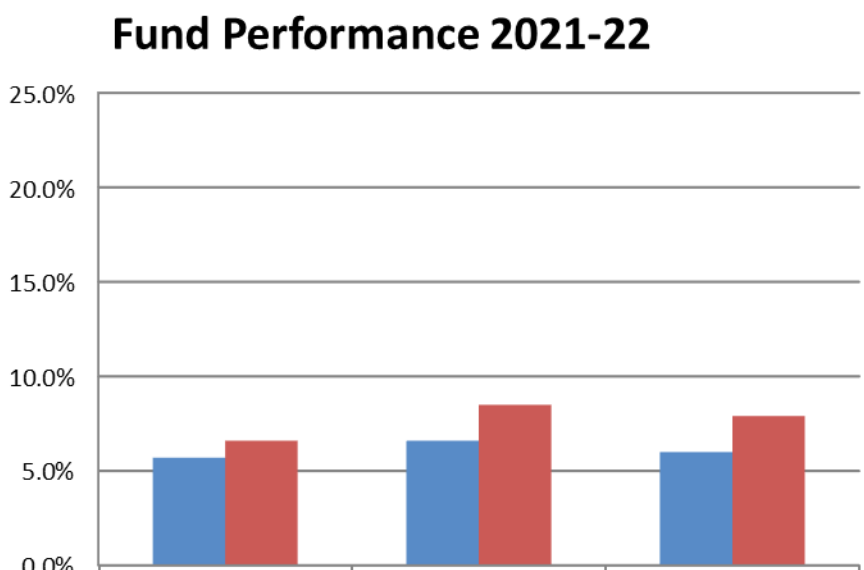
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	26	24
Developed world equities-active	20	18
Emerging markets equities-active	7	8
Fixed interest securities	5	5
Global Bonds	5	5
Index linked securities	4	5
Private equity	1	1
Cash	2	0
Forward currency contracts	(0)	0
Diversified growth funds	9	5.5
Multi Asset Credit	10	10
Pooled property	7	6
Infrastructure	4	12.5
Total	**100**	**100**

The investment style is to appoint fund managers with appropriate performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's managers are appointed to give diversification of investment approach and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and through performance related fees.

Fund performance

The Fund uses Pensions and Investment Research Consultants (PIRC) as its independent investment performance measurement consultant.

Investment returns over 1, 3, and 5 years at 31st March 2022 are shown below.



	1 Year	3 Years to March 2022	5 Years to March 2022
Fund	5.7%	6.6%	6.0%
BM	6.6%	8.5%	7.9%

The Fund's return of 5.7% during 2021-22 reflected the more modest growth in asset prices in the year, following the return of 24.9% in the previous year. The previous year's figure was an outlier reflecting the recovery in asset values from the "low point" of 31 March 2021 which was in turn the result of a significant fall in asset prices experienced during the last two months of 2019-20 as the Covid-19 pandemic impacted across all asset classes. Since March 2020, asset prices have increased to a level above their "pre-pandemic" level, although they have fallen back from their peak in December 2021.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 1.

https://www.harrowpensionfund.org/resources/governance-compliance-statement-march-2021/

Communications Policy Statement

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 2.

https://www.harrowpensionfund.org/resources/communications-policy-statement-march-2021/

Funding Strategy Statement

Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund;
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement as approved by the Pension Fund Committee on 18 December 2019, and was updated to reflect the changes in Regulations which came into force in March 2020. It can be found as Appendix 3.

https://www.harrowpensionfund.org/resources/funding-strategy-statement-march-2020/

Investment Strategy Statement

Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS Funds'.

The current Statement as approved by the Pension Fund Committee on 13 September 2021 can be found as Appendix 4.

https://www.harrowpensionfund.org/resources/investment-strategy-statement-september-2021/

Local Government Pension Scheme Guide

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

https://www.harrowpensionfund.org/resources/brief-guide-to-the-lgps-2021/

RISK MANAGEMENT

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and are operating effectively. The aim of risk management is to limit risks to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

Governance and Regulatory Risk

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Advisers and Investment Consultant and from officers;
- Regular reviews of the Investment Strategy Statement and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

The Fund was in deficit at the 2019 triennial valuation. Strong investment performance since that date suggests that the position has improved, although this may not be the same for all employers. However, as the scheme is open to future accrual, the key objective is to be fully funded in the future. The Actuary reviews the required level of contributions every three years, with the next review being carried out as at 31 March 2022. To protect the Fund and the Administering Authority, 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, increased by 24.9% in 2020-21. Changes of a similar magnitude are possible in future, and this risk cannot be eliminated.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes, economic sectors and geographical areas to include equities, fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers with different styles and one passive manager to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non-Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

Liquidity Risk

Investments in some asset classes e.g. private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Around 12% of Harrow's Funds are in illiquid assets. This is deemed appropriate for the fund even though it has a slightly negative Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently readily accessible without notice.

Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

Actuarial Risk

The value of the liability for future benefits is affected by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Changes to the benefits structure in 2014 had reduced some of these risks, although the recent "McCloud Judgement" is likely to have an adverse impact. These risks are all monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each manager together with annual assessments of the control environment including reviews of internal controls reports certified by reporting auditors.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

INTERNAL CONTROLS

To mitigate the risks regarding investment management, the Council obtains independent internal controls assurance reports from the reporting accountants of the relevant Investment manager.

These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported to the Pension Committee.

The results of the latest reviews are summarised below.

Fund Manager	Type of report	Assurance obtained	Reporting Accountant
Blackrock Inv Man UK Ltd	ISAE 3402	Reasonable assurance	Deloitte LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402/AT-C 320	Reasonable assurance	RSM Risk Assurance Services LLP
LCIV MAC Fund	Internal Controls Report	Reasonable assurance	Deloitte LLP
LCIV Global Equity Focus Fund	Internal Controls Report	Reasonable assurance	EY
LCIV Infrastructure	Internal Controls Report	Reasonable assurance	EY

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email : Pension@harrow.gov.uk Telephone Number: 020 8424 1186 Website: www.harrowpensionfund.org
Complaints and Advice	The Money and Pension Service 120 Holborn London EC1N 2TD Pensions Help line: 01159 659570 Website: www.moneyandpensionsservice.org.uk The Pensions Regulator Telephone Number: 0345 600 1011 Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU Telephone Number: 0800 917 4487 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service Telephone Number: 0800 731 0193 Website: www.gov.uk/find-pension-contact-details

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 and Assurance;

- 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 and Assurance's Responsibilities

The Director of Finance and Assurance 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 & Assurance 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 2022 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance and assurance
13th July 2022

Harrow Pension Fund Account as at 31 March 2022

2020-21		Notes	2021-22
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
(34,661)	Contributions	7	(36,058)
(2,027)	Transfers in from other pension funds	8	(3,066)
(89)	Other income		(33)
(36,777)			**(39,157)**
35,592	Benefits	9	36,974
3,908	Payments to and on account of leavers	10	6,141
0	Other Expenditure		0
39,500			**43,115**
2,723	**Net (additions)/withdrawals from dealings with members**		**3,958**
5,155	Management expenses	11	5,331
7,878	**Net (additions)/withdrawals including fund management expenses**		**9,289**
	Return on investments		
(6,745)	Investment income	12	(7,030)
(191,359)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(52,286)
(198,104)	**Net return on investments**		**(59,316)**
(190,226)	**Net (increase)/decrease in the net assets available for benefits during the year**		(50,027)
(777,758)	**Opening net assets of the scheme**		(967,984)
(967,984)	**Closing net assets of the scheme**		**(1,018,011)**

Net Assets Statement as at 31 March 2022

31 March 2021 £'000		Notes	31 March 2022 £'000
	Investment assets		
933,374	Investments	14	996,706
9,083	Derivative contracts	14	1,191
20,675	Cash with investment managers	14	17,004
963,132			**1,014,901**
4,399	Cash deposits	14	7,288
967,531			**1,022,189**
	Investment liabilities		
(947)	Derivative contracts	14	(5,232)
966,584			**1,016,957**
1,662	Current assets	21	2,154
140	Long Term Debtors	21A	140
968,386			**1,019,251**
(402)	Current liabilities	22	(1,240)
967,984	**Net assets of fund available to fund benefits at the period end**		**1,018,011**

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 & Assurance
13th July 2022

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2022

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

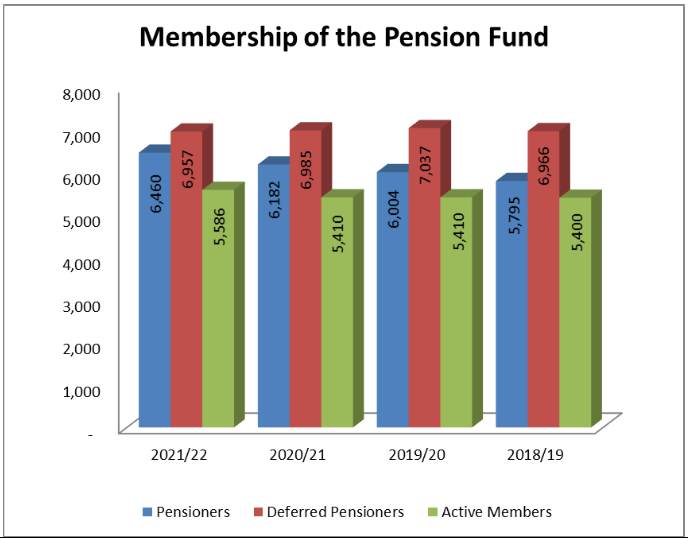
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

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



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	6011	5741	3574	15,326	80.64
Nower Hill	Scheduled Body	38	143	168	349	1.83
Stanmore College	Scheduled Body	99	153	92	344	1.80
Heathland and Whitefriars	Scheduled Body	19	86	190	295	1.54
Hatch End High	Scheduled Body	36	131	77	244	1.28
Rooks Heath	Scheduled Body	27	98	115	240	1.26
Park High	Scheduled Body	15	84	116	215	1.13
Canons High	Scheduled Body	17	80	112	209	1.10
Bentley Wood	Scheduled Body	12	90	68	170	0.89
Harrow High	Scheduled Body	17	59	80	156	0.82
St Dominics 6th form college	Scheduled Body	45	33	54	132	0.69
Aylward Primary School	Scheduled Body	9	32	76	117	0.62
Pinner High School	Scheduled Body	3	8	104	115	0.61
Priestmead School	Scheduled Body	4	6	93	103	0.54
Salvatorian Academy	Scheduled Body	21	51	17	89	0.47
St Georges Primary	Scheduled Body	5	5	78	88	0.46
St John Fisher	Scheduled Body	3	8	60	71	0.37
St Josephs Primary	Scheduled Body	4	4	62	70	0.37
Welldon Park School	Scheduled Body	3	5	56	64	0.34
Earlsmead Academy	Scheduled Body	7	11	37	55	0.29
Alexandra Academy	Scheduled Body	5	16	30	51	0.27
Sacred Heart High School	Scheduled Body	2	6	35	43	0.23
Avanti House Secondary Scho	Scheduled Body	0	4	38	42	0.22
St Bernadettes	Scheduled Body	7	5	30	42	0.22
St Jerome	Scheduled Body	1	2	38	41	0.22
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Avanti House Primary School	Scheduled Body	1	11	18	30	0.16
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	7	7	0.04
NLCS	Community Admission Body	43	46	47	136	0.72
Evergreen	Admitted Body	0	0	19	19	0.10
ISS Catering	Admitted Body	3	1	11	15	0.08
SOS Ltd	Admitted Body	0	0	7	7	0.04
Brayborne Facilities Services	Admitted Body	0	0	6	6	0.03
SOS Longfield	Admitted Body	0	0	5	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Evergreen Harrow High	Admitted Body	1	0	4	5	0.03
PSC Ltd	Admitted Body	0	0	4	4	0.02
PSC Roxeth	Admitted Body	0	0	4	4	0.02
PSC Vaughan	Admitted Body	0	0	3	3	0.02
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Aylward	Admitted Body	1	0	2	3	0.02
Evergreen LBH	Admitted Body	0	1	2	3	0.02
		6,460	6,957	5,586	19,003	100

c) Funding

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

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

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

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

d) Benefits

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

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

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

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

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021-22 financial year and its position as at 31 March 2022. 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 2021-22' 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 2021-22.

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). Derivatives are used by the Fund to reduce its exposure to the risk of fluctuations in currency values in its global equity portfolio. They are valued on the basis of the change in the relative values of sterling and the currency being hedged between the point at which the derivatives were purchased and the balance sheet date.

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 with the exception of current liabilities. 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. Current Liabilities are shown at amortised cost - given the short-term nature of these liabilities there are unlikely to be any gains or losses arising from these before settlement.

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 Utmost (Previously Equitable Life) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

g) Contingent Liabilities

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

h) Contingent Assets

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

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

i) Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2021-22 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented on 1st April 2024;
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
- Property, Plant and Equipment – Proceeds before intended use (Amendments to IAS16)

These changes in accounting standards are in our view unlikely to have a material impact on the Pension Fund accounts and might be subject to change

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future employer contribution 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 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £23.4m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £1.6m • a 0.1% increase in Pension benefits would increase the liability by approximately £21.6m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £5.4m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Fair value – basis of valuation (Note 16)	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets. This fall in asset prices/values was more than offset by the subsequent recovery during 2020 and 2021. However, there has been a fall back in 2022 to date, due in part to geopolitical events (the Russian invasion of Ukraine and its impact on commodity prices) and their knock-on effect on inflation. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. At the current time, it is still not possible to predict accurately the long term impact of Covid-19 on property investments in some locations and sectors of the economy.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
Pooled Property Fund	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. For 2020/21, following the impact of Covid-19 on global markets, our fund managers advised that valuations were reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight could be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – was attached to valuations of pooled property fund assets than would normally be the case. They have not applied the same caveat to the valuations reported as at 31 March 2022.	The total property pooled investments in the financial accounts are £71.33m. There is a risk that these investments may be understated 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 2021-22 for which the accounts have been adjusted.

The valuation of the Pension Fund's investment assets will fluctuate from time to time as a result of economic factors and market movements. Since March 2022, global investment markets have been volatile for a number of reasons. As a result, the value of the Fund's investment assets had fallen from £1018.011million at 31 March 2022 to £950.884million at 30 November 2022 (a fall of 6.6%). However, the Fund's actuary advises that the impact of the increase in Gilt yields in the same period is likely to have reduced the Fund's liabilities significantly. Furthermore, the Fund is an "open" pension scheme, which means it has a long time horizon before many of its liabilities will fall due for payment. Therefore, the change in asset valuations is treated as a non-adjusting post balance sheet event.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2020-21		2021-22
£'000		£'000
(7,402)	**Employees' contributions**	**(7,659)**
	Employers' contributions:	
(18,995)	Normal contributions	(19,646)
(8,192)	Deficit recovery contributions	(8,564)
(72)	Pension strain contributions	(189)
(27,259)	**Total employers' contributions**	**(28,399)**
(34,661)	**Total contributions receivable**	**(36,058)**

By type of employer

2020-21		2021-22
£'000		£'000
(26,336)	Administering Authority	(27,028)
(7,385)	Scheduled bodies	(7,765)
(796)	Community admission body	(746)
(144)	Transferee admission bodies	(519)
(34,661)		**(36,058)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2020-21		2021-22
£'000		£'000
0	Group transfers	(2,499)
(2,027)	Individual transfers	(567)
(2,027)		**(3,066)**

NOTE 9: BENEFITS PAYABLE

By category

2020-21		2021-22
£'000		**£'000**
30,791	Pensions	31,640
4,097	Commutation and lump sum retirement benefits	4,672
704	Lump sum death benefits	662
35,592		**36,974**

By type of employer

2020-21		2021-22
£'000		**£'000**
33,505	Administering Authority	34,367
1,711	Scheduled bodies	2,214
313	Community admission body	250
63	Transferee admission bodies	143
35,592		**36,974**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020-21		2021-22
£'000		**£'000**
43	Refunds to members leaving service	54
228	Group transfers	2,350
3,637	Individual transfers	3,737
3,908		**6,141**

NOTE 11: MANAGEMENT EXPENSES

2020-21		2021-22
£'000		**£'000**
713	Administrative costs	888
3,840	Investment management expenses	3,828
602	Oversight and governance costs	615
5,155		**5,331**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2021-22	Total	Management Fees	Other Fees
		£'000	**£'000**
Pooled Investments - Equities	1,773	1,735	38
Pooled Investments - Alternatives	948	937	11
Pooled Investments - Other	1,034	963	71
Derivatives	63	63	0
Custodian	10	10	0
	3,828	**3,708**	**120**

The Fund does not pay any of its investment managers through performance fee arrangements.

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

NOTE 12: INVESTMENT INCOME

2020-21		2021-22
£'000		£'000
(2,899)	Pooled Investments - Private equity	(2,975)
(859)	Pooled Investments - Property	(1,712)
(2,987)	Pooled investments - Other	(2,343)
(6,745)		**(7,030)**

NOTE 13: EXTERNAL AUDIT COSTS

2020-21		2021-22
£'000		£'000
(19)	Payable in respect of external audit	(16)
(19)		**(16)**

NOTE 14: INVESTMENTS

Market value 31 March 2021 £'000		Market value 31 March 2022 £'000
	Investment assets (Pooled)	
525,161	Pooled equities investments	541,760
122,361	Pooled bonds investments	135,362
201,053	Pooled alternative investments	197,553
16,099	Pooled infrastructure	45,180
61,561	Pooled property investments	71,330
926,235		**991,185**
	Investment assets (Other)	
150	Equity in London CIV	150
6,989	Private equity	5,371
9,083	Derivative contracts: forward currency	1,191
20,675	Cash with investment managers	17,004
963,132		**1,014,901**
4,399	**Cash deposits**	7,288
967,531	Total investment assets	**1,022,189**
	Investment liabilities	
(947)	Derivative contracts: forward currency	(5,232)
(947)	Total investment liabilities	**(5,232)**
966,584	All investments	**1,016,957**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	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 2022
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	525,161	235,605	(267,409)	48,403	**541,760**
Pooled bonds investments	122,361	101,876	(80,730)	(8,145)	**135,362**
Pooled alternative investments	201,053	101,512	(112,309)	7,297	**197,553**
Pooled property investments	61,561	0	(448)	10,217	**71,330**
Pooled infrastructure	16,099	25,582	0	3,499	**45,180**
Equity in London CIV	150	0	0	0	**150**
Private equity	6,989	0	(273)	(1,345)	**5,371**
Derivative contracts	8,136	3,571	(8,108)	(7,640)	**(4,041)**
	941,510	**468,146**	**(469,277)**	**52,286**	**992,665**
Cash with investment managers	20,675				**17,004**
Cash deposits	4,399				**7,288**
	25,074				**24,292**
Net investment assets	**966,584**				**1,016,957**

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	394,247	68,000	(75,447)	138,361	**525,161**
Pooled bonds investments	111,463	2,937	(70)	8,031	**122,361**
Pooled alternative investments	171,230	0	(4,271)	34,094	**201,053**
Pooled property investments	64,140	0	(258)	(2,321)	**61,561**
Pooled infrastructure	700	16,227		(828)	**16,099**
Equity in London CIV	150	0		0	**150**
Private equity	8,025	0	(303)	(733)	**6,989**
Derivative contracts	(4,760)	6,069	(7,928)	14,755	**8,136**
	745,195	**93,233**	**(88,277)**	**191,359**	**941,510**
Cash with investment managers	28,153				**20,675**
Cash deposits	2,641				**4,399**
	30,794				**25,074**
Net investment assets	**775,989**				**966,584**

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021	Percentage of Fund	Manager	Investment assets	Market value 31 March 2022	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
120,618	12	LCIV	Developed world equities-active	127,495	13
101,226	10	LCIV	Multi asset credit	0	0
0	0	LCIV	Alternative credit fund	103,777	10
67,238	7	LCIV	Sustainable equities	73,314	7
16,099	2	LCIV	Infrastructure funds	45,180	4
0	0	LCIV	Global bond fund	46,816	5
247,574	26	BlackRock	Global equities - passive	269,113	26
552,755	57		Total LCIV	665,695	65
Investments managed outside of the London CIV					
61,561	6	LaSalle	Pooled property	71,330	7
12,726	1	BlackRock	Cash with investment managers	11,027	1
97,538	10	BlackRock	Bonds - fixed interest	46,463	5
24,823	3	BlackRock	Bonds - index-linked active	42,083	4
4,399	1	Cash Deposits	Cash with Banks	7,288	0.5
89,731	9	GMO	Emerging markets equities-active	71,838	7
99,827	10	Insight	Diversified growth fund	93,776	9
7,949	1	JP Morgan	Cash with investment managers	5,977	0.5
150	0	LCIV	UK equities-passive	150	0
6,989	1	Pantheon	Private equity	5,371	1
8,136	1	Record	Forward currency contracts	(4,041)	(0)
413,829	43		Total - Managers	351,262	35
966,584	**100**		**Total Investments**	**1,016,957**	**100**

NOTE 14C: INVESTMENTS MORE THAN 5% of the net assets of the Fund:

Market value 31 March 2021	% of total fund	Investment assets	Market value 31 March 2022	% of total fund
£'000			£'000	
247,574	26	Blackrock Equity Beta Portfolio	269,113	26
97,538	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	46,463	5
89,731	9	GMO Emerging Domestic Opportunities Equity Fund	71,838	7
99,827	10	Insight Broad Opportunities Fund	93,776	9
61,561	6	LaSalle Investors UK Real Estate Fund of Funds	71,330	7
120,618	12	LCIV Global Equity Focus Fund	127,495	13
101,226	10	LCIV Multi Asset Credit	0	0
0	0	LCIV Alternative Credit Fund	103,777	10
67,238	7	LCIV Sustainable Equity Fund	73,314	7
0	0	LCIV Global bond fund	46,816	5
885,313	**90**	**Total over 5% holdings**	**903,922**	**89**

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 2022 £25.9m (7.25%) compared to £24.4m (6.60%) as at 31 March 2021.

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	CHF	7,201	GBP	(5,914)	32	
One to six months	GBP	2,433	AUD	(4,244)	7	
One to six months	GBP	5,842	CAD	(9,569)	22	
Over six months	GBP	25,543	EUR	(29,670)	346	
One to six months	GBP	5,045	HKD	(51,712)	20	
Over six months	GBP	10,912	JPY	(1,662,200)	491	
One to six months	GBP	726	NOK	(8,249)	10	
One to six months	GBP	109	NZD	(205)	0	
One to six months	GBP	2,810	SEK	(34,259)	13	
One to six months	GBP	907	SGD	(1,612)	2	
Over six months	GBP	86,414	USD	(113,445)	241	
Up to one month	JPY	765,400	GBP	(4,785)	7	
Up to one month	AUD	4,244	GBP	(2,429)		(8)
Up to one month	CAD	9,569	GBP	(5,843)		(22)
Up to one month	EUR	14,979	GBP	(12,695)		(32)
One to six months	GBP	2,287	AUD	(4,244)		(135)
One to six months	GBP	5,552	CAD	(9,569)		(268)
One to six months	GBP	11,778	CHF	(14,402)		(140)
One to six months	GBP	241	EUR	(288)		(2)
Over six months	GBP	12,646	EUR	(14,979)		(69)
One to six months	GBP	4,930	HKD	(51,712)		(86)
Over six months	GBP	4,820	JPY	(765,400)		(8)
One to six months	GBP	692	NOK	(8,249)		(25)
One to six months	GBP	103	NZD	(205)		(5)
One to six months	GBP	249	SEK	(3,077)		(2)
One to six months	GBP	883	SGD	(1,612)		(22)
One to six months	GBP	5,416	USD	(7,323)		(147)
Over six months	GBP	162,875	USD	(219,567)		(3,943)
Up to one month	HKD	51,712	GBP	(5,037)		(20)
One to six months	JPY	65,700	GBP	(420)		(9)
Over six months	JPY	65,700	GBP	(421)		(9)
Up to one month	NOK	8,249	GBP	(727)		(10)
Up to one month	NZD	205	GBP	(109)		(0)
Up to one month	SEK	18,668	GBP	(1,529)		(7)
Up to one month	SGD	1,612	GBP	(907)		(2)
Up to one month	USD	113,445	GBP	(86,440)		(261)

Open forward currency contracts at 31 March 2022	**1,191**	**(5,232)**
Net forward currency contracts at 31 March 2022		**(4,041)**
Prior year comparative		
Open forward currency contracts at 31 March 2021	**9,083**	**(947)**
Net forward currency contracts at 31 March 2021		**8,136**

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 Investments - Alternative Credit / Bonds	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	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	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
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2022 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2022	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	6.52%	5,371	5,722	5,021
Pooled investments - Infrastructure	7.03%	45,180	48,357	42,004
Pooled investments - property funds	4.10%	71,330	74,255	68,406
		121,881	128,334	115,431

	Assessed valuation range (+/-)	Valuation at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	7.47%	6,989	7,511	6,467
Pooled investments - Infrastructure	7.11%	16,099	17,243	14,954
Pooled investments - property funds	2.20%	61,561	62,913	60,209
		84,649	87,667	81,630

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.

Values at 31 March 2022	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Pooled equities investments	541,760			541,760
Pooled bonds investments	88,546	46,816		135,362
Pooled alternative investments	93,776	103,777		197,553
Pooled property investments			71,330	71,330
Pooled infrastructure			45,180	45,180
Private equity			5,371	5,371
Derivative contracts: forward currency		(4,041)		(4,041)
Cash Deposits / Other	24,292	150		24,442
Total	**748,374**	**146,702**	**121,881**	**1,016,957**

Values at 31 March 2021	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Pooled equities investments	525,161			525,161
Pooled bonds investments	122,361			122,361
Pooled alternative investments	99,827	101,226		201,053
Pooled property investments			61,561	61,561
Pooled infrastructure			16,099	16,099
Private equity			6,989	6,989
Derivative contracts: forward currency		8,136		8,136
Cash Deposits / Other	25,074	150		25,224
Total	**772,423**	**109,512**	**84,649**	**966,584**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

Period 2021/22	Market Value 31 March 2021	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Private Equity	6,989	0	0	0	(273)	(1,345)	5,371
Pooled - Infrastructure	16,099	0	0	25,582	0	3,499	45,180
Pooled - property	61,561	0	0	0	(448)	10,217	71,330
	84,649	0	0	25,582	(721)	12,371	121,881

Period 2020/21	Market Value 31 March 2020	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Private Equity	8,025	0	0	0	(303)	(733)	6,989
Pooled - Infrastructure	700	0	0	16,227	0	(828)	16,099
Pooled - property	64,140	0	0	0	(258)	(2,321)	61,561
	72,865	0	0	16,227	(561)	(3,882)	84,649

NOTE 17: FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2021				31 March 2022		
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			
525,161	0	0	Pooled equities investments	541,760	0	0
122,361	0	0	Pooled bonds investments	135,362	0	0
201,053	0	0	Pooled alternative investments	197,553	0	0
16,099	0	0	Pooled Infrastructure	45,180	0	0
61,561	0	0	Pooled property investments	71,330	0	0
150	0	0	Equity in London CIV	150	0	0
6,989	0	0	Private equity	5,371	0	0
9,083	0	0	Derivative contracts	1,191	0	0
0	26,109	0	Cash	0	25,676	0
0	767	0	Debtors	0	910	0
942,457	**26,876**	**0**		**997,897**	**26,586**	**0**
			Financial liabilities			
(947)	0	0	Derivative contracts	(5,232)	0	0
0	0	(402)	Creditors	0	0	(1,240)
(947)	**0**	**(402)**		**(5,232)**	**0**	**(1,240)**
941,510	**26,876**	**(402)**		**992,665**	**26,586**	**(1,240)**
	967,984		**Grand Total**		**1,018,011**	

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on a regular basis.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equities holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Equities	14.10
Bonds	7.90
Alternatives	7.00
Pooled Property	4.10
Private Equity	6.50

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2022	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	537,719	14.10	613,538	461,901
Pooled bond investments	135,362	7.90	146,056	124,669
Pooled alternative investments	197,553	7.00	211,382	183,724
Pooled property investments	71,330	4.10	74,255	68,406
Private Equity	5,371	6.50	5,721	5,022
Pooled Infrastructure	45,180	7.00	48,343	42,018
Equity - London CIV	150	0.00	150	150
Total	**992,665**		**1,099,445**	**885,890**

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	533,297	14.20	609,025	457,569
Pooled bond investments	122,361	7.70	131,783	112,939
Pooled alternative investments	201,053	7.10	215,328	186,778
Pooled property investments	61,561	2.20	62,915	60,207
Private Equity	6,989	7.50	7,513	6,465
Pooled Infrastructure	16,099	7.10	17,242	14,956
Equity - London CIV	150	0.00	150	150
Total	**941,510**		**1,043,956**	**839,064**

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 2022 and 31 March 2021 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 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	24,292	0	24,292	24,292
Fixed interest securities	46,463	465	46,928	45,998
Global bond fund	46,816	468	47,284	46,348
Total change in assets available	**117,571**	**933**	**118,504**	**116,638**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	25,074	0	25,074	25,074
Fixed interest securities	97,538	975	98,513	96,562
Total change in assets available	**122,612**	**975**	**123,587**	**121,636**

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 7.2%

A 7.2% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

The Fund is now invested in the LCIV Global Bond. The underlying manager hedges currency exposure within its mandate.

Currency Exposure - asset type	Asset Value as at 31 March 2022	Change to net assets	
		Value on increase	Value on decrease
		+7.2%	-7.20%
	£'000	£'000	£'000
Overseas Pooled Equities	516,310	553,484	479,136

Currency Exposure - asset type	Asset Value as at 31 March 2021	Change to net assets	
		Value on increase	Value on decrease
		+7.1%	-7.1%
	£'000	£'000	£'000
Overseas Pooled Equities	496,012	531,229	460,795

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 2022 was £24.3m (31 March 2021: £25.1m). This was held with the following institutions.

Summary	Rating	Balances at 31 March 2021	Balances at 31 March 2022
		£'000	£'000
Bank accounts			
Royal Bank of Scotland	A+ (Fitch)	4,399	7,288
JP Morgan	Aa1 (Moodys)	7,949	5,977
BlackRock	AAAmmf (Fitch)	12,726	11,027
		25,074	**24,292**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £121.9m. This represented 11.98% of the total Fund assets (31 March 2021: £84.6m).

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 2022. The next valuation takes place as at 31 March 2025.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers).
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2022 actuarial valuation, the Fund was assessed as 96% funded (94% at the March 2019 valuation). This corresponded to a deficit of £39m (2019 valuation: £52m).

Contribution increases for some employers are being phased in over the 3 years' ending 31 March 2026.

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	2022
	%	%	%
Price inflation (CPI)	2.1	2.3	2.7
Salary increases	2.4	3.0	3.7
Pension increases	2.1	2.3	2.7
Funded basis discount rate	3.8	4.3	4.4

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2021 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.5% p.a.

The average future life expectancy at age 65 based on the Actuary's Fund-specific mortality review is as follows:

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

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2021		31 March 2022
£m		**£m**
(1,556)	Present value of promised retirement benefits	(1,502)
967	Fair value of scheme assets	1,017
(589)	**Net Liability**	**(485)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2022 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2020-21	2021-22
	% pa	**% pa**
Inflation/pensions increase rate assumption	2.9	3.2
Salary increase rate	3.6	3.9
Discount rate	2.0	2.7

NOTE 21: CURRENT ASSETS

31 March 2021		31 March 2022
£'000		**£'000**
	Short Term Debtors:	
561	Contributions due - employers	768
66	Sundry debtors	2
1,035	Cash owed to Fund	1,384
1,662		**2,154**

NOTE 21A: LONG TERM DEBTORS

31 March 2021		31 March 2022
£'000		**£'000**
140	Lifetime Tax Allowances	140
140		**140**

NOTE 22: CURRENT LIABILITIES

31 March 2021		31 March 2022
£'000		**£'000**
(119)	Sundry creditors	(191)
0	Transfer values	(752)
(283)	Benefits payable	(297)
(402)		**(1,240)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2021		Market value 31 March 2022
£'000		**£'000**
2,676	Prudential Assurance	2,681
617	Clerical Medical	577
237	Utmost (Previously Equitable Life)	237
3,530		**3,495**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However, to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled monthly, and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2021		31 March 2022
£'000		£'000
(20,663)	Employer's Pension Contributions to the Fund	(21,187)
908	Administration expenses paid to the Council	1,078
1,035	Cash held by the Council	1,384

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 & Assurance (S151 Officer) and the Pension Fund Manager.

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

31 March 2021		31 March 2022
£'000		£'000
105	Short-term benefits	112
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2022 totalled £77.8m (31 March 2021: £53.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and commitments in the LCIV Infrastructure Fund and LCIV Renewable 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 2021/22

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Laura McInroy FFA

24 June 2022

For and on behalf of Hymans Robertson LLP

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Date: 10th November 2023

Dear Governance, Audit, Standards and Risk Management Committee Members,

London Borough of Harrow Council audit of financial statements 2021-22 Conclusion of pending matters

Following on from our attendance at the May 2023 Committee meeting and as required by International Standards on Auditing (UK and Ireland), we are writing to confirm matters arising that were marked as outstanding within our Audit Completion Report.

The outstanding matters and the conclusions reached are:

Matter	Update / Conclusion reached
Property, plant and equipment valuation	We reported in our audit completion report that our work on the valuation of property, plant and equipment was ongoing. We have since completed our procedures. This has resulted in the Council making material adjustments to its financial statements. These amendments are detailed in appendix A 'Adjusted misstatements'. The specific errors relevant to this work are numbered 10, 11, 12, 13, 14. In addition, we have issued two further control recommendations. These are included within appendix C 'Additional control recommendations'.
Infrastructure assets	We reported in our audit completion report that the Council had considered the guidance issued by CIPFA and would be applying the statutory override in relation to infrastructure asset accounting. This has resulted in material disclosure amendments to the notes supporting the Council's financial statements. We have completed our procedures with respect to this amendment and have obtained the planned assurances.
Income, expenditure, cash and creditors	We reported in our audit completion report that we were completing several follow-up procedures in relation to the four account areas listed. We have completed our procedures for these areas and obtained the required assurances. This work has resulted in the Council making amendments to the accounts. We detail

	these in appendix A 'Adjusted misstatements'. The specific errors relevant to this work are numbered 1, 2, 3, 4. We also identified misstatements that the Council has elected not to adjust on the basis that they are neither individually or collectively material. The misstatements are detailed in appendix B 'Unadjusted misstatements'. The specific errors relevant to this work are numbered 6, 7, 8, 9, 10.
IAS19 – defined benefit liability valuation	We reported in our audit completion report that our work regarding the valuation of the IAS19 net pension liability was incomplete in light of the need for the Council to obtained a revised IAS19 report and the subsequent additional audit work required to be completed by the auditor of the pension fund. We have since completed our audit procedures and received the required assurances from the pension fund auditor to conclude our work. This work identified the requirement for material amendments to the financial statements. These are detailed in appendix A 'Adjusted misstatements'. The specific error relevant to this work is numbered 15.
Final review procedures	We reported in our audit completion report that our final review procedures were underway but pending completion of other outstanding matters had not yet been completed. Except for the final review procedures required to draw our work on the Council's arrangements for securing value for money and the Whole of Government accounts, we have been able to conclude our procedures. These have identified a number of disclosure misstatements, none of which are deemed material to the accounts, that the Council have amended.
Events after the reporting date	We reported in our audit completion report that we would continue to review the 'events after the reporting date' disclosures up to the point at which the audit opinion is signed. Due to the prolonged nature of the audit, the Council have been required to amend their 'events after the reporting date' disclosure's. We have performed sufficient appropriate audit procedures to gain assurance that the disclosures are appropriate and free from material misstatement. This included obtained assurances from the Council that there was no risk of material impairment arising from the potential existence of reinforced autoclaved aerated concrete (RAAC) within the Council's properties.
File closure procedures	We reported in our audit completion report that we would be required to complete file closedown procedures. We have received the required management letter of representation and have since been able to close our file with respect to our audit opinion on the financial statements. *N.B: We are yet to conclude on our work with respect to the Council's arrangements to secure value for money.*

Whole of Government Accounts (WGA)	We reported in our audit completion report that we are awaiting the list of sampled components from the National Audit Office. This guidance is still yet to be issued for 2021-22. As such, we are unable to conclude our work with respect to the Whole of Government Accounts.

We are yet to conclude our work on the Council's value for money arrangements and will report to the Committee if further significant weaknesses in arrangements are identified. We will be issuing an interim Auditor's Annual Report for the periods ending 31st March 2021 and 31st March 2022 in due course.

Due to the NAO's delay in confirming its WGA requirements and the status of our work on the Councils value for money arrangements being 'incomplete' we do not expect to issue the certificate until these matters are concluded.

As a result of the additional procedures required in response to the difficulties encountered during the audit, we have provided a schedule of our revised fees for 2021/22 in Appendix D. We will be seeking agreement with the Interim Director of Finance and Assurance prior to submitting to PSAA for their approval.

If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,

Suresh Patel
For and on behalf of Mazars LLP

Appendix A: Adjusted misstatements

	Details of adjustment	Assets	Liabilities	Reserves	Income statement
A) Misstatements found in 2021-22 (current year) and corrected in the 2021-22 (current year) accounts by management during the audit:					
1	DR Expenditure (community)				8,794,000
	CR Income (community)				-8,794,000
	Description of adjustment A selection of nominal ledger codes had been misclassified within the CIES and resulted in the netting off depreciation charges against income instead of being charged to expenditure.				
2	DR Income (resources)				5,959,000
	CR Expenditure (resources)				-5,959,000
	Description of adjustment A singular cost centre was incorrectly mapped as an agency arrangement and incorrectly grossed out of the CIES.				
3	DR Expenditure (Adult services)				489,000
	DR Expenditure (Children and families)				620,000
	DR Expenditure (Community)				2,363,000
	DR Expenditure (Resources)				787,000
	CR Income (Adult services)				-489,000
	CR Income (Children and families)				-620,000
	CR Income (Community)				-2,363,000
	CR Income (Resources)				-787,000
	Description of adjustment Incorrect subjective analysis resulted in the misallocation of several codes in the CIES, resulting in the netting off income and expenditure.				
4	DR Expenditure (CIES - HRA)				983,000
	CR Income (CIES - HRA)				-983,000
	Description of adjustment The HRA income and expenditure figures are based on data in Northgate. To align to these figures, the CIES and subjective analysis are manually adjusted to align to these figures, with the difference being driven by time lags between Northgate and the general ledger.				
5	DR PPE additions	7,626,000			
	CR PPE re-classifications	-7,626,000			
	Description of adjustment Disclosure amendment - Inventory balances to be re-classified were netted off against additions				
6	DR Pension reserve			2,278,000	
	CR Long term liabilities		-2,278,000		
	Description of adjustment Amendment to IAS19 disclosures as a result of initial schedule being based on 31/12/21 asset valuations plus roll forward.				
7	DR PPE	3,951,000			
	CR Intangibles	-3,951,000			
	Description of adjustment				

	miss classification of tangible assets within intangibles				
8	DR Expenditure (Resources)				593,000
	CR Income (Resources)				-593,000
	Description of adjustment				
	Incorrect classification of a cost centre as agency that should have been included within the financial statements of the council				
9	DR Held for sale	3,989,000			
	DR Assets under construction (PPE)	7,661,000			
	CR Inventories	-11,650,000			
	Description of adjustment				
	Re-classification of inventories to be split between assets under construction and assets held for sale.				
10	DR Expenditure (CIES - HRA)				28,980,370
	DR Reserves (CAA / revaluation)			28,980,370	
	CR Property, plant and equipment (HRA)	-28,980,370			
	CR CIES (adjustments to resources)				-28,980,370
	Description of adjustment				
	Application of incorrect index resulting in misstated HRA valuations.				
11	DR investment property	527,600			
	CR Finance and investment income				-527,600
	Description of adjustment				
	Amendment for incorrect investment property valuations.				
12	DR Property plant and equipment (surplus assets)	6,100,000			
	CR Property plant and equipment (other land and buildings)	-6,100,000			
	Description of adjustment				
	re-classification of surplus assets from other land and buildings				
13	DR Revaluation reserve			11,118,321	
	DR CIES expenditure				6,554,770
	CR Property plant and equipment	-17,673,091			
	Description of adjustment				
	Application of inappropriate valuation methodologies				
14	DR Revaluation reserve			25,729,794	
	CR Property plant and equipment	-25,729,794			
	Description of adjustment				
	failure to revalue to Harrow hub on re-classification				
15	DR Pension reserve			27,600,000	
	CR Net defined benefit pension liability		-27,600,000		
	Description of adjustment				
	Amendment to IAS19 liability following re-run of report to accounted for updated membership data				
16	DR Property plant and equipment (Historic cost)	4,972,000			

	Details of adjustment	Assets	Liabilities	Reserves	Income statement
	DR Property plant and equipment (Revaluation increases)	2,591,000			
	CR Expenditure (CIES - Community)				-7,563,000
	CR Reserves (CAA)			-7,563,000	
	DR CIES (adjustments to Community)				7,563,000
	Description of adjustment This is a correction in the current year of prior period errors in applying the correct accounting treatment for community assets				

Appendix B: Unadjusted misstatements

	Details of adjustment	Assets	Liabilities	Reserves	Income statement
	B) Current Year 2021-22 unadjusted (=not corrected) audit misstatements:				
1	DR PPE (assets under construction)	128,000			
	CR Capital accruals		-128,000		
	Description of adjustment Cut-off error where £9k of items in additions have been recognised in the current year and not the prior year				
2	DR Capital accruals		155,000		
	CR PPE (furniture)	-155,000			
	Description of adjustment Invoices of £8k were accrued for but related to 21-22 and should have been included in additions				
3	Dr Other Creditors		145,260		
	CR General Fund			-145,260	
	Description of adjustment Cut-off error in which S106 application has been recognised in the current year and not in the prior year				
4	DR Expenditure				343,000
	CR Intangibles	-343,000			
	Description of adjustment Inclusion of items within intangibles that should have been written off to revenue				
5	DR OCI				474
	CR Short term investments	-474			
	Description of adjustment Trivial cut off error in relation to Deutsche money market investment				
6	DR Payable		8,000		
	CR HRA Expenditure (Supervision and management)				-8,000
	Description of adjustment Trivial difference where goods were over-receipted (expenditure over-recognised)				
7	DR ST Debtors	79,109			
	CR Expenditure - Employee benefits expenditure				-79,109
	Description of adjustment Ring-fenced error relating to agency cut-off (expenditure being recognised from 2022/23 in 2021/22)				

8	DR Other operating income CR Financing and investment income ***Description of adjustment*** Incorrect classification of property disposals			701,000 -701,000
9	DR Income - Grants within CIES CR Short Term Debtors ***Description of adjustment*** Cut-off error where Grant for activities in period 2021/22 was recorded in 2022/23 (as receipted in 2022/23) but not accrued for at year end of 2021/22.	 -1,013,000		1,013,000
10	DR - Income CR - Expenditure ***Description of adjustment*** Misstatements within the D365 fees and service charges income population whereby re-charges have been incorrectly journalled and overstated both income and expenditure. There is no impact on the net position.			3,394,000 -3,394,000
11	DR - Cash and cash equivalents CR - Creditors ***Description of adjustment*** Cash balances within the bank letter not included within the accounts that are owed to other entities	539,177	 -539,177	

Appendix C: Additional control recommendations

Property, Plant and Equipment: Council Dwelling Groupings – Level 1

Description of deficiency

Per the Code and in line with the Stock valuation guidance for resource accounting, the Council apply a ‘beacon’ approach to valuing in council dwellings. This approach requires the Council to group dwellings based on high level characteristics such as location as applied by the Council. The methodology then allows valuers to assign one property in each group to be a ‘beacon’. This is then formally valued, with the valuation applied to all other individual properties within the group.

Per the guidance, ‘variants’ are then identified within groupings based on more detailed characteristics such as age, build type, bedrooms etc. Standard adjustments are then made to the valuation of the beacon property and applied to al of the properties within this variant grouping.

Our work identified that the Council were not applying this methodology appropriately. We noted instances where dwellings displaying different characteristics were in the same variant group.

Potential effects

We performed mitigation testing to confirm that the Council had only placed properties into variant groupings of other dwellings with different characteristics when they considered the valuation for these differing property types to be the same. We are therefore satisfied there is no material impact on the 2021/22 financial statements.

However, properties displaying different characteristics may be subject to different market movements year on year and the Council may incorrectly determine two groups of properties to have the same individual value. This may result in a material misstatement within the Council’s financial statements.

Recommendation

2021-22 represented year 2 of the Councils 5-year HRA valuation programme. We recommend the Council reviews the variant groupings it has applied. Where 2022-23 valuations are underway and variant groupings include properties with different characteristics, we recommend the Council gains adequate assurance that these properties of differing characteristics have the same value.

For future years where valuation work is yet to commence, we recommend the Council reviews its variant groupings and ensures only properties that have the same characteristics are in variants groups.

Management response

We note this and will discuss this finding with our external valuers and ensure that they review the variants applied to the groupings, to ensure consistency.

Property, Plant and Equipment: Assets not formally revalued during the year – Level 1

Description of deficiency

In line with the Code and per the Council's internal policies on revaluing property contained within the general fund, not all items of property are subject to full formal valuation every year.

However, our audit work identified a number a small number of properties that had not been revalued, even though the Council's own internal policies, and in one instance, the Code, dictated a full formal valuation was required. Once such instance identified resulted in a material misstatement that has since been amended in the 2021-22 financial statements.

We also noted the Council was not undertaking any procedures to assure itself that the potential aggregate movement in valuation of non-revalued properties year on year, had they been formally revalued, was likely immaterial.

Potential effects

Failure to adhere to requirements for revaluation dictated by the code and per the Council's own internal policies has resulted in material misstatement in the 2021-22 financial statements and could lead to further material misstatements in future sets of accounts.

Failure to undertake any procedures to gain assurance that potential movements on non-revalued items are likely immaterial may result in the failure to detect material market movements in aggregate, resulting in material misstatement of the financial statements.

Recommendation

We would recommend the Council ensures its annual valuation programme is compliant with the Code. We also recommend the Council ensures its own internal policies for valuations are adhered to.

We would recommend the Council ensures adequate assurance exercises are undertaken on those assets not subject to revaluation, to ensure any individual or aggregate potential valuation movements are not material.

Management response

We will review the 5-year plan with our external valuers to ensure it is compliant with the Code and our own internal policies.

Appendix D: Fee schedule

Area of work	2020/21 agreed fees	2021/22 proposed fees
Planned fee in respect of our work under the Code of Audit Practice	**£116,057**	**£116,057**
Additional fees for additional work in respect of:		
1. Property, plant and equipment valuations	**£11,200**	**£57,470**
2. Pension liability valuations (including revision arising from availability of updated membership data)	**£4,853**	**£7,290**
3. Data migration	**-**	**£30,100**
4. Intangibles valuation	**-**	**£13,015**
5. Inventory valuation	**-**	**£19,555**
6. Infrastructure assets	**-**	**£9,520**
7. Code changes to value for money and additional risks and recommendations	**£14,200**	**£65,205**
8. Revised auditing standard on accounting estimates	**£3,488**	**£5,547**
Total fees	**£152,624**	**£323,760**

Commentary on the additional work:

1. As reflected in the extent of audit adjustments identified we carried out significant additional work on the valuation of the Council's PPE.
2. As we reported to GARMS the Council was required to request a revised actuarial report in light of the triennial valuation. We were required to carry out testing on the revised report and updated accounts.
3. The additional work was required to obtain assurance over the migration of data that underpins the statement of accounts and involved our IT specialist auditors.
4. The additional work was required to understand the Council's accounting treatment and disclosures, which has led to amendments in the financial statements.
5. Our additional work was required to understand and challenge the Council's accounting treatment, which has led to a change in treatment and disclosure in the final statements.
6. As we reported to GARMS the Council was required to comply with the revised CIPFA Code and we were required to audit the Council's consideration and revised accounting entries.
7. For 2021/22 we identified 4 risks of significant weakness and reported actual significant weakness in 3 areas.
8. The change in the auditing standard has increased the audit input on auditing accounting estimates.

Appendix Three B Audit Completion Report

London Borough of Harrow
Year ended 31 March 2022

11 May 2023

mazars

Contents

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

Mazars LLP
30 Old Bailey
London
EC4M 7AU

11 May 2023

Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions. At the date of this report our audit remains in progress and, while we anticipate completion of audit testing shortly, we do not expect to be able to issue the audit opinion until later in 2023 due to a new national accounting issue relating to pensions.

Subject to the resolution of outstanding issues we anticipate issuing an unqualified audit opinion on the statement of accounts.

Our work on the VFM arrangements will not be completed by the time we issue the audit opinion and we will report relevant separately.

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 to the August 2022 meeting. We have since then issued Progress Reports to the Committee in September and November 2022 and made a verbal update in January 2023. Since then, we have recognised the national infrastructure issue as a new area of audit focus (see page 18) and identified two new risks of significant weakness in VFM arrangements (see Section 7).

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07977 261873.

Yours faithfully

Suresh Patel
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
Subject to resolution of the matters outlined in Section 02, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our currently proposed audit opinion is included in the draft auditor's report within Appendix B.

Whole of Government Accounts (WGA)
We have not yet received from the National Audit Office their list of non material sampled components for WGA. We are unable to discharge our full responsibilities until such instructions have been received.

Value for Money
We have yet to complete our work on VFM and are currently discussing some risks of significant weaknesses in arrangements that we may need to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. Whilst we have had some correspondence there have been no objections made for 2021/22.

1. Executive summary

Principal conclusions and significant findings

We have identified the need for material changes to the Council's valuation of its property, plant and equipment and investment properties. We have also carried out considerable work over the information to support the statements in light of the migration of financial data during the year. We have made recommendations for improvements in Section 05.

In section 4 of this report we have set out our detailed conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment (PPE) and Investment Property (IP);
- Net defined benefit liability valuation; and
- Management override of controls.

Section 5 sets out our follow up to internal control recommendations and section 6 sets out audit misstatements identified to date. Section 7 outlines our work on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

At the date of this report there remain audit procedures that are in progress and areas where we are continuing to work with officers to resolve audit queries and agree material amendments to the financial statements.

Subject to the resolution of these queries we anticipate completing testing of significant risk areas by the end of May.

However, due to the initially protracted nature of the 2021/22 audit arising from the impact of the implementation of the new ledger, issues with PPE and IP valuations and the national infrastructure issue, a new national issue has arisen that will impact the timing of concluding the audit. The issue relates to the Council's reporting of its assets and liabilities associated to its membership of the Harrow Pension Fund. The draft Council accounts include values based on actuarial reports which use estimates at 31 March 2022 based on roll forward of information (e.g. membership data) since the last triennial review at 31 March 2019.

On 1 April 2023 the Council received the latest triennial review from its actuaries, which provides more up to date data for 31 March 2022. These values are likely to be materially different to the estimated values used for the draft accounts. Auditors cannot place any reliance on the new triennial valuation until the Pension Fund auditor has carried out audit procedures on the membership data that supports the valuation and they have appropriate assurance over the other assumptions applied by the actuary. This matter is currently being discussed at a national level and a resolution is being sought. We will provide the Committee a verbal update.

We are currently discussing with management our VFM considerations for 2021/22 and some areas of potential risk of significant weakness (see Section 07). We will provide the Committee with a verbal update.

Audit fees

Due to the risks we originally identified and reported in the Audit Strategy Memorandum and the issues we have identified during the course of the audit, we have input a significant level of additional resource to progress the audit of the Council's accounts. Under the terms of the PSAA appointment we will be seeking to agree a significant level of additional audit fees. We provide our current estimate in Appendix D.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Property, plant and equipment valuation		Our work on land and building valuations, in particular completion of our review and challenge of the data supporting the work completed by the valuers, is in progress and should be completed later in May. We are currently agreeing a number of amendments to the valuations disclosed within the financial statements.
Infrastructure assets		The Council has responded to the statutory override and CIPFA guidance and we are satisfied with the response and planned changes to disclosures. We are completing our final procedures.
Income, expenditure, cash and creditors		Following internal review we have some follow up procedures to complete.
IAS19 - defined benefit liability valuation		As outlined on page 5 there is a national issue impacting pensions. We are continuing to liaise with management on the issue on any potential impact for our audit opinion
Final review procedures		We are currently completing our file review which includes clearance of the manager review of completed sections, review by the engagement partner and engagement quality control reviewer. We will complete our review procedures as the above outstanding points are resolved and revised accounts have been received.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report.
File closure procedures		Following completion of the above final review procedures, we need to complete file closedown procedures, including receipt of management's letter of representation and complete our consideration of post balance sheet events to the date of sign-off.
Whole of Government Accounts (WGA)		We are awaiting the list of sampled components from the NAO.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum dated 31 March 2022. We have not made any changes to our audit approach.

Materiality

Our provisional materiality for the Council at the planning stage of the audit was set at £10.5m using a benchmark of 1.7% of gross revenue expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £11.8m using the same benchmark. We set performance materiality at 60% of overall materiality, with the final value of £7.1m.

Reliance on internal audit

We have not placed any reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Service organisations

We have not made use of any service organisations.

Use of experts

We have made use of three auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.
- Mazars internal valuer - We have used the work of this expert to inform our expectations when reviewing the remaining property valuations within the financial statements.
- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.

04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit, including:

- 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;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

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Significant risks

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion We are currently completing our work on accounting estimates, in particular those relating to property valuations. We have no significant findings to report as a result of our work on transactions outside the normal course of business and journals made in preparation of the financial statements.

4. Significant findings

Revenue recognition

Description of the risk

The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.

Based on our initial knowledge we concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure.

For the Council we deemed the risk to relate specifically to material income streams within the Council, being fees, charges and other service income, where the level of inherent risk is higher.

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How we addressed this risk

We addressed this risk by obtaining a detailed understanding of the Council's processes by which it ensures that revenue is materially recognised in the correct accounting year. We carried out:

- detailed testing of transactions around both sides of the 2021/22 year end 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 / debtors in the 2021/22 accounts.

Audit conclusion

There have been no significant findings arising from our review of revenue recognition within the council

Net defined benefit liability valuation

Description of the risk

The last triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within the Fund, the valuation provides the basis of the associated net pension liability for the Council as at 31 March 2022.

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 have determined there is a significant risk in this area.

How we addressed this risk

We addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson. We have:

- 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.

Audit conclusion

There have been no significant findings arising from our review of the defined benefit pension scheme liability valuation.

However, as reported on page 5 there is a new national issue and ongoing discussions seeking a resolution.

4. Significant findings

Migration from SAP to D365	Description of the risk
	During 2021/22, the Council has undertaken an accounting system migration from SAP to D365. In October 2021, the nominal ledger, accounts receivable and accounts payable functions were closed in SAP and became managed via Dynamics365 (D365). Payroll migrated in April 2022. There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Council's financial reporting if change management processes are not robust and the new system is not correctly tested and implemented. There is a further risk the migration leads to a loss of data and accounting records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate third part evidence to support transactions entered into by the Council.

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Migration from SAP to D365 (continued)	How we addressed this risk
	We addressed this risk by completing the following additional procedures: • Reviewed the Council's reconciliation of old system closing balances to the new system opening balances; • Engaged internal IT specialists to perform tailored work around data migration process undertaken by the Council. • Engaged internal IT specialists to perform design and implementation testing of controls within the new system.
	Audit conclusion We have completed our review of the migration of data between the SAP and D365 systems, ensuring reconciliations are available and data is appropriately comparable. While there have been no significant findings arising from our review of the accuracy of the data migration between systems, we have noted an internal control recommendation which we have detailed within section 4.

4. Significant findings

Property, Plant and Equipment valuation (including Investment property)

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Description of the risk

Where a Council's assets are subject to revaluation, the Code requires that the carrying value should reflect the appropriate fair value as at the year end. Estimation of fair values is subject to complex estimation. This creates a risk that the carrying value of those assets revalued in the year are materially mis-stated.

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 DHLUC.

Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.

How we addressed this risk

We assessed the risk of valuations changing materially in year, considering the movement in market indices between valuation 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;

How we addressed this risk (continued)

- reviewed the methodology used; and
- performed testing of the associated underlying data and assumptions.

We also followed up on recommendations made during the 2020/21 audit regarding PPE valuations. We will review the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach.

Audit conclusion

We have spent considerable time on addressing this risk. Our work is in progress. We are continuing to liaise with the Council and completing our review and analysis of the further evidence to support individual valuations. We will provide a verbal update to the Committee. We are currently agreeing a number of amendments to the valuations disclosed within the financial statements

In addition, we have noted some internal control recommendations which we have detailed within section 4.

4. Significant findings

Valuation of intangible assets	
	Description of the risk Within the 2021/22 financial statements, the Council has included a material value in respect of intangible assets. This relates to the implementation of the new D365 accounting software and associated systems. This has been re-classified from assets under construction. Costs have been generated over a period of time and, in view of the complexity of the recognition criteria included in the accounting standards (IAS38 – Intangible Assets) and the level of management judgement involved in identifying items appropriate for capitalisation, we consider there to be a significant risk the valuation of the intangible asset could be materially misstated.
	How we addressed this risk We addressed this risk by completing the following additional procedures: • Testing of costs to ensure they have been capitalised in accordance with IAS38; • Review of management's impairment review of the costs capitalised on recognition of the assets; • Consideration of management's review of the non-current asset register for items which may have been incorrectly capitalised
	Audit conclusion We have concluded our work and have agreed with Council that some amendments to values and disclosures are made within the financial statements. These are included in section 5.

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4. Significant findings

Enhanced risks

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Civic centre

Description of the risk

The Council are due to move the function of the Civic Centre to the Harrow Civic Hub. As part of this move, the existing Civic Centre will be decommissioned and the land redeveloped, through a joint venture. The accounting treatment of the property transactions are likely to be complex and will require considerable technical input in order to achieve an appropriate valuation of the land and buildings and to ensure all required disclosures are made in the financial statements.

Given the level of complexity, there is a risk management fail to meet the disclosure requirements for such an asset.

How we addressed this risk

We discussed the valuation approach and accounting treatment with the council.

- Management have indicated they will prepare a working paper detailing the proposed treatment of the civic centre. This will be reviewed as part of our response.
- We consider the valuation and basis of valuation applied to the Civic Centre as part of our valuation of property, plant and equipment work

Audit conclusion

Our work is in progress. We are continuing to liaise with the Council and completing our review and analysis of the evidence. We will provide a verbal update to the Committee.

Valuation of inventory

Description of the risk

Within the 2021/22 financial statements, the Council has included a new material value in respect of inventory. This value relates to the Council's property developments at Waxwell Lane and Haslam House and reflects the value of expenditure on the two developments, with the work at each site still ongoing.

Given the balance represents the implementation of new accounting treatment, and the level of management judgement involved in arriving at an appropriate valuation for such treatment, we consider there to be an enhanced audit risk.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- Review of the Council's accounting treatment paper to verify that the accounting treatment and proposed disclosure is in line with Code requirements;
- Testing of costs to ensure they have been correctly valued and included within the financial statements

Audit conclusion

We have spent a considerable amount of time on this matter including engagement with our financial reporting team. We have concluded our work and have agreed with Council that some amendments to disclosures are made within the financial statements. See Section 5.

4. Significant findings

Infrastructure assets

Description of the risk

The government has put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override does not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code.

The statutory override does not apply to the depreciation charged in year. CIPFA bulletin 12 Accounting for Infrastructure Assets Temporary Solution specifically considers depreciation and useful lives of assets stating that depreciation is an estimate of economic consumption of economic benefits and cannot be a precise measurement.

Given that Infrastructure Assets are highly material, we have identified useful expected lives and the depreciation estimate as a key area of management judgement with a risk of material misstatement.

How we addressed this risk

We addressed this area of management judgement by:

- Reviewing management's review of asset life, residual value and depreciation methodology for infrastructure assets;
- Assessing the expertise of the engineers management use to inform their estimate of useful expected lives;
- Reviewing the accounting policies for derecognition of infrastructure assets to ensure they reflect the accounting treatment applied;

Infrastructure assets (continued)

How we addressed this risk

- Obtaining assurance that the apportionment of NBV and in-year expenditure across classes of infrastructure assets are reasonable;
- Challenging the asset lives determined by the Council where they fall outside of the ranges in the CIPFA bulletin; and
- Ensuring management have included the disclosures required by the Code Update and Amended Regulations.

Audit conclusion

We are satisfied the balances and associated disclosures are materially accurate and appropriately accounted for within the financial statements. We will be making a recommendation to management in respect of record keeping of expenditure on infrastructure assets, to ensure gross book values, and the associated accumulated depreciation, do not become materially misstated following removal of the statutory override.

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 19 July 2022.

Significant matters discussed with management

We discussed the following significant matters with management:

- The work being done by the Council on the transfer of data between the SAP and D365 financial systems.
- The Council's treatment of the property developments at Waxwell Lane and Haslam House to reflect the value of expenditure on the two development and intending future use, and the most appropriate accounting treatment for the costs.
- The national issue in relation to accounting for infrastructure which has impacted on every local authority with material infrastructure balances.
- The Council's approach to the valuation of its property, plant and equipment and investment properties.
- The new national issue in relation to IAS19.

Significant difficulties during the audit

During the course of the audit we encountered difficulties with the completion of work in the following areas:

- Selection of samples for testing in a number of areas, this being a result of the need to obtain populations from two financial systems.
- Completion of property valuations testing.

We note that we have had the full co-operation of management in resolving these issues.

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 2021/22 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.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Significant weaknesses identified to internal controls

Property, Plant and Equipment Depreciated Replacement Cost (DRC) Valuations – Level 1

Description of deficiency

As part of our valuations testing we identified that, as part of the Council's methodology for completing depreciated replacement costs (DRC) valuations, valuers had been using physical obsolescence rates which were in line with Valuation Office (VO) data for individual building components, and not separating each asset into their significant components and using that as the basis for identifying physical obsolescence of each component.

Potential effects

While we have performed analysis on the application of these rates for the 2021-22 portfolio of valuations, having concluded that there is not a material impact on the valuation figure for the entire population, we have noted that the application of VO standard rates can cause variances on individual assets. As a result, when considered in isolation, individual asset valuations are not as accurate as if the best practise methodology (based on full componentisation of assets) had been applied.

As further valuations are completed over a period of time, the inaccuracies on an individual asset basis may result in an overall material misstatements of the value of property, plant and equipment within the financial statements.

Recommendation

The Council should ensure that it's valuation methodology for DRC valuations includes buildings being separated into their significant components, and the relevant physical obsolescence amount is individually calculated on the basis of these components.

Management response

In terms of the 2021/22 valuations, the Council has carried them out using the same methodology as in previous years. Following on from the feedback received on the 2021/22 valuations from Mazars internal valuer, the Council will use this approach going forward for 2022/23 onwards.

For 2022/23, the Council has also appointed Wilkes Head Eve to undertake the valuations, in accordance with the necessary cyclical and revaluation/inspection criteria. Notably, they act for over 150 local authorities across the country and so are equipped to provide an all-encompassing Asset and HRA Stock Valuation process, fully compliant with all IFRS codes of conduct and practice.

They provide advice for assets within portfolios in relation to the new classifications that were introduced:

- Property, Plant & Equipment (IAS 16)
- Investment Properties (IAS 40)
- Assets Under Construction
- Assets Held for Sale (IFRS 5)
- Infrastructure Assets
- Heritage Assets

In addition, they have experience with componentisation– identifying patterns and thresholds to ensure accuracy of costs/values over time and have also adopted a robust and clear methodology in relation to element-based valuations

5. Internal control recommendations

Property, Plant and Equipment Council Dwelling Valuations – Level 1

Description of deficiency

For 2021/22 the Council valued its dwellings as at 1 April 2021. To determine the valuation as at 31 March 2022, the Council applied an appropriate index. We identified that the Council used the index as at 31 January 2022 and then made a forecast of the movement to 31 March 2022. However, the actual index at 31 March 2022 was significantly different to the forecast and will lead to a material amendment to the valuation of the Council's dwellings in the draft accounts.

Potential effects

The use of estimated indexation figures for the final quarter of 2021/22 has resulted in a material misstatement of Council dwelling valuations, when compared to valuations based on the actual indexation movements. The continued use of estimated indexation figures in future periods may result in further material misstatements in the financial statements.

Recommendation

The Council should apply actual indices at 31 March to Council dwelling valuations made at 1 April.

Management response

To comply with the statutory deadline to close the accounts, estimated indices, based on published government data, have to be used where actual indices were not available to determine HRA asset values in the accounts.

The difference between estimated and actual indices would not usually have resulted in significant differences but 2021/22 was an exceptional year with the impact on the economy and covid which has meant that the updated House Price Index figures shows that the data for all months changed apart from March 2021.

In future, as part of the post balance sheet review period, we will revisit the House Price Index used and review and update as required.

5. Internal control recommendations

Infrastructure Assets Accounting Records – Level 2

Description of deficiency

In applying the statutory override for accounting for infrastructure assets, we reviewed the data available and noted that Council records were insufficiently detailed to allow management to determine when assets in this category should be written out of the fixed asset register.

Potential effects

If appropriate records are not maintained in relation to individual items of infrastructure asset, in particular in respect of gross book values and accumulated depreciation, the balance within the financial statements could be considered as materially misstated once the availability of the statutory override is removed.

Recommendation

The Council should improve the level of detail in the fixed asset register in relation to infrastructure assets to enable it to appropriately consider individual assets and when they should be written out at the end of the useful economic lives.

The Council should also review the useful economic lives of infrastructure assets regularly to ensure they are and remain reasonable, and document where they are not in line with the CIPFA guidance.

Management response

The way the project codes are set up are by the overarching type, for example Highways programme, marking of roads, etc and the highways team then maintains a breakdown of the roads covered by the works. It would not be possible to break down historical balances in more detail than is currently available but will ensure from 2023/24 onwards, the council will provide more detail.

We have now liaised with the Highways team and propose to review our useful lives and implement the changes 2023/24.

5. Internal control recommendations

Data Migration: Validation of Historic Accounting Records – Level 2

Description of deficiency

During the 2021/22, the Council performed a migration of its general ledger system from its existing supplier, SAP, to Microsoft Dynamics 365. As part of this migration, the physical servers supporting the legacy SAP system were decommissioned.

To maintain access to the data, and as a solution to provide a record of data to support historic accounting records, the Council made use of a cloud based storage solution. Audit review of the migration process, along with specific considerations of the requirement to maintain 6 prior years worth of historic records, identified that the Council has not yet finalised its initial validation work on the data to confirm it is sufficient for need.

Potential effects

Following significant time input to work with officers we have managed to obtain sufficient and appropriate evidence to support the audit of the 2021/22 accounts. However, access to the data has not been a simple process. We have not confirmed that all of the data has been retained.

We also note that failure to maintain adequate historic records, preceding those for 2021/22, that are validated against audited financial statements may result in non-compliance with specific HMRC laws and regulations around the maintenance of records.

We have also made reference to this matter as part the VFM arrangements review.

Recommendation

The Council should complete the validation work on its historic records. We understand that some of this is in progress and that, if no issues are identified in the current year, the two previous years will be validated. If issues are identified as part of this process, then the Council should extend the validation process.

Management response

The legacy SAP system was decommissioned as a result of having to move the hardware out of the Data centre in the Civic Centre. Therefore, the council has stored the data (General Ledger and Accounts Payable & Receivable Ledgers) for financial years 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and the six month's data in 2021-22 in compliance with HMRC requirement.

As a requirement for the audit, the council has already carried out full reconciliation on the transactions for 2021/22 (which is the current year) and Mazars have obtained sufficient and appropriate evidence to support the audit of the 2021/22 accounts as requested and no issues have been identified.

Also, HMRC has just concluded a Business Risk Review and all the data requested for the review has been provided. The council is waiting for a final written confirmation on the conclusion from HMRC on this.

The Council will need to consider how much staff time will be required to recreate the trial balances for 2019/20 and 2020/21 from the historical transactional data stored on SharePoint as requested by Mazars. This work will serve no purpose in terms of the validation of the 2021/22 accounts.

5. Internal control recommendations

Collection Fund reconciliation – Level 2

Description of deficiency

We identified that the Council had included a manual adjustment, made solely within the financial statements and not in the general ledger. The adjustment made was to move values between two balance sheet values (creditors and debtors) and represented analysis of the components of the collection fund surplus.

Potential effects

Whilst the manual adjustment made was required for the 2021-22 statement of accounts, the need for manual adjustment to be made solely within the financial statements results in the general ledger, the Council's primary source of information for the statements, not fully reconciling with the statements.

The use of a manual adjustment also gives rise to a risk of potential error when completing the adjustment and increased management override risk through the manipulation of balances.

Recommendation

The Council should create the required ledger codes within its new general ledger system to enable surpluses on the collection fund to be appropriately journalled to the correct area in the statement of accounts, thereby removing the need for manual adjustments.

Management response

The net amount due to the GLA or Central Government are usually creditor balances and there are creditor codes on the financial system for these. Due to the huge deficits in the past couple of years, these amounts now net to a debtor balance.

The council has rightly mapped these debit balances (though on a creditor codes) as part of debtors so that we do not understate our debtor and creditor balances in the financial statement.

There has been no error made in the collection fund accounting and going forward equivalent debtor codes have now been created should this happen again in the future.

5. Internal control recommendations

Follow up on previous internal control points

IT logical security – Level 1

Description of deficiency

During the course of the IT audit we found the following issues surrounding logical security:

- 20 leavers could have accessed accounts post leaving, of which 11 had direct access to SAP
- Within SAP, 106 users were identified as having access to SU01, the ability to create and remove users
- A number of users had access to critical SAP profiles giving them unrestricted access to all areas
- SAP password parameters did not align with best practice.

Potential effects

The above findings have a number of potential impacts:

- Employees who have left the authority may still have access to financial data and the ability to process transactions, resulting in financial loss.
- Excessive use of SU01 access rights increases the risk of 'ghost users', which may enable individuals to misappropriate funds and data.
- Access to all elements of SAP profiles removes effective segregation of duties and increases the potential for misappropriation of funds and inappropriate accessing of areas.
- The use of weak passwords increases the authorities susceptibility to cyber attacks.

Recommendation

We are aware that the Authority is in the process of moving to a new accounting system. We recommend that the following are implemented as soon as possible:

- Processes are put in place to ensure access rights for all leavers are rescinded on the final day of service and a periodic review of access rights is undertaken to identify any users with access rights that aren't appropriate.
- Privileged access rights such as SU01 are reviewed to ensure their use and issue are kept to a minimum.
- Standard users should be reviewed to ensure no staff are allocated unrestricted access rights.
- The Council's password policies should be updated to ensure they align with generally accepted best practice.

Update

The council has now migrated to Dynamics 365. Where a leaver is identified, their accounts and permissions are automatically removed on all systems following the leaver request being logged.

5. Internal control recommendations

IT operations – Level 2

Description of deficiency

During the course of our detailed IT audit work we noted the following issues:

- While the IT system back up policies and procedures were documented, these were last reviewed and updated in February 2016 and a number of the provisions under the guidance were outdated.
- Although an IT business continuity plan was documented, this had not been reviewed and updated since July 2018 and a number of the provisions under the guidance were outdated.

Potential effects

The reliance on outdated backup policies and procedures will result in a lack of understanding and policy compliance and could ultimately result in a loss of data for the Council. Further, the existence of an outdated business continuity plan may result in a lack of staff understanding of policies and processes, and may give rise to a lack of productivity and functionality during periods of IT disruption.

Recommendation

The council should ensure the relevant policies are updated to reflect current business software and practises as part of the current system upgrade and then be subject to regular periodic review, update and testing.

Update

With the migration of infrastructure and software to the cloud, all back up policies and procedures have been updated to fit the new cloud architecture. These documents and procedures have been documented by our IT partners/ suppliers.

The IT business continuity plan was last reviewed and updated in 2022 and is currently in the process of being updated.

Each business area is responsible for updating their own business continuity plans, this is led by the Emergency Planning team.

5. Internal control recommendations

Approach to Valuations – Level 2

Description of deficiency

Our audit work has highlighted that the council made use of multiple external valuers to assist in the year end valuation of the investment property portfolio. We noted that 4 separate external valuers have been used across the councils investment property portfolio.

Potential effects

The use of a range of valuers may give rise to issues surrounding the consistency of approach that is employed whilst valuing properties. Whilst we noted no significant findings as a result of our investment property valuations testing, we consider the council may be able to achieve some economies of scale by using fewer valuers.

Recommendation

Given the above, we would recommend the council reviews the list of properties for which external valuation experts are required and reviews its approach to the appointment of external valuers.

Update

The valuers were specialists in their field (e.g. golf courses) or were familiar with the properties and the markets in which they are located, as local offices of national surveying firms (e.g. Knight Frank's Cardiff office valued our Welsh investment property). Even if the same firm were used, their individual regional offices would need to be used and the pricing differential would be minimal – the valuer still has to carry out the same amount of work (comparables etc.). The instructions given were to value the properties for financial accounting purposes - as the investment valuation methodology is the same (does not require componentisation, for example), the approach is standardised, with valuers exercising their judgements on inputs (rents, yields etc.) accordingly.

PPE valuations process – Level 2

Description of deficiency

Our audit identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This was due to issues in the valuations process resulting in incorrect balances being provided to the fixed asset register gatekeeper. This resulted in the overstatement of valuations in the financial statements, which have been corrected by management.

Potential effects

The misstatement of property valuations in source documentation will lead to the balance sheet being incorrect.

Recommendation

Management should make the best use of all of the available information to them. In order to minimise the occurrence of such errors, we recommend:

- In order to ensure management are using all information provided by the valuers, management should perform reconciliations between valuations input spreadsheet and fixed asset register
- Greater challenge of the valuation provided to management to be input into the accounts.

Update

Noted and agreed. Management will work closely with valuers to ensure accuracy of information.

5. Internal control recommendations

IFRS 16 readiness – Level 2

Description of deficiency

Our audit work highlighted leases, where the council is the lessor, that had been recognised within the operating leases disclosure. Review of the lease terms concluded that these items should have been disclosed as finance lease arrangements, with the affected assets to be excluded from the balance sheets and future commitments disclosed separately. As the affected lease is trivial we have agreed with management that the disclosure in respect of the issue will not be amended in the current year. However, in identifying this issue we have also identified a small number of leases that will fall within the scope of IFRS16, but not the current leasing standard. These leases will therefore require to be brought onto the balance sheet for the first time in 2022-23.

Potential effects

The Council will require to quantify the financial impact on the balance sheet of the implementation of IFRS 16 in their 2021-22 financial statements. Without a full review of all leases held, including those at peppercorn rentals, there is a risk that this disclosure could be materially misstated.

Recommendation

Given the authority has sufficient time available prior to the mandatory implementation deadline, we recommend that the Council performs a thorough review of leases held and their value to quantify the overall impact of implementation of IFRS16 for disclosure in the 2021-22 accounts and beyond.

Update

In preparation for the 2023-24 Statement of Accounts (comparatives required for 2022-23) the Council has carried out a thorough review of leases held for which the Council is lessee. An estimate of the impact of IFRS16 on the balance sheet has been calculated. On the basis of the estimate the impact on the accounts of IFRS16 is not expected to be material.

Migration to Dynamics accounting system – Level 2

Description of deficiency

We have noted the Authority plans a hard close of the finance side of the current SAP system at the end of November 2021 following a full migration of the finance side to Dynamics. Payroll will remain in SAP for the immediate future.

Potential effects

2021-22 will be the first year end on the new accounting system. Given the year end close will require the 'splicing' together of data from two systems and first close of a new accounting system, there is scope for considerable delays and 'teething' issues.

Recommendation

We would recommend the council run a 'dress rehearsal' of the year end closure. This process will help the Authority to understand its new system and identify any close down issues prior to the year end. This will allow work arounds to be implemented before the full year end close down.

Update

Officers within Finance started reconciliation checks ahead of the closure of accounts to ensure closing balances from SAP were carried forward as the opening balances in the Dynamics system and can confirm that all SAP balances were transferred to D365 correctly. This made the closure of accounts more seamless than it would have been.

06

Section 06:

Summary of misstatements

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6. Summary of misstatements

This section outlines the latest misstatements identified during the course of the audit, above the trivial threshold for adjustment of £353,000. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit. We will update these tables on conclusion of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	DR Expenditure (CIES - HRA)	983			
	CR Income (CIES - HRA)		983		
	HRA income and expenditure figures are based on data in Northgate. These require manual adjustment in order to align figures between the CIES and subjective analysis, with the difference being driven by time lags between Northgate and the general ledger.				
2	DR Other operating income	701			
	CR Financing and investment income		701		
	Extrapolated adjustment required to amend for the incorrect classification of property disposals				
3	DR Income - Grants within CIES			1,013	
	CR Short Term Debtors		1,013		
	Extrapolated adjustment for cut-off error where revenue grant for activities in period 2021/22 had been incorrectly recorded in 2022/23 financial statements rather than accrued for at year end of 2021/22.				
	Total unadjusted misstatements	**1,684**	**2,697**	**1,013**	

6. Summary of misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
	Total unadjusted misstatements c/f	**1,684**	**2,697**	**1,013**	
4	DR - Income	3,394			
	CR - Expenditure		3,394		
	Extrapolated adjustment for misstatements within the D365 fees and service charges income population, which had resulted in re-charges being incorrectly journalled and corresponding overstatements of both income and expenditure.				
5	Dr: [Insert statement line]				
	Cr: [Insert statement line]				
	TBC – Awaiting finalisation of work on Property and Investment Property valuations				
	Total unadjusted misstatements	**TBC**	**TBC**	**TBC**	**TBC**

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6. Summary of misstatements

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	DR Expenditure (community)	8,794			
	CR Income (community)		8,794		
	Adjustment arising due to a selection of nominal ledger codes being misclassified within the CIES.				
2	DR Income (resources)	5,959			
	CR Expenditure (resources)		5,959		
	Adjustment arising due to a cost centre being incorrectly mapped as an agency arrangement				
3	DR Expenditure (Adult services)	489			
	DR Expenditure (Children and families)	620			
	DR Expenditure (Community)	2,363			
	DR Expenditure (Resources)	787			
	CR Income (Adult services)		489		
	CR Income (Children and families)		620		
	CR Income (Community)		2,363		
	CR Income (Resources)		787		
	Adjustment arising due to incorrect subjective analysis resulted in the misallocation of a number of codes in the CIES.				
4	DR PPE additions			7,626	
	CR PPE re-classifications				7,626
	Disclosure amendment to adjust Inventory balances incorrectly netted off against additions				
	Total adjusted misstatements c/f	**19,012**	**19,012**	**7,626**	**7,626**

6. Summary of misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
	Total adjusted misstatements b/f	**19,012**	**19,012**	**7,626**	**7,626**
1	DR Pension reserve			2,278	
	CR Long term liabilities				2,278
	Adjustment due to initial schedule of IAS19 disclosures being based on 31/12/21 asset valuations rather than 31/3/22.				
2	DR PPE			3,951	
	CR Intangibles				3,951
	Adjustment due to the misclassification of tangible assets within intangible assets				
3	DR Expenditure (Resources)			593	
	CR Income (Resources)				593
	Adjustment due to incorrect classification of a cost centre as agency rather than included within the financial statements of the council				
4	DR Assets under construction (PPE)			3,989	
	DR Assets Held for Sale			7,661	
	CR Inventories				11,650
	Adjustment for the re-classification of inventories between assets under construction and assets held for sale.				
	Total adjusted misstatements c/f	**19,012**	**19,012**	**26,098**	**26,098**

6. Summary of misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
	Total adjusted misstatements c/f	**19,012**	**19,012**	**26,098**	**26,098**
9	Dr: Expenditure (CIES - HRA)		28,981		
	Cr: Property, Plant & Equipment (HRA)				28,981
	Dr: Rsereves (CAA / Revaluation)			28,981	
	Cr: CIES (adjustments to resources)	28,981			
	Being the adjustment required to the value of HRA assets.				
10	Dr: [Insert statement line]	TBC	TBC	TBC	TBC
	Cr: [Insert statement line]				
	TBC – Awaiting finalisation of work on Property and Investment Property valuations				
	Total adjusted misstatements	**TBC**	**TBC**	**TBC**	**TBC**

6. Summary of misstatements

Disclosure amendments

The following disclosure amendments have been discussed:

- Inventory: following discussion and agreement of the accounting treatment for these assets
- Infrastructure: updates required in line with the revised guidance arising from the national issue
- Disclosures in respect of the councils approach to expected credit losses
- General: A number of minor presentational and typographical changes made to the financial statements that do not require individual analysis.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report soon after issuing the audit opinion.

Status of our work

In the Audit Strategy Memorandum issued in July 2022 we identified one risk of significant weakness relating to financial sustainability.

Since then, we have identified two further risks of significant weakness:

1. Governance relating to data migration
2. Coverage of internal audit work

We include overleaf our findings and conclusions on the risk relating to financial sustainability and the governance of the data migration.

We are currently in discussion in respect of our view on the risk in relation to internal audit work.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted previously, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.

7. Value for Money

Findings of procedures in response to identified risks of significant weakness

Risk 1 – Financial Sustainability

We identified a risk of significant weakness in relation to the need for the Authority to make significant savings of £3.4m in 2021/22. We reviewed the development and implementation of the Medium Term Financial Strategy (MTFS) and could see evidence that it had taken into account factors such as funding restrictions, demand pressures and savings requirements.

We are satisfied that there is no actual risk of significant weakness in the Council's arrangements.

Risk 2 – Governance arrangements over the ledger migration: maintaining adequate historic accounting records

We have identified a significant weakness in respect of the Council's governance of the implementation of its new ledger system and specifically the migration of the historic data, that precedes the 2021/22 financial year from the old system to the cloud-based storage space. In our view, the weakness identified could lead to non-compliance with statutory requirements on the period of record retention and provides evidence of a weakness in the Council's governance arrangements for supporting its statutory financial reporting requirements.

The Council originally intended to implement a new ledger system (D365) to replace its existing SAP system on 1 April 2021. The implementation, however, did not take place until part way through the 2021/22 year in September 2021. The migration of data to the new system was an important part of the implementation and was largely a migration of closing balances only, meaning historic data had to be stored in a cloud-based location to comply with laws and regulations for maintaining adequate historic accounting records.

During our audit work on the 2021/22 statement of accounts we concluded that the Council had not yet completed any form of validation testing of the stored historic data, that which precedes the 2021/22 financial year, to confirm the cloud-based solution was able to meet the Council's legal and regulatory needs. We also concluded that the Council had not formally identified a fall-back position should the new system be inadequate or operate incorrectly.

Whilst the Council has since performed some mitigation testing on the two most recent years' worth of data this has not yet been completed and reviewed. As such there remains a risk of non-compliance with laws and regulations in respect of maintaining adequate historic accounting records.

Based on the above we are not satisfied that the Council's arrangements ensured effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed.

In our view the above is indicative of a significant weakness in the Council's arrangements for achieving economy, efficiency and effectiveness, specifically in relation to governance.

Recommendation

We recommend that the Council completes a full validation exercise of all the data that has been transferred to the cloud-based storage solution to mitigate the risk of non-compliance with laws and regulations in respect of maintaining adequate accounting records.

We also recommend that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure there are sufficient periods of parallel running and timely data validation testing.

7. Value for Money

Findings of procedures in response to identified risks of significant weakness

Risk 3 – Effectiveness and coverage of internal audit

We have identified a potential risk of significant weakness in the Council's governance arrangements for how it ensures that it makes informed decisions and properly manages its risks, including specifically how it gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

During the course of 2021/22 the Council diverted internal audit resources onto a review of the fraud in the Highways department. This had the effect of reducing the number of internal audit reviews that were conducted during the year to support the Council's internal control arrangements, as used within the Annual Governance Statement.

We are currently in dialogue with management as to whether this risk represents an actual significant weakness in VFM arrangements.

Appendices

A: Draft management representation letter

 Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Dear Suresh

London Borough of Harrow - audit for year ended 31 March 2022

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 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all 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 Redress.

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.

Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

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.

Private Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Yours sincerely

Dawn Calvert
Director of Finance

Date:

Appendix B: Draft audit report

Independent auditor’s report to the members of London Borough of Harrow

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Harrow (‘the Council’) for the year ended 31 March 2022, 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 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 2021/22.

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 and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Appendix B: Draft audit report

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.

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 the Director of Finance 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 2021/22, 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 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the GARMS Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the GARMS Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the GARMS Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Appendix B: Draft audit report

We are also required to conclude on whether the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Appendix B: Draft audit report

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

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; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Suresh Patel Key Audit Partner
For and on behalf of Mazars LLP

30 Old Bailey, London, EC4M 7AU [date]

Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix D: Fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the GARMS Committee in July 2022. We set out below an indicative analysis of the final fees and will be seeking agreement with the Director of Finance:

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work (Scale fee)	£116,057	£116,057
Additional inputs required:		
- Property, plant and equipment valuations	£20,000-30,000	£11,200
- Pension liability	£5,000-10,000	£4,853
- Value for money risks and subsequent procedures	£25,000-£30,000	£14,200
- Revised auditing standard on accounting estimates	£5,000-7,000	£3,488
- Additional work on audit risks and other areas of focus	£20,000 - 40,000	-
TOTAL	**TBC**	**£152,624**

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Director of Finance that London Borough of Harrow will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix E: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the GARMS Committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Suresh Patel, Partner

Mazars

30 Old Bailey
London
EC4M 7AU

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

*where permitted under applicable country laws.

Appendix Three C - Independent auditor's report to the members of London Borough
of Harrow

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2022, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 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 2021/22 as amended by the Code Update

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Interim Director of Finance and Assurance use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Interim Director of Finance and Assurance with respect to going concern are described in the relevant sections of this report.

Other information

The Interim Director of Finance and Assurance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Interim Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of Responsibilities, the Interim Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Interim Director of Finance and Assurance is also responsible for such internal control as the Interim Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Interim Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Interim Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government

Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Interim Director of Finance and Assurance incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

• discussing with management and the Governance Audit and Risk Management (GARMs) Committee the policies and procedures regarding compliance with laws and regulations;

• communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and

• considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

• making enquiries of management and the GARMs Committee on whether they had knowledge of any actual, suspected or alleged fraud;

• gaining an understanding of the internal controls established to mitigate risks related to fraud;

• discussing amongst the engagement team the risks of fraud; and

• addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the GARMS Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Interim Director of Finance and Assurance use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have identified the following significant weaknesses in the Council's arrangements for the year ended 31 March 2022.

Significant weakness in arrangements	Recommendation(s)
Governance of the ledger migration, the requirement to maintain adequate historic records. We identified a significant weakness in respect of the Council's governance arrangements for ensuring appropriate standards, specifically the requirement to maintain adequate historic records following the data migration.	We recommend that the Council completes a full validation exercise of all the data that has been transferred to the cloud-based storage solution to mitigate the risk of non-compliance with laws and regulations in respect of maintaining adequate accounting records. We also recommend that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure all data validation is completed prior to decommissioning of systems and timely data validation testing.
Effectiveness of the coverage of internal audit We identified a significant weakness in the Council's governance arrangements for how it ensures that it makes informed decisions and properly monitors and assesses risks, including specifically how it gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.	We recommend the Council ensures Internal Audit is adequately resourced and delivers an annual programme of work of sufficient breadth and depth to support a robust Head of Internal Audit opinion that provides adequate assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

In November 2023 we identified a significant weakness in relation to the year ended 31 March 2021. In our view this significant weakness remained for the year ended 31 March 2022.

Significant weakness in arrangements	Recommendation(s)
Governance arrangements in relation to allegations of fraud and corruption We identified a significant weakness in respect of the Council's governance arrangements for gaining assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.	We recommend the Council fully implements all of the recommendations identified by the independent review and by its own internal audit as quickly as possible.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or

- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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.

Suresh Patel

Key Audit Partner
For and on behalf of Mazars LLP

30 Old Bailey, London, EC4M 7AU

mazars

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London
EC4M 7AU
www.mazars.co.uk

Governance, Audit, Risk Management and Standards Committee
Harrow Council
Civic Centre
Harrow
HA1 2XY

Direct line: +44 (0)7977 261 873
Email: suresh.patel@mazars.co.uk

Date: 10 November 2023

Dear Governance, Audit, Standards and Risk Management Committee Members,

London Borough of Harrow Pension Fund audit of financial statements 2021-22 Conclusion of pending matters

Following on from our attendance at the July 2023 Committee meeting and as required by International Standards on Auditing (UK and Ireland), we are writing to confirm matters arising that were marked as outstanding within our Audit Completion Report.

The outstanding matters and the conclusions reached are:

Matter	Update / Conclusion reached
Events after the reporting date	We reported in our audit completion report that we would continue to review the 'events after the reporting date' disclosures up to the point at which the audit opinion is signed. Due to the prolonged nature of the audit, the Council have been required to amend their 'events after the reporting date' disclosures. We have performed sufficient appropriate audit procedures to gain assurance that the disclosures are appropriate and free from material misstatement.
File closure procedures	We reported in our audit completion report that we would be required to complete file closedown procedures. We have received the required management letter of representation and have since been able to close our file with respect to our audit opinion on the financial statements.
IAS26 – Present value of promised retirement benefits	We reported in our audit completion report that because of the national pensions issue, work surrounding the required disclosures was ongoing. We have since completed this work, resulting in one amendment to disclosure note 20 in the accounts.

As a result of the additional procedures required in response to the difficulties encountered during the audit, we have provided a schedule of our revised fees for 2021/22 in Appendix A. We will be seeking

agreement with the Interim Director of Finance and Assurance prior to submitting to PSAA for their approval.
If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,

Suresh Patel
For and on behalf of Mazars LLP

Appendix A: Fee schedule

Area of work	2020/21 agreed fees	2021/22 fees
Planned fee - Code of Audit Practice	£16,170	£16,170
Additional fees in respect of additional work in respect of:		
1. Level 3 investment assets	£4,534	£6,358
2. IAS19 assurances	£2,800	£5,108
3. Membership data testing	-	£9,400
Total fees	£23,504	£37,035

Commentary on the additional work:

1. Level 3 investments required additional audit focus and attention in light of the absence of published corroborative information.
2. We are required to carry out additional work to provide assurance to the auditor of the Council in respect of pensions and IAS19.
3. As we have reported to GARMS considering the timing of the most recent triennial valuation we were required to carry out testing on the completeness of the Council's membership data and test a sample of members data to provide assurance to the auditor of the Council.

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Audit Completion Report

London Borough of Harrow Pension Fund – Year ended 31 March 2022

For the GARMS meeting 5 July 2023

mazars

Contents

mazars

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

Mazars LLP
30 Old Bailey
London
EC4M 7AU

21st June 2023

Dear Committee Members

Harrow Pension Fund - Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions on the audit of the Harrow Pension Fund.

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 19 July 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07977 261873.

Yours faithfully

Suresh Patel
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Valuation of investments within level 3 of the fair value hierarchy; and
- Data migration from SAP to D365.

Misstatement and internal control recommendations

We have no internal control recommendations and in Section 05 we report no audit misstatements and a small number of disclosure amendments.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022.

At the time of preparing this report, the significant matters remaining outstanding as outlined in section 2. On 1 April 2023, the Council received the latest triennial review from its actuaries, which provides more up to date data for 31 March 2022 present value of promised retirement benefits. These values are likely to be materially different to the estimated values used for the draft accounts. Auditors cannot place any reliance on the new triennial valuation until we have carried out audit procedures on the membership data that supports the valuation and they have appropriate assurance over the other assumptions applied by the actuary. This matter is currently being worked through. We will provide the Committee a verbal update. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the London Borough of Harrow Council. Our draft consistency report is provided in Appendix C.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No such correspondence from electors has been received.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
File closure procedures		We are currently completing our file review which includes engagement partner review. This process continues until the point of signing the accounts. Following this, our file close down procedures will include agreement and completion of management's letter of representations and completion of a consistency review with the Council financial statements. The Council statements are yet to be finalised.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit opinion.
IAS26 – Present value of promised retirement benefits		As outlined on page 2, there is a national issue impacting pensions. We are continuing to liaise with management on the issue and any potential impact for the audit opinion.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £9.7m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £7.7m at the planning stage of the audit using a benchmark of 10% of the higher of benefits payable or contributions receivable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £10.1m.
- Fund account specific materiality £3.6m.

Reliance on internal audit

We have not placed any reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

Management makes use of experts in specific areas when preparing the Pension Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits	Hymans Robertson	NAO consulting actuary PwC
Valuation of investments within level 3 of the fair value hierarchy and related disclosures	Investment managers engaged by the fund that prepare valuations	We did not use any experts.

3. Audit approach

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

Items of account	Provider	Planned audit approach	Implemented approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information provided to the Pension Fund	Work was performed in line with our planned procedures
Investment valuations and income and all related disclosures	Investment managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.	Work was performed in line with our planned procedures
Investment valuations and income and all related disclosures	Custodians	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.	Direct confirmation from custodians is a supplementary procedure, where others alone are not sufficient. Our other procedures were sufficient so confirmations from custodians were not required.

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04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

We have no significant findings to report as a result of our work on transactions outside the normal course of business and journals made in preparation of the financial statements.

4. Significant findings

Valuation of investments within level 3 of the fair value hierarchy	
	Description of the risk As at 31 March 2021, the Pension Fund held investments which were not quoted on an active market with a fair value of £84.7 million, accounting for 8.8% of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.
	How we addressed this risk We addressed this risk by completing the following additional procedures: • agreeing holdings from fund manager reports to the financial statements; • agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • where audited accounts are available, check that they are supported by a clear opinion.
	Audit conclusion We have no significant findings to report as a result of our work on level 3 investment assets.

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Data migration from SAP to D365	
	Description of the risk During 2021/22, Harrow Council has undertaken an accounting system migration from SAP to D365. In October 2021, the nominal ledger, accounts receivable and accounts payable functions were closed in SAP and became managed via Dynamics365 (D365). Payroll migrated in April 2022. There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Pension Fund's financial reporting if change management processes are not robust and the new system is not correctly tested and implemented. There is a further risk the migration leads to a loss of data and accounting records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate third party evidence to support transactions entered into by the Pension Fund.
	How we addressed this risk We addressed this risk by completing the following additional procedures: • Reviewing the Council's reconciliation of old system closing balances to the new system opening balances; • Engaging internal IT specialists to perform tailored work around data migration process undertaken by the Council.
	Audit conclusion We have no significant findings to report as a result of our work on the data migration from SAP to D365.

4. Significant findings

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances. Draft accounts were received from the Fund on 19 July 2022 and were of a good quality.

Significant matters discussed with management

We discussed the following significant matters with management:

- Disclosures relating to investment assets included within the financial statements;
- The work being done by the Council (and by extension the Pension Fund) on the transfer of data between SAP and D365 financial systems; and
- The national issue in relation to IAS19 and IAS26 pension valuations.

Significant difficulties during the audit

During the audit we encountered significant difficulties with respect to obtaining fund manager investment valuation documentation and confirmations. We note we had the full co-operation and assistance of management in resolving the issue.

05

Section 05:

Summary of misstatements

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6. Summary of misstatements

Unadjusted and adjusted misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £305k. We identified no unadjusted or adjusted misstatements.

Disclosure amendments

This section outlines significant disclosure amendments identified during the course of the audit. During the audit we identified the following issues that the Pension Fund amended in the final set of financial statements:

1. In line with the code, in note 20 of the financial statements, The Pension Fund is required to disclose the present value of promised future retirement benefits, calculated in line with IAS26. In the draft accounts the Pension Fund included the incorrect figure. This was further updated to address the national pensions issue, to reflect data available as a result of the 31 March 2022 triennial valuation exercise.
2. In line with the code, in note 16 of the financial statements, The Pension Fund is required to disclose key information in relation to the basis of valuation of investment assets held at fair value. A small number of adjustments were required to ensure the final version of the financial statements was compliant with the code.

Appendices

A: Draft management representation letter

 Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

Appendix A: Draft management representation letter

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Dear Suresh

London Borough of Harrow Pension Fund - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow Pension Fund (‘the Fund’) for the year ended 31 March 2022 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 2021/22 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Fund you determined it was necessary to contact in order to obtain audit evidence.

Appendix A: Draft management representation letter

I confirm as Director of Finance and Assurance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Fund and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Fund in making accounting estimates are reasonable, including:

- those measured at current or fair value

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

Appendix A: Draft management representation letter

All material matters, including unasserted claims, that may result in litigation against the Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance and Assurance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

Appendix A: Draft management representation letter

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Unadjusted misstatements

I confirm that there were no uncorrected misstatements.

Subsequent events

301 nfirm 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.

Other matters

I can confirm in relation to the following matters that:

- COVID-19 - we have assessed the impact of the COVID-19 Virus pandemic on the Pension Fund and the financial statements, including the impact of mitigation measures and uncertainties, and are satisfied that the financial statements and supporting notes fairly reflect that assessment.
- We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the subsequent events note to the financial statements fairly reflects that assessment.
- We confirm that we have considered the implications of the global banking crisis, including the impact of mitigation measures and uncertainties, and are satisfied that the financial statements and supporting notes fairly reflect that assessment.
- We confirm we have considered the treatment of items or probable and potential expenditure notified to us by external parties in line with the accounting standards for contingent liabilities and provisions.

Appendix A: Draft management representation letter

Going concern

To the best of my knowledge there is nothing to indicate that the Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Dawn Calvert
Director of Finance and Assurance
Date

Appendix C: Draft consistency report

Independent auditor's report to the members of London Borough of Harrow Council

Report on the audit of 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 2022, 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 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Appendix B: Draft audit report

Other information

The Director of Finance and Assurance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of the Director of Finance and Assurance's Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the 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 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance and Assurance is also responsible for such internal control as the Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare 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 Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We evaluated the Director of Finance and Assurance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to :

- discussing with management and the Governance, Audit, Risk Management and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to :

- making enquiries of management and the Governance, Audit, Risk Management and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance, Audit, Risk Management and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Appendix B: Draft audit report

We are also required to conclude on whether the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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

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 Council, 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.

Suresh Patel
For and on behalf of Mazars LLP
30 Old Bailey, London EC4M 7AU

date

Appendix C: Draft consistency report

Independent auditor’s statement to the members of London Borough of Harrow on the pension fund financial statements included within the London Borough of Harrow Pension Fund annual report

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2022 included within the London Borough of Harrow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Harrow for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We have not considered the effects of any events between the date I signed my report on the full financial statements [insert date] and the date of this statement.

Respective responsibilities of the Director of Finance and Assurance and the auditor

As explained more fully in the Statement of the Director of Finance and Assurance's Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the Pension Fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Harrow as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Harrow.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Harrow describes the basis of our opinions on the financial statements.

Appendix C: Draft consistency report

Use of this auditor's statement

This report is made solely to the members of London Borough of Harrow, as a body and as administering authority for the London Borough of Harrow Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of London Borough of Harrow those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Harrow and London Borough of Harrow's members as a body, for our audit work, for this statement, or for the opinions we have formed.

esh Patel
and on behalf of Mazars LLP
30 Old Bailey, London, EC4M 7AU

Date

Appendix D: Independence and fees

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.

Fees

The scale fee is set by PSAA and we levy fee variations for additional work. These are then discussed and agreed with the Director of Finance and Assurance and approved by PSAA.

Area of work	2021/22 (Proposed)
Scale fee	£16,170
Additional work and fees:	
• Level 3 investments	£4,500
• IAS19 assurances to LB Harrow	£2,800
TOTAL	**£23,470**

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did experience issues with respect to obtaining external confirmations from fund managers, but the Pension Fund fully co-operated in assisting the audit team to work through the issue.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Director of Finance and Assurance that The London Borough of Harrow Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix E: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and The Governance, Audit, Risk Management and Standards Committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Suresh Patel, Partner

Mazars

30 Old Bailey
London
EC4M 7AU

Independent auditor's report to the members of London Borough of Harrow Council

Report on the audit of 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 2022, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Interim Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Interim Director of Finance and Assurance with respect to going concern are described in the relevant sections of this report.

Other information

The Interim Director of Finance and Assurance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Interim Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of the Interim Director of Finance and Assurance's Responsibilities, the Interim Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code update, and for being satisfied that they give a true and fair view. The Interim Director of Finance and Assurance is also responsible for such internal control as the Interim Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Interim Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update 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 Interim Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Pension Fund 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Interim Director of Finance and Assurance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance, Audit, Risk Management and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance, Audit, Risk Management and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance, Audit, Risk Management and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Interim Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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

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 Council, 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.

Suresh Patel
For and on behalf of Mazars LLP

30 Old Bailey
London
EC4M 7AU

Date

Interim Auditor's Annual Report

London Borough of Harrow

For the years ended 31 March 2021 and 31 March 2022

November 2023

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Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Interim Auditor's Annual Report

Our Interim Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for the London Borough of Harrow ('the Council') for the years ending 31 March 2021 and 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
For 2020/21 we issued our audit report on 26 January 2022 and expect to issue the audit report for 2021/22 on XXXX after the planned meeting of the Council's Governance Audit Risk Management and Standards Committee. Our opinion on the financial statements for both years is unqualified.

Value for Money arrangements
In our audit report for both years we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 provides an update on this work and provides our commentary on the Council's arrangements and a summary of our recommendations.

Wider reporting responsibilities
In line with group audit instructions issued by the NAO for 2020/21 and 2021/22 we have completed the required procedures on the Council's Whole of Government Accounts return. We have reported to the group auditor for 2020/21 and will do so after issuing the audit report for 2021/22.

However, the NAO is yet to issue guidance on sampled components in relation to the 2021/22 Whole of Government Accounts. Therefore, we are unable to conclude our procedures.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinions

Our audits were conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audits is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March and of its financial performance for the year then ended. We issued an unqualified audit opinion on the 2020/21 accounts on 6th January 2022 and expect to issue an unqualified opinion on the 2021/22 accounts.

Qualitative aspects of the Council's accounting practices

For both years we reviewed the Council's accounting policies and disclosures and concluded they complied with the CIPFA Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

The Council published its draft accounts for 2020/21 on 15 July 2021 and they were of a generally good quality. It published draft accounts for 2021/22 on 19 July 2022.

Significant difficulties during the audit

For 2020/21 we did not encounter any significant difficulties and we had the full cooperation of management. Given the impact of Covid-19 at that time the audit was largely completed remotely.

For 2021/22, we did encounter some difficulties with the completion of work in the following areas:

- The Council changes its general ledger system during the year meaning that the transaction listings to support entries in the accounts were required to be obtained from two financial systems. This impacted our sample testing.
- Property valuations testing where we identified several issues with the Council's approach and accounts disclosures.

We note that we have had the full co-operation of management in resolving these issues.

2. Audit of the financial statements

Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Recommendations
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2020/21: 1 2021/22: 2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2020/21: 5 2021/22: 3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	2020/21: 0 2021/22: 0

2. Audit of the financial statements

Internal control recommendations: 2020/21

IT logical security – Level 1

Description of deficiency

During the course of the IT audit we found the following issues surrounding logical security:

- 20 leavers could have accessed accounts post leaving, of which 11 had direct access to SAP
- Within SAP, 106 users were identified as having access to SU01, the ability to create and remove users
- A number of users had access to critical SAP profiles giving them unrestricted access to all areas
- SAP password parameters did not align with best practice.

Potential effects

The above findings have a number of potential impacts:

- Employees who have left the authority may still have access to financial data and the ability to process transactions, resulting in financial loss.
- Excessive use of SU01 access rights increases the risk of ‘ghost users’, which may enable individuals to misappropriate funds and data.
- Access to all elements of SAP profiles removes effective segregation of duties and increases the potential for misappropriation of funds and inappropriate accessing of areas.
- The use of weak passwords increases the authorities susceptibility to cyber attacks.

Recommendation

We are aware that the authority is in the process of moving to a new accounting system. We recommend that the following are implemented as soon as possible:

- Processes are put in place to ensure access rights for all leavers are rescinded on the final day of service and a periodic review of access rights is undertaken to identify any users with access rights that aren’t appropriate.
- Privileged access rights such as SU01 are reviewed to ensure their use and issue are kept to a minimum.
- Standard users should be reviewed to ensure no staff are allocated unrestricted access rights.
- The Council’s password policies should be updated to ensure they align with generally accepted best practice.

Management response

A review of internal controls will ensure that once an officer has been made a leaver and after their last day of service, they are removed from the SAP system (Dynamics going forward). In addition, there are strict controls over the returning of LBH laptops on the last day of an employee’s service. Officers will regularly test that these controls are working correctly.

Only LBH staff who either work in IT or the SAP / Dynamics Support Team plus specific external consultants who support the Harrow system will have access to SU01.

All user permissions are based on least privilege and the Role-Based Access Control model and password policies are in line with industry best practice (8+ characters, complex). Officers will ensure that all system password requirements meet industry best practice.

Officers will review and periodically check that the access control policy procedures are working effectively to prevent any unauthorised access to all areas of a system.

2. Audit of the financial statements

Internal control recommendations: 2020/21

IT operations – Level 2

Description of deficiency

During the course of our detailed IT audit work we noted the following issues:

- While the IT system back up policies and procedures were documented, these were last reviewed and updated in February 2016 and a number of the provisions under the guidance were outdated.
- Although an IT business continuity plan was documented, this had not been reviewed and updated since July 2018 and a number of the provisions under the guidance were outdated.

Potential effects

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The reliance on outdated backup policies and procedures will result in a lack of understanding and policy compliance and could ultimately result in a loss of data for the Council

Further, the existence of an outdated business continuity plan may result in a lack of staff understanding of policies and processes, and may give rise to a lack of productivity and functionality during periods of IT disruption.

Recommendation

The council should ensure the relevant policies are updated to reflect current business software and practises as part of the current system upgrade and then be subject to regular periodic review, update and testing.

Management response

The move to outsourced cloud services has fundamentally altered the Council's data backup / recovery processes. Assurance of Council data is now largely achieved through the contractual provisions with a range of cloud service providers, IT will consolidate these arrangements into an updated business continuity plan by the end of March 2022 and will update quarterly.

Approach to Valuations – Level 2

Description of deficiency

Our audit work has highlighted that the council made use of multiple external valuers to assist in the year end valuation of the investment property portfolio. We noted that 4 separate external valuers have been used across the councils investment property portfolio.

Potential effects

The use of a range of valuers may give rise to issues surrounding the consistency of approach that is employed whilst valuing properties. Whilst we noted no significant findings as a result of our investment property valuations testing, we consider the council may be able to achieve some economies of scale by using fewer valuers.

Recommendation

Given the above, we would recommend the council reviews the list of properties for which external valuation experts are required and reviews its approach to the appointment of external valuers.

Management response

The Covid-19 pandemic meant no site visits could be undertaken to inspect and value the investment properties. For this reason, the Council used valuers who had both knowledge and the specialist experience of these assets. The investment properties are sited around different parts of the country and some are of a specialist nature (i.e. golf course / hotel).

Going forward officers will consider the procurement of all such investment property valuations through one valuer.

2. Audit of the financial statements

Internal control recommendations: 2020/21

IFRS 16 readiness – Level 2

Description of deficiency

Our audit work highlighted leases, where the council is the lessor, that had been recognised within the operating leases disclosure. Review of the lease terms concluded that these items should have been disclosed as finance lease arrangements, with the affected assets to be excluded from the balance sheets and future commitments disclosed separately. As the affected lease is trivial we have agreed with management that the disclosure in respect of the issue will not be amended in the current year.

However, in identifying this issue we have also identified a small number of leases that will fall within the scope of IFRS16, but not the current leasing standard. These leases will therefore require to be brought onto the balance sheet for the first time in 2022-23.

Potential effects

The Council will require to quantify the financial impact on the balance sheet of the implementation of IFRS 16 in their 2021-22 financial statements. Without a full review of all leases held, including those at peppercorn rentals, there is a risk that this disclosure could be materially misstated.

Recommendation

Given the authority has sufficient time available prior to the mandatory implementation deadline, we recommend that the Council performs a thorough review of leases held and their value to quantify the overall impact of implementation of IFRS16 for disclosure in the 2021-22 accounts and beyond.

Management response

In preparation for the 2022-23 Statement of Accounts (comparatives required for 2021-22) the Council has carried out a thorough review of leases held for which the Council is lessee. An estimate of the impact of IFRS16 on the balance sheet has been calculated. On the basis of the estimate the impact on the accounts of IFRS16 is not expected to be material. A detailed IFRS16 calculation will be prepared for inclusion in the 2022-23 accounts.

PPE valuations process – Level 2

Description of deficiency

Our audit identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This was due to issues in the valuations process resulting in incorrect balances being provided to the fixed asset register gatekeeper. This resulted in the overstatement of valuations in the financial statements, which have been corrected by management.

Potential effects

The misstatement of property valuations in source documentation will lead to the balance sheet being incorrect.

Recommendation

Management should make the best use of all of the available information to them. In order to minimise the occurrence of such errors, we recommend:

- In order to ensure management are using all information provided by the valuers, management should perform reconciliations between valuations input spreadsheet and fixed asset register
- Greater challenge of the valuation provided to management to be input into the accounts.

Management response

Officers acknowledge that human error allowed several individual file valuations not to be updated on the summary schedule that was forwarded for inclusion in the fixed asset register.

Going forward Corporate Estates will carry out sample checks to confirm all updated valuations have been included on the summary schedule and will insert an additional check column within the workbook to acknowledge that all valuations have been correctly incorporated.

2. Audit of the financial statements

Internal control recommendations: 2020/21

Migration to Dynamics accounting system – Level 2

Description of deficiency

We have noted the Authority plans a hard close of the finance side of the current SAP system at the end of November 2021 following a full migration of the finance side to Dynamics. Payroll will remain in SAP for the immediate future.

Potential effects

2021-22 will be the first year end on the new accounting system. Given the year end close will require the 'splicing' together of data from two systems and first close of a new accounting system, there is scope for considerable delays and 'teething' issues.

Recommendation

We would recommend the council run a 'dress rehearsal' of the year end closure. This process will help the Authority to understand its new system and identify any close down issues prior to the year end. This will allow work arounds to be implemented before the full year end close down.

Management response

Officers within Finance have already started on reconciliation checks to ensure closing balances from SAP are carried forward as the opening balances in the Dynamics system. Officers will ensure all data and reconciliations are up to date and year end reports tested to allow a dry run of an accounts closedown under Dynamics by the end of February 2022.

2. Audit of the financial statements

Internal control recommendations: 2021/22

Property, Plant and Equipment Depreciated Replacement Cost (DRC) Valuations – Level 1

Description of deficiency

As part of our valuations testing we identified that, as part of the Council's methodology for completing depreciated replacement costs (DRC) valuations, valuers had been using physical obsolescence rates which were in line with Valuation Office (VO) data for individual building components, and not separating each asset into their significant components and using that as the basis for identifying physical obsolescence of each component.

Potential effects

While we have performed analysis on the application of these rates for the 2021-22 portfolio of valuations, having concluded that there is not a material impact on the valuation figure for the entire population, we have noted that the application of VO standard rates can cause variances on individual assets. As a result, when considered in isolation, individual asset valuations are not as accurate as if the best practise methodology (based on full componentisation of assets) had been applied.

As further valuations are completed over a period of time, the inaccuracies on an individual asset basis may result in an overall material misstatements of the value of property, plant and equipment within the financial statements.

Recommendation

The Council should ensure that it's valuation methodology for DRC valuations includes buildings being separated into their significant components, and the relevant physical obsolescence amount is individually calculated on the basis of these components.

Management response

In terms of the 2021/22 valuations, the Council has carried them out using the same methodology as in previous years. Following on from the feedback received on the 2021/22 valuations from Mazars internal valuer, the Council will use this approach going forward for 2022/23 onwards.

For 2022/23, the Council has also appointed Wilkes Head Eve to undertake the valuations, in accordance with the necessary cyclical and revaluation/inspection criteria. Notably, they act for over 150 local authorities across the country and so are equipped to provide an all-encompassing Asset and HRA Stock Valuation process, fully compliant with all IFRS codes of conduct and practice.

They provide advice for assets within portfolios in relation to the new classifications that were introduced:

- Property, Plant & Equipment (IAS 16)
- Investment Properties (IAS 40)
- Assets Under Construction
- Assets Held for Sale (IFRS 5)
- Infrastructure Assets
- Heritage Assets

In addition, they have experience with componentisation– identifying patterns and thresholds to ensure accuracy of costs/values over time and have also adopted a robust and clear methodology in relation to element-based valuations

2. Audit of the financial statements

Internal control recommendations: 2021/22

Property, Plant and Equipment Council Dwelling Valuations – Level 1

Description of deficiency

For 2021/22 the Council valued its dwellings as at 1 April 2021. To determine the valuation as at 31 March 2022, the Council applied an appropriate index. We identified that the Council used the index as at 31 January 2022 and then made a forecast of the movement to 31 March 2022. However, the actual index at 31 March 2022 was significantly different to the forecast and will lead to a material amendment to the valuation of the Council's dwellings in the draft accounts.

Potential effects

The use of estimated indexation figures for the final quarter of 2021/22 has resulted in a material misstatement of Council dwelling valuations, when compared to valuations based on the actual indexation movements. The continued use of estimated indexation figures in future periods may result in further material misstatements in the financial statements.

Recommendation

The Council should apply actual indices at 31 March to Council dwelling valuations made at 1 April.

Management response

To comply with the statutory deadline to close the accounts, estimated indices, based on published government data, have to be used where actual indices were not available to determine HRA asset values in the accounts.

The difference between estimated and actual indices would not usually have resulted in significant differences but 2021/22 was an exceptional year with the impact on the economy and covid which has meant that the updated House Price Index figures shows that the data for all months changed apart from March 2021.

In future, as part of the post balance sheet review period, we will revisit the House Price Index used and review and update as required.

2. Audit of the financial statements

Internal control recommendations: 2021/22

Property, Plant and Equipment Council Dwelling groupings – Level 1

Description of deficiency

Per the Code and in line with the Stock valuation guidance for resource accounting, the Council apply a ‘beacon’ approach to valuing in council dwellings. This approach requires the Council to group dwellings based on high level characteristics such as location as applied by the Council. The methodology then allows valuers to assign one property in each group to be a ‘beacon’. This is then formally valued, with the valuation applied to all other individual properties within the group.

Per the guidance, ‘variants’ are then identified within groupings based on more detailed characteristics such as age, build type, bedrooms etc. Standard adjustments are then made to the valuation of the beacon property and applied to al of the properties within this variant grouping.
Our work identified that the Council were not applying this methodology appropriately. We noted instances where dwellings displaying different characteristics were in the same variant group.

Potential effects

We performed mitigation testing to confirm that the Council had only placed properties into variant groupings of other dwellings with different characteristics when they considered the valuation for these differing property types to be the same. We are therefore satisfied there is no material impact on the 2021/22 financial statements. However, properties displaying different characteristics may be subject to different market movements year on year and the Council may incorrectly determine two groups of properties to have the same individual value. This may result in a material misstatement within the Council’s financial statements.

Recommendation

2021-22 represented year 2 of the Councils 5-year HRA valuation programme. We recommend the Council reviews the variant groupings it has applied. Where 2022-23 valuations are underway and variant groupings include properties with different characteristics, we recommend the Council gains adequate assurance that these properties of differing characteristics have the same value. For future years where valuation work is yet to commence, we recommend the Council reviews its variant groupings and ensures only properties that have the same characteristics are in variants groups.

Management response

We note this and will discuss this finding with our external valuers and ensure that they review the variants applied to the groupings, to ensure consistency.

2. Audit of the financial statements

Internal control recommendations: 2021/22

Property, Plant and Equipment Assets not Formally Revalued During the Year – Level 1

Description of deficiency

In line with the Code and per the Council's internal policies on revaluing property contained within the general fund, not all items of property are subject to full formal valuation every year.

However, our audit work identified a number a small number of properties that had not been revalued, even though the Council's own internal policies, and in one instance, the Code, dictated a full formal valuation was required. Once such instance identified resulted in a material misstatement that has since been amended in the 2021-22 financial statements.

We also noted the Council was not undertaking any procedures to assure itself that the potential aggregate movement in valuation of non-revalued properties year on year, had they been formally revalued, was likely immaterial.

Potential effects

Failure to adhere to requirements for revaluation dictated by the code and per the Council's own internal policies has resulted in material misstatement in the 2021-22 financial statements and could lead to further material misstatements in future sets of accounts.

Failure to undertake any procedures to gain assurance that potential movements on non-revalued items are likely immaterial may result in the failure to detect material market movements in aggregate, resulting in material misstatement of the financial statements.

Recommendation

We would recommend the Council ensures its annual valuation programme is compliant with the Code. We also recommend the Council ensures its own internal policies for valuations are adhered to.

We would recommend the Council ensures adequate assurance exercises are undertaken on those assets not subject to revaluation, to ensure any individual or aggregate potential valuation movements are not material.

Management response

We will review the 5-year plan with our external valuers to ensure it is compliant with the Code and our own internal policies.

Internal control recommendations: 2021/22

Infrastructure Assets Accounting Records – Level 2

Description of deficiency

In applying the statutory override for accounting for infrastructure assets, we reviewed the data available and noted that Council records were insufficiently detailed to allow management to determine when assets in this category should be written out of the fixed asset register.

Potential effects

If appropriate records are not maintained in relation to individual items of infrastructure asset, in particular in respect of gross book values and accumulated depreciation, the balance within the financial statements uld be considered as materially misstated once the availability of the statutory override is removed.

Recommendation

The Council should improve the level of detail in the fixed asset register in relation to infrastructure assets to enable it to appropriately consider individual assets and when they should be written out at the end of the useful economic lives.

The Council should also review the useful economic lives of infrastructure assets regularly to ensure they are and remain reasonable, and document where they are not in line with the CIPFA guidance.

Management response

The way the project codes are set up are by the overarching type, for example Highways programme, marking of roads, etc and the highways team then maintains a breakdown of the roads covered by the works. It would not be possible to break down historical balances in more detail than is currently available but will ensure from 2023/24 onwards, the council will provide more detail.

We have now liaised with the Highways team and propose to review our useful lives and implement the changes 2023/24.

2. Audit of the financial statements

Internal control recommendations: 2021/22

Data Migration: Validation of Historic Accounting Records – Level 2

Description of deficiency

During the 2021/22, the Council performed a migration of its general ledger system from its existing supplier, SAP, to Microsoft Dynamics 365. As part of this migration, the physical servers supporting the legacy SAP system were decommissioned.

To maintain access to the data, and as a solution to provide a record of data to support historic accounting records, the Council made use of a cloud based storage solution. Audit review of the migration process, along with specific considerations of the requirement to maintain 6 prior years worth of historic records, identified that the Council has not yet finalised its initial validation work on the data to confirm it is sufficient for need.

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Potential effects

Following significant time input to work with officers we have managed to obtain sufficient and appropriate evidence to support the audit of the 2021/22 accounts. However, access to the data has not been a simple process. We have not confirmed that all of the data has been retained.

We also note that failure to maintain adequate historic records, preceding those for 2021/22, that are validated against audited financial statements may result in non-compliance with specific HMRC laws and regulations around the maintenance of records.

We have also made reference to this matter as part the VFM arrangements review.

Recommendation

The Council should complete the validation work on its historic records. We understand that some of this is in progress and that, if no issues are identified in the current year, the two previous years will be validated. If issues are identified as part of this process, then the Council should extend the validation process.

Management response

The legacy SAP system was decommissioned as a result of having to move the hardware out of the Data centre in the Civic Centre. Therefore, the council has stored the data (General Ledger and Accounts Payable & Receivable Ledgers) for financial years 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and the six month's data in 2021-22 in compliance with HMRC requirement.

As a requirement for the audit, the council has already carried out full reconciliation on the transactions for 2021/22 (which is the current year) and Mazars have obtained sufficient and appropriate evidence to support the audit of the 2021/22 accounts as requested and no issues have been identified.

Also, HMRC has just concluded a Business Risk Review and all the data requested for the review has been provided. The council is waiting for a final written confirmation on the conclusion from HMRC on this.

The Council will need to consider how much staff time will be required to recreate the trial balances for 2019/20 and 2020/21 from the historical transactional data stored on SharePoint as requested by Mazars. This work will serve no purpose in terms of the validation of the 2021/22 accounts.

2. Audit of the financial statements

Internal control recommendations: 2021/22

Collection Fund reconciliation – Level 2

Description of deficiency

We identified that the Council had included a manual adjustment, made solely within the financial statements and not in the general ledger. The adjustment made was to move values between two balance sheet values (creditors and debtors) and represented analysis of the components of the collection fund surplus.

Potential effects

Whilst the manual adjustment made was required for the 2021-22 statement of accounts, the need for manual adjustment to be made solely within the financial statements results in the general ledger, the council's primary source of information for the statements, not fully reconciling with the statements.

The use of a manual adjustment also gives rise to a risk of potential error when completing the adjustment and increased management override risk through the manipulation of balances.

Recommendation

The Council should create the required ledger codes within its new general ledger system to enable surpluses on the collection fund to be appropriately journalled to the correct area in the statement of accounts, thereby removing the need for manual adjustments.

Management response

The net amount due to the GLA or Central Government are usually creditor balances and there are creditor codes on the financial system for these. Due to the huge deficits in the past couple of years, these amounts now net to a debtor balance.

The council has rightly mapped these debit balances (though on a creditor codes) as part of debtors so that we do not understate our debtor and creditor balances in the financial statement.

There has been no error made in the collection fund accounting and going forward equivalent debtor codes have now been created should this happen again in the future.

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Section 03:

Commentary on VFM arrangements

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3. Commentary on VFM arrangements

Overall summary in relation to the years ending 31st March 2021 and 31st March 2022

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services

Governance - How the Council ensures that it makes informed decisions and properly manages its risks

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment
At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information.
- Information from internal and external sources including regulators.
- Knowledge from previous audits and other audit work undertaken in the year.
- Interviews and discussions with officers.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation
Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

On Page 22 we outline the risks that we have identified and the subsequent work.

Phase 3 - Reporting the outcomes of our work and our recommendations
We provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
  We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**
  We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

We summarise the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	**23**	Yes – see risk 1 on page 24	No	No
Governance	**28**	Yes – see risk 2, 3 and 4 on pages 29, 30 and 31	Yes – see recommendations 1, 2 and 3 on pages 40, 41 and 42	No
Improving economy, efficiency and effectiveness	**35**	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services

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3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

	Risk of significant weakness in arrangements	Work undertaken and the results of our work
1	**Financial sustainability** 2020/21 The Authority's Medium Term Financial Strategy (MTFS), from which the medium-term financial plan is developed, identified the requirement to draw down £3.8m of reserves during 2020/21 and the ongoing requirement to make significant future savings. 2021/22 The 2021/22 Medium Term Financial Strategy identifies the need to use £14.8m of reserves in 2022/23 and the need to make significant savings to balance future budgets. The sustained use of reserves is not a financially sustainable strategy for balancing future budgets.	**Work undertaken** To address the risk identified in both years, we have performed the following procedures: • Review the development and implementation of subsequent Medium Term Financial Strategies (MTFS), ensuring they have considered factors such as funding restrictions, demand pressures and savings requirements. • Review of savings plans in place to determine if they appear reasonable and achievable. We have also considered the outturn of savings against these plans. **Results of our work** Our review of the subsequent MTFS, presented to Cabinet in December 2022, has confirmed that the planned use of reserves is decreasing into future periods. Drawing on reserves in 2022/23 was not fully realised, with the total drawdown only being approximately £9.5m compared to the original £14.8m. The planned use of reserves in 2023/24 has decreased to £10.4m. The budget has accounted for factors such as funding restrictions, demand pressures and savings requirements. In response to the required drawdowns on reserves, the Council has taken steps to implement a savings plan, running through to 2025/26. This plan identified potential savings of £24m, with £17.9m to be realised by the end of 2023/24. In preparing the plan, the Council risk assessed each potential saving identified in line with the potential impact they may have on services currently provided. Based on this system, approximately £7.5m of these savings are considered high risk of adversely impacting service delivery. As at November 2023 (the date of this report), the Council has delivered savings to its plan with slippage of approximately £5.3m. Future Medium Term Financial Strategies have built in savings at this level and deliver a balanced budget.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability

The Council began the 2020/21 financial year as the first national lockdown began, which brought with it a range of operational requirements needed to effectively respond to the range of challenges the pandemic presented. Central government made a series of policy announcements as part of the national response to Covid-19, many of which impacted on the Council. Consequently, the Council was at the forefront of efforts to protect residents, including the most vulnerable, and to support local businesses.

The 2021/22 financial year saw the country move gradually out of the restrictions arising from the national lockdown, which brought with it the management of a range of changing requirements to effectively respond to the centrally implemented step levels. Central government implemented a series of steps and a detailed timetable as part of the continued national response to Covid-19, many of which impacted on the Council's continuing and pandemic specific services.

As in 2020/21, some of the Government's initiatives to respond to the Covid-19 pandemic were supported by funding, for which the Council received significant additional funding across both 2020/21 and 2021/22. This included general grants to support its Covid-19 response, specific grants of which the Council had discretion over to determine the use, and compensation for business rate reliefs, alongside significant funding provided to support local business in line with the government's national initiatives. This funding allowed the Council to continue to support residents and businesses through the year and provide funding to help mitigate some of the financial pressures caused by the pandemic. The financial sustainability challenges arising from the pandemic response have continued in the short term and combined with changes in government funding, maintains the pressure on the Council to ensure effective financial sustainability arrangements.

The Council's financial planning and monitoring arrangements

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities and the impact on resources. Where additional resources are required, these are scrutinised and challenged before they are included in the budget estimates. Workshops with officers and Members are a key part of the budgeting arrangements, and these are detailed and extensive.

The process involves consultation and discussion with officers and Members around the assumptions and principles on which the detailed budget is based. A range of officer meetings and discussion take place to review proposals for savings and budget reductions, with each proposal supported by evidenced assessments of deliverability and potential savings.

Proposals are subject to consultation with staff, officers and Members and are presented to meetings attended by Cabinet Members and senior officers and Governance, Audit, Risk Management and Standards Committee members before submission to, and approval at, Full Council as part of the formal budget and council tax setting process.

We have reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. This confirmed that the documents were comprehensive and detailed and the process for development had been completed on a timely basis and delivered the intended outcomes to assist with the budget preparation.

The Council provided quarterly reports of its financial position to Cabinet across the year, as well as at year end, which reported its revenue outturn position for 2021/22 as an overall overspend of £1.5m. We have reviewed a sample of the reports presented throughout the year and these were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a range of other financial measures and other performance information.

Officers and Members actively review and consider overall performance in line with this information. The Council has a well-established timetable for Cabinet reporting which includes reporting to directorate, divisional and strategic management teams.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The Council produces a Medium-Term Financial Strategy (MTFS) each year alongside its annual budget. This sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally over the planned four-year period and is updated and extended as part of each year's budget setting process. For several years, the Council has identified funding gaps across the life of its MTFS. For both 2020/21 and 2021/22, the Council set and delivered a balanced budget. However, in each instance, the delivery of a balanced budget required the drawing down on reserves in respective years.

The Council acknowledges that drawing on reserves is an unsustainable practise for achieving balanced budgets. Given the consistent cut-backs in funding, the Council has a strong track record of delivering savings.

Between 2013/14 and 2020/21, the Council has delivered total savings of £99.4m. The following periods have shown no change in this trend. The Council delivered further savings of £3.8m in 2020/21. In 2021/22 the Council committed to a long-term savings plan to 2025/25 of £24m. To date, £5.3m of slippage against this plan has been identified.

The Council incorporate the identification of potential savings into the financial planning process. On submitting budgets at budget holder level, finance business partners provide challenge to budget holders, ensuring wherever possible savings are made. As part of our work, we have reviewed the Council's savings plans for the years up to and including 2025/26. Each potential saving is risk rated in terms of delivery challenge and impact on service users. Highest risk savings are reviewed to ensure they remain realistic. If required, savings targets are either revised or action is taken to ensure realistic savings are achieved.

Despite the considerable savings highlighted above, the Council had to draw down £3.8m on reserves in 2020/21 and a further £2.5m in 2021/22. As a result of the high levels of savings already achieved at the Council, the MTFS recognises the increasing difficulty in identifying future cost savings and the impact this may have on the Council's ability to continue to deliver front line services in the same way, or to the same degree.

To address the balancing of budgets, and in response to diminishing levels of cost savings, the Council has identified additional approaches to balancing budgets, such as by increasing revenues in future periods. The Council has agreed the maximum increase in council tax rates by 1.99% in 2021/22, 1.99% 2022/23 and 2.99% in 2023/24.

The Council's approach to ensuring financial plans support the sustainable delivery of services and consistency with other Council plans

Alongside the MTFS, the Council develops treasury and capital investment strategies to support the financial plan. This ensures relevant plans relating to the Council's finances are co-ordinated and support the operation delivery requirements of the Council.

Throughout the financial year, the Director of Finance and Assurance provided updates on treasury management, revenue and capital budgets to Cabinet and Governance, Audit, Risk Management and Standards Committee (GARMS) as appropriate. These reports are provided to give assurance that the relevant plans, and outturn to date, are supporting the day-to-day operational requirements of the Council.

The Council also has a wider overarching local plan. This details the high-level goals of the Council for a 15–20-year period and is subject to consultation to ensure the Council is delivering services in line with the needs of the local population. In preparing the MTFS, management are required to consider the overarching local plan, the ensure the delivery of the Council's goals can be met.

Our committee and board minute reviews show the Council constantly monitors the outcome of the various budget and plans and ensures they are all tying in to working towards the attached long-term strategy.

The Council's approach to managing risk to financial resilience

To manage its risks to financial resilience, the Council maintain a risk register. Whilst not specifically for financial risks, this is the underlying process for identifying risks the Council faces. Review of this risk register confirms risk being tracked relate to the Council's financial resilience.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Each risk is assigned a score in line with its potential likelihood and its potential impact. Responses to these risks are then determined in line with the Council's risk appetite. Through our attendance of GARMS meetings, we have confirmed that the register is reviewed frequently, actions are appropriately tracked, and the Council's risk appetite is kept under review in line with the environment in which it operates.

As part of the financial planning process, during the consultation phase with senior management, risks identified in the register are built into the planning process. This ensures the Council's financial plans are incorporating all the major pressures and risks it faces into future periods.

Outlook for 2022/23 and onwards

Local government is facing significant challenges for 2022/23 onwards. A sample of challenges the Council has been forced to consider and address in future periods will be:

- Cost of Living: With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- Added budget pressures: With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required. The Bank of England base rate rose to 3.5% in December 2022 meaning that the cost of borrowing has also increased significantly.
- Contractors and Suppliers: The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- Service Delivery: Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

Overall view on arrangements in relation to financial sustainability

As a result of the programme of work performed, we are satisfied the Council's arrangements in relation to financial sustainability are appropriate to secure value for money.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

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3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements		Work undertaken and the results of our work
2	**Governance in relation to allegations of fraud and corruption** In August 2021, the Council were alerted to allegations of fraud and corruption that are currently subject to a criminal investigation by the Police. Allegations of fraud and corruption indicate a possible significant weakness in relation to the operation of internal controls and the achievement of value for money.	**Work undertaken** To address the identified risk, we have: • Reviewed the internal audit findings and recommendations and considered management's progress in their implementation. • Considered the independent review findings and recommendations and of management's progress in their implementation. For both reviews we will consider if where controls weaknesses are identified, this constitutes a significant weakness in the arrangements for the Council that ensures they can gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. **Results of our work** The Council's Annual Governance Statement (AGS) for 2020/21 an 2021/22 reports this matter as a significant governance matter. The AGS for 2021/22 recognises that the independent review identified 5 recommendations aimed at strengthening controls to mitigate the risk of fraud. Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council's governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements - continued

	Risk of significant weakness in arrangements	Work undertaken and the results of our work
3	**Governance arrangements over the ledger migration: maintaining adequate historic accounting records** During 2021-22, the council migrated between two accounting systems, moving from SAP to D365. The council is required by statute to maintain adequate accounting records. Internal assurance processes may not be sufficient to ensure the council is managing the risk of non-compliance with these regulations, specifically the requirement to maintain adequate historic accounting records.	**Work undertaken** The Council instigated the implementation of a new ledger system (D365) to replace its existing SAP system on 1 April 2021. However, the implementation did not happen until part way through the 2021/22 year in September 2021. We have reviewed the internal assurance process the council has been through to understand if they have sufficiently managed the risk of non-compliance with laws and regulations in relation to maintaining adequate historic accounting records. **Results of our work** Whilst our financial audit procedures confirmed the migration of 2021/22 records was complete and accurate, this risk is specific to the requirement to maintain adequate accounting records for periods prior to 2021/22. In our view, the potential weakness identified could lead to non-compliance with statutory requirements in relation to maintaining adequate historic accounting records. The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules. We identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations. This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP. The Council has since performed some mitigation testing on the two most recent years' worth of data, it is yet to be shared with the audit team. Based on the above we are not satisfied that the Council's governance arrangements specifically in relation to data validation ensured effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed. Our recommendation in relation to this identified weakness is detailed on page 42 of this report.

3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements - continued

Risk of significant weakness in arrangements		Work undertaken and the results of our work
4	**Effectiveness and coverage of internal audit** During the year, the Council’s internal audit function faced sustained pressure due to under-resourcing and increased workloads in response to the identified highways management governance gap. As a result of the pressures, the function was unable to deliver a considerable portion of its planned programme of work but still reported a clean head of internal audit opinion to management with a qualification with respect to the programme of work completed.	**Work undertaken** We will review the work of internal audit and consider the recommendations that have been made to management. We will consider whether the programme of work completed provides suitable coverage for management to assess risk and gain assurance over the effective operation of internal controls. **Results of our work** We reviewed the Head of Internal Audit’s Annual Opinion on the effectiveness of the Council’s internal control environment for 2021/22, which was “Good with some significant improvements required in a few areas”. This was based on five out of 44 planned internal audit reviews, because resources had been diverted into a fraud investigation that arose in 2020/21. Whilst we understand the resourcing challenges faced by Internal Audit, its limited coverage for 2021/22 meant that potentially elevated areas of risk, such as the change in the general ledger and the associated migration and control charges, were not reviewed. We considered the conclusions reached on the five reports that were completed and discussed with Officers how the Head of Internal Audit may have considered other means of assurance alongside the reviews that were completed to support their opinion on the Council’s internal control, risk management and governance arrangements. Overall, however, we do not believe the work completed was sufficient to support the Annual Opinion for 2021/22. Based on the above, we are of the view that this matter is a significant weakness in respect of the Council’s governance arrangements, specifically how the Council monitors and assesses risks and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that exposes, or could reasonably be expected to expose, the Council to significant risk.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Council's risk management and monitoring arrangements

The Council has an established risk management framework that aligns financial accountability with service decision-making, embedded within the Council's governance structure. There are Corporate and Operational Risk Registers in place which are refreshed to reflect any significant changes in circumstances in which the Council operates and the current challenges and opportunities it faces. The Governance Audit Risk Management and Standards Committee (GARMS) reviews the effectiveness of the Council's arrangements and has continued to receive relevant update reports and briefings.

The Council have an internal audit team, led by the Head of Internal Audit & Corporate Anti-Fraud. They are responsible for the annual delivery of the internal audit work programme. Each year, a risk-based plan is devised based on thematic risks and an element of rotational coverage. This is reviewed and approved by GARMS annually.

For 2020/21 this programme included the completion of 29 internal audit reviews, an annual corporate governance review, management assurance statements, quarterly risk management outputs, specific grant claim validations and ad hoc professional advice. These reviews resulted in one identified significant weaknesses in internal control. This was a slight decrease on the level of output from the prior year due to resourcing pressures and the challenges presented by Covid-19 to working arrangements. The overall opinion issued for 2020/21 was '*good, with identified areas for improvement*'.

2021/22 presented an even more challenging year. The 21/22 programme, approved by the Governance, Audit, Risk Management and Standards Committee in April 2021, detailed 44 planned reviews. This plan was reviewed and approved by GARMS. During the year, internal audit again faced considerable resourcing pressures. As a result, only 5 planned reviews and 9 core systems reviews were completed. The remainder of the planned programme was deferred to 2022/23. The opinion provided by the head of internal audit for 2021/22 was *'good, with some significant improvements required in a few areas'*. We have considered the work of internal audit earlier in the report and consider it to indicate a significant weakness in respect of the coverage of the internal audit review.

GARMS are regularly updated on the progress of work against the internal audit plan. Our review of GARMS minutes, as well as attendance at meetings, confirms that the internal audit plan is effectively agreed prior to commencement and any weaknesses in controls identified through internal audit's work are highlighted and brought to the committee throughout the year.

In August 2021, the Council became aware of allegations within a particular service area. Such allegations indicated a possible weakness in the operation of internal controls. The Council has since completed an internal audit review of the systems in place and commissioned an independent review with the same scope.

The independently led review concluded that 'Whilst direct responsibility for any fraud must rest with anyone found guilty of perpetrating it and whilst it is not possible to prevent fraud from happening entirely, the Council does recognise the importance of putting in place a range of controls designed to mitigate against that risk and make it less likely to happen. Those steps are essentially in place in terms of corporate frameworks.' Five recommendations were made to further strengthen these.

Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council's governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The Council's arrangements for budget setting and budgetary control

The Council has a well-established, rigorous, budgetary process, with directorate budget holders required to provide detailed budgets for all cost and income headings within their directorate. This process is completed for both revenue and capital budgets, with the latter being indicative spend to assist with funding and borrowing requirements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The budget setting process is completed alongside the overall business and corporate planning process, to ensure budgets align with the performance objectives of the Authority. As part of the process, budget holders are asked to provide key information on forecasts for the following two years which is used to update the detail in the MTFS.

Following approval of the budget, progress against targets is then monitored on a regular basis through the preparation of monthly management accounts, which are subject to challenge on key variances from the agreed budgets. Throughout the year budget holders are required to produce an updated budget, or reforecast, for the full year based on actual results to date and a re-review of the budget for the remainder of the year that takes account of recent trends and known changes to future projections.

A member of the finance team attends GARMS, so they are aware of any financial issues raised, and can raise appropriate challenge to ensure the financial aspects of any key decisions have been appropriately considered. Review of GARMs meeting minutes, the budget setting process and discussions with Council officers confirmed the above arrangements are suitably implemented and did not identify any significant weaknesses in the arrangements.

We have reviewed Council minutes and confirmed there was regular reporting of the financial position during the 2020/21 and 2021/22 financial year, including detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year and did not indicate a weakness in arrangements. The data is also reported to Senior Management Team and Cabinet.

The financial statements timetable is prepared by finance and approved by GARMS. The timetable was achieved in 2020/21 and 2021/22, with accounts being received prior to the 31st July deadline. Our audit of the financial statements issued an unqualified opinion for 2020/21 and we anticipate the same for 2021/22.

The Council's decision-making arrangements and control framework

We have reviewed Council minutes throughout the year and have not identified any evidence of a weakness in arrangements. The reports reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

We noted officers and relevant committees making full use of the reporting packs and information provided to them. We also noted that GARMS was operating as intended, providing sufficient challenge as those charged with governance.

Items for decision are subject to discussion and scrutiny prior to approval. The Council is transparent in its decision making. Key decision notices are produced and made publicly available via the Council's website. This log of published notices also contains officer decisions that have been approved under the scheme of delegated authorities.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the Covid-19 pandemic throughout 2020/21 and the early parts of 2021/22. The arrangements included live streaming to allow the public to observe Council meetings. These have since returned to in-person events but continue to be streamed on the Council's website to enable public engagement.

The Council expects the highest standards of conduct from both its members and officers and is supported by the Governance Framework. The framework is reviewed and updated regularly by management as part of the annual review of the Constitution. Management and members are both updated on the standards expected of them annually following this process.

The Council has a standing item at all committee meetings for the declaration of interests by members, with members also expected to complete internal declarations on a regular basis (in line with the Governance framework. These declarations are logged in a publicly held register and is available for viewing on the Councils website. These registers also log any gifts and hospitality received by members, with members regularly reminded of the need to update records.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Statement of Accounts records material related party transactions as well as senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared, with no significant issues arising.

The Council's arrangements for ensuring it meets legislative and regulatory requirements

Assurance on compliance with regulatory requirements is regularly reported to GARMS using summary reports. The Council are also have a process of internal reviews and inspections to ensure reporting standards are being met. Neither have identified significant issues during wither the 2020/21 or 2021/22 financial years.

As part of the Council's corporate anti-fraud risk management, a register of interests in maintained. Members and senior officers are required to complete annual returns to identify and monitor potential related party relationships and transactions. A further register is also kept for members and senior officers to record any gifts or hospitality they may have been in receipt of. The Council have made us aware of one instance of an interest not being reported, but we are satisfied this was not material and did not result in any required disclosures being omitted from the financial statements. Our wider audit work did not identify any further omissions.

The Council also has established policies for both Counter Fraud and Corruption and Standards of Business Conduct. These have been prepared in accordance with the Bribery Act and central government guidance on the risk management of conflicts of interest. Employees are informed of changes via the Council's intranet. Senior officers and members are required to make declarations throughout the year.

The Council has an expenses policy governing expense claims for employees. The standards of business conduct policy and Modern Slavery Act requirements set out the expected behaviours of staff and contractors.

During the 2021/22 cycle, the Council migrated between accounting systems, moving from SAP to D365. The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules for example.

Whilst our audit procedures confirmed the migration of 2021/22 records was materially complete and accurate, we identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations.

This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP.

Since the May 2023 GARMS, the Council has advised that it was able to provide sufficient records to comply with an HMRC business review, but sufficient evidence of completeness was not available at the point of issuing our report.

We have considered the issue relating to data migration and historic accounting records earlier in the report and consider it to indicate a significant weakness in arrangements for securing value for money.

Overall view on arrangements in relation to governance

As a result of the programme of work performed, we have identified 3 significant weaknesses in arrangements in relation to the Council's governance arrangements. We have issued recommendations against each identified weakness on pages 40-42 of this report.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

The Council's arrangements for assessing performance and evaluating service delivery

The Council has a well-established performance monitoring framework, which is used to identify areas for improvement. Key to this monitoring are the quarterly outturn to budget reports submitted to Cabinet. These reports hold a detailed breakdown of spend-to-date against budgets, which can be broken down to individual budget holder level within each directorate, as well as being summarised at service level. This mix of high level and in-depth detail within the reports allows for Cabinet to monitor overall performance, and deep dive on any high-level issues identified.

Key to the monitoring of the Council's financial performance is the final outturn report, that is reviewed by Cabinet in July of each financial year. This provides Cabinet, full Council and the relevant sub-committees oversight of the Council's performance against financial budgets.

The 2021/22 report details a total revenue overspend of £1.5m. In preparing the report, detail is provided on a directorate level. This allows senior management and members to drill down and identify the sources of overspend. For 2021/22, these were largely attributed to resources and people due to increases in the Council's day-to-day running costs and workplace modernisation.

The report also details considerable capital slippage in the 2021/22 financial year, with spend only 35% of the initial budget. This is largely due to delays in building projects carried forward because of the pandemic and delays in funding materialising. The Council will carry forward this slippage into future capital budgets and spend in future years.

The Council reports annually a detailed performance summary, in the form of a Narrative report, forming part of the Statement of Accounts. This provides details of the Council's performance for the year and a summary of the outlook for the coming year. The report elaborates on the pressures faced by the Council because of the pandemic in 2020/21, and due to increased service demand in 2021/22, highlighting any impacts on local tax collection rates and increased demand for community services.

The range of services provided by the Council are subject to external regulation. The Council makes use of these reports to evaluate its own performance. During 2020/21, the number of visits performed by regulators was limited because of the pandemic. The most recent OFSTED inspection was completed in 2020 and involved an assessment over children's social care services within the borough against the following four judgements:

- The impact of leaders on social work practise with children and families
- The experiences and progress of children who need help and protection
- The experiences and progress of children in care and care leavers
- Overall effectiveness

The services provided by the Council for children and young people were assessed as good against these criterion.

The Council was subject to a targeted inspection from OFSTED on its multi-agency response to children and families who need help in Harrow in May 2023. Whilst only a targeted inspection, the report concluded that the Harrow Strategic Safeguarding Partnership does not have effective oversight and scrutiny of the multi-agency safeguarding arrangements or early help offer in Harrow.

The reports details Children and their families benefit from a wide range of early help services that support them to improve their lived experiences. However, this is uncoordinated without a lead professional or multi-agency focus and often provided through a single-agency approach at the exclusion of partners. The Council have reviewed the strengths and improvements required identified by the report and is working to improve the service offering. The report identifies several service strengths and areas for improvement. It also confirms that the Council is taking steps to action identified improvements. As such we are satisfied this does not represent a risk of weakness, as the Council is making use of the information for assessing and evaluating its future service delivery.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

In January 2021, the Care Quality Commission also issued reports in respect of the inspections of adult housing and social care services. These being against the following judgements:

- Is the service safe?
- Is the service effective?
- Is the service caring?
- Is the service responsive?
- Is the service well-led?

The Council received a rating of good for the services provided in comparison to the above criterion.

The Local Government and Social Care Ombudsman produce annual findings in relation to complaints received against councils and how they compare to similar authorities. In doing so, the Ombudsman provide details of the Council's performance against 3 key metrics, being: percentage of complaints made that are upheld, percentage compliance with previous recommendations and percentage of cases with satisfactory remedies applied.

The Ombudsman findings for 2020/21 and 2021/22 show a positive direction of travel for the Council. Complaints upheld reduced from 92% to 78%, compliance with recommendations increased from 95% to 100% and the percentage of satisfactory remedies increased from 4% to 14%. For all metrics, the Council performance is in line with other similar authorities.

The Cabinet also reviews quarterly performance packs which evaluate the Council's delivery of community services against the economic strategy. Despite the change in profile of service demand and budgetary pressures noted, performance packs show the Council met service demand in 2020/21 and 2021/22.

The Council's arrangements for effective partnership working

The Council is currently not part of any significant partnerships or such arrangements. As part of their arrangements for the provision residential care services, the Council has partnered with Sancroft Community Care Ltd, with the Council the 100% owner of the partner. The services provided by company fall under the scope of the Care Quality Commission, for which good ratings have been received to date. As part of the Council's performance management framework, review of the arrangement is considered as part of Cabinet's performance monitoring.

Since 2017 the capital programme has included amounts in respect of the depot redevelopment (the Council's new headquarters), part of the Council's regeneration initiative. This redevelopment, which involves the vacation of the main Council premises, is now being managed through a joint venture, with Wates.

At November 2023 (the date of this report), the agreement is yet to be formalised and no transactions between the two parties have taken place. We will continue to consider the joint venture, and its performance, as part of our ongoing value for money assessment.

The Council's arrangements for procurement and commissioning services

The Council has a procurement strategy and approach which ensures that it complies with all legal and regulatory requirements as well as achieving best value in procurement processes. Standardised templates and procurement standing orders are used throughout the procurement process to ensure consistency of approach.

The Council has a procurement framework called the 'Contract Procedure Rules' in place. Due to the UK's departure from the EU, the government has since set its own new threshold values at which public procurement opportunities will be subject to the full suite of regulations governing public contracts. These are in place to ensure the UK complies with its obligations under the World Trade Organisations agreement on government procurement. As such, the Contract Procedure Rules were adapted to incorporate the impacts of BREXIT in 2020/21 and accommodate these new UK Financial Thresholds. Procurement boards meet monthly or bi-monthly and review the procurement pipeline to ensure compliance with the framework.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

The Head of procurement leads a corporate team to support the other directorates of the Council. The team provides both professional support and expert advice to ensure the internal procurement framework is adhered to as well as compliance with procurement law. The procurement programme also acts as a major contributor to the strategic priorities of the Council by focussing on strengthening the local economy, creation of local employment and apprenticeships and carbon reduction within the supply chain.

The programme is managed via the creation of a 3-year pipeline which is agreed and signed off by all the directorates and directorate procurement boards. Each approved project is support by a procurement professional. The results of all tendering are reported back to directorate procurement boards with award recommendations. All procurement up to a value of £500k is subject to this standard gateway process. Any procurement above this balance requires further Cabinet sign off.

Overall view on arrangements in relation to improving economy, efficiency and effectiveness

Based on the above considerations, we are satisfied there is not a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness criteria.

3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

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3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below.

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
1	**Governance in relation to allegations of fraud and corruption** In August 2021, the Council were alerted to allegations of fraud and corruption that are currently subject to a criminal investigation by the Police. Allegations of fraud and corruption indicate a possible significant weakness in relation to the Councils system to obtain assurance over the operation of internal controls, including those designed to detect and prevent fraud. The Council's Annual Governance Statement for 2020/21 and 2021/22 reports this matter as a significant governance matter. The AGS for 2021/22 recognises that the independent review identified 5 recommendations aimed at strengthening controls to mitigate the risk of fraud. Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council's governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.		●		We recommend the Council fully implements all of the recommendations identified by the independent review and by its own internal audit as quickly as possible.

3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement - continued

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
2	**Governance arrangements over the ledger migration: maintaining adequate historic accounting records** The Council planned to implement a new financial ledger system (D365) to replace its existing SAP system on 1 April 2021, but the implementation did not happen until September 2021. The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules for example. Whilst our audit procedures confirmed the migration of 2021/22 records was materially complete and accurate, we identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations. This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP. Since the May 2023 meeting of the Governance, Audit and Risk Management Committee, the Council has advised that it was able to provide sufficient records to comply with an HMRC business review, but sufficient evidence of completeness was not available at the point of issuing our report. In our view, the weakness identified could lead to non-compliance with statutory requirements in relation to maintaining adequate historic accounting records that could reasonably be expected to lead to a significant impact on the Council's reputation or unlawful actions. As a result, we believe this is a significant weakness in respect of the Council's governance arrangements over the implementation of its new ledger system that did not ensure effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed.		●		We recommend that the Council completes a full validation exercise of all the data that has been transferred to the cloud-based storage solution to mitigate the risk of non-compliance with laws and regulations in respect of maintaining adequate accounting records. We also recommend that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure all data validation is completed prior to decommissioning of systems and timely data validation testing.

3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement - continued

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
3	**Effectiveness and coverage of internal audit** We reviewed the Head of Internal Audit's Annual Opinion on the effectiveness of the Council's internal control environment for 2021/22, which was "Good with some significant improvements required in a few areas". This was based on five out of 44 planned internal audit reviews, because resources had been diverted into a fraud investigation that arose in 2020/21. Whilst we understand the resourcing challenges faced by Internal Audit, its limited coverage for 2021/22 meant that potentially elevated areas of risk, such as the change in the general ledger and the associated migration and control charges, were not reviewed. We considered the conclusions reached on the five reports that were completed and discussed with Officers how the Head of Internal Audit may have considered of other means of assurance alongside the reviews that were completed to support their opinion on the Council's internal control, risk management and governance arrangements. Overall, however, we do not believe the work completed was sufficient to support the Annual Opinion for 2021/22. Based on the above, we are of the view that this matter is a significant weakness in respect of the Council's governance arrangements, specifically how the Council monitors and assesses risks and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that exposes, or could reasonably be expected to expose, the Council to significant risk.		●		We recommend the Council ensures Internal Audit is adequately resourced and delivers an annual programme of work of sufficient breadth and depth to support a robust Head of Internal Audit opinion that provides adequate assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. For 2020/21 we submitted this information to the NAO on [insert date]. For 2021/22 we will complete the Assurance Statement soon after issuing the audit report but we are still awaiting confirmation and further guidance from the NAO in relation to sampled components.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to GARMS in July 2022. We have included an update on our fees position in our further reporting to GARMS including the first Audit Completion Report in May 2023. Having now completed our work for the 2021/22 financial year, we can confirm that our fees are as follows and we will be seeking agreement with the Interim Director of Finance and Assurance before submitting for PSAA for their approval.

Area of work	2020/21 agreed fees	2021/22 proposed fees
Planned fee in respect of our work under the Code of Audit Practice	£116,057	£116,057
Additional fees for additional work in respect of:		
1. Property, plant and equipment valuations	£11,200	£57,470
2. Pension liability valuations (including revision arising from availability of updated membership data)	£4,853	£7,290
Data migration	-	£30,100
4. Intangibles valuation	-	£13,015
5. Inventory valuation	-	£19,555
6. Infrastructure assets	-	£9,520
7. Code changes to value for money and additional risks and recommendations	£14,200	£65,205
8. Revised auditing standard on accounting estimates	£3,488	£5,547
Total fees	**£152,624**	**£323,760**

Commentary on the additional work:

1. As reflected in the extent of audit adjustments identified we carried out significant additional work on the valuation of the Council's PPE, resulting in net valuation movements in excess of £70m.
2. As we reported to GARMS the Council was required to request a revised actuarial report in light of the triennial valuation. We were required to carry out testing on the revised report and updated accounts.
3. The additional work was required to obtain assurance over the migration of data that underpins the statement of accounts and involved our IT specialist auditors.
4. The additional work was required to understand the Council's accounting treatment and disclosures, which has led to material amendments.
5. Our additional work was required to understand and challenge the Council's accounting treatment, which has led to a change in treatment and disclosure in the final statements.
6. As we reported to GARMS the Council was required to comply with the revised CIPFA Code and we were required to audit the Council's consideration and revised accounting entries.
7. For 2021/22 we identified 4 risks of significant weakness and reported actual significant weakness in 3 areas.
8. The change in the auditing standard has increased the audit input on auditing accounting estimates.

4. Other reporting responsibilities and our fees

Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to GARMS in July 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 agreed fees	2021/22 fees
Planned fee - Code of Audit Practice	£16,170	£16,170
Additional fees in respect of additional work in respect of:		
1. Level 3 investment assets	£4,534	£6,358
2. IAS19 assurances	£2,800	£5,108
3. Membership data testing	-	£9,400
Total fees	**£23,504**	**£37,035**

Commentary on the additional work:

1. Level 3 investments required additional audit focus and attention in light of the absence of published corroborative information.
2. We are required to carry out additional work to provide assurance to the auditor of the Council in respect of pensions and IAS19.
3. As we have reported to GARMS in light of the timing of the most recent triennial valuation we were required to carry out testing on the completeness of the Council's membership data and test a sample of members data to provide assurance to the auditor of the Council.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 fees
Housing benefits subsidy assurance	£17,750	£18,300
Teachers' pension return assurance	£3,600	£3,700
Pooled housing capital receipts assurance	£4,100	£4,250
Total fees	**£25,450**	**£26,250**

Suresh Patel

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

*where permitted under applicable country laws.

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LONDON BOROUGH OF
HARROW

Report for:	**Governance, Audit, Risk Management and Standards Committee**
Date of Meeting:	29 November 2023
Subject:	Annual Complaints report and update on complaints against Members 2022/23
Responsible Officer:	Jessica Farmer Interim Director of Legal & Governance and Monitoring Officer
Exempt:	No
Wards affected:	All
Enclosures:	Appendix A – Corporate Complaints policy Appendix B – Annual review letter from Local Government and Social Care Ombudsman for year ending 31/3/23

Section 1 – Summary and Recommendations

1.1 This report is an overview of complaints received throughout 2022-23 and complaints against councillors for this period. It will identify themes where work is ongoing to improve the Customer Experience lessons learned that have helped to improve Council services. The report updates the Committee and summarises data in a number of areas.

1.2 Recommendations:

The Committee is requested to note the information in the report.

Section 2 – Report

2.1 Background

Customer complaints

In July 2022 Cabinet approved an action plan to improve the customer experience. As part of this programme of work the Corporate Complaints policy was reviewed and adopted by Cabinet in June 2023. A copy of the policy is attached to this report as Appendix A

Most Council services run well, and any issues are resolved locally without any further action. If the citizen remains unhappy then they can make a formal complaint.

The Council has a two stage complaints process. A complaint will be reviewed with a response due within fifteen working days under stage I and if dissatisfied with the outcome the complainant can request that it moves to stage II. A more senior officer will review the complaint and initial response before replying within twenty working days. The Council's process ends at this point and any further appeal may be made to the Local Government & Social Care Ombudsman.

The Local Government and Social Care Ombudsman investigates individual complaints about councils and help to make sure these organisations are accountable to their service users, by ensuring they put things right if things have gone wrong. The LGSCO do not investigate a complaint until the organisation concerned has been given the chance to respond.

Each year the Local Government & Social Care Ombudsman produce an annual report outlining the complaints received about a Local Authority. The annual Harrow report for 2022-23 is attached to this report as Appendix B

Complaints data is captured by individual services which is shared with the Corporate Complaints officer on a quarterly basis.

2.2 Complaints about elected members

It is important that members have an overview of complaints received against elected members and any trends. This report will enable the council to discharge its duty to promote and maintain high standards of conduct for Members; review the application of the Code of Conduct for Members'; and maintain an overview on ethical standards in general across the authority.

2.3 Corporate complaints 2022/2023

This report sets out performance of complaint handling at the London Borough of Harrow for the period 1 April 2022 to 31 March 2023 and focuses on the nature of complaints and the learning they provide to inform the future approach to service improvement.

Complaints concerning Adult Social Care (ASC) and Children's Social Care are governed by separate statutory complaint procedures.

The Council welcomes customer feedback, to help us to identify and address problems for customers, so to improve our services. This report demonstrates our transparency about the feedback we have received and what we've done to put things right.

2.4 Summary of corporate complaints

The London Borough of Harrow has a clear, corporate commitment to improving the customer experience. The Customer Commitments, launched and approved at Cabinet in June 2023, sets out what residents should expect from staff, including service standards in relation to complaints. The aim is for the organisation to be sensitive to customer needs, prioritise communication and provide clear and current information.

The Corporate Complaints officer and Head of Customer Contact & Engagement monitor the numbers of complaints received and the quality and timeliness of responses. The team works closely with service areas to ensure that corrective actions are put in place and that learning from complaints is built into service design.

The Council handled over 5,800,000 enquiries in 2022/23 across its communication channels and were involved in millions of service interactions including bin collections and library visits.

In total, there were 2,313 corporate complaints received in 2022/23 of which 128 were escalated to stage II. There is no corporate complaints IT system so limited information is kept on timescales however where this data is available it shows that 81% of complaints were responded to within timescale.

The Local Government & Social Care Ombudsman (LGSCO) received 95 complaints last year for Harrow and investigated twenty-three (24%) of these. Further details are outlined later in the report.

2.5 Directorate Summaries

Each council department reviews the complaints and compliments it receives and data is compiled on a quarterly basis. This enables services to identify if there are any trends in the types of complaint being made or the service requests that complaints are being made about. As a result, changes can be made to services and how they are provided.

The next section of this report details comments from Services on actions they have taken to prevent, improve or change as a result of the feedback received in previous years.

2.6 Resources Directorate

The table below shows the number of complaints received for Corporate Resources

		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
Access Harrow	2022/2023	3	3	3	**100%**	0	0	0	**N/A**
Housing Benefit	2022/2023	35	35	32	**91%**	7	7	7	**100%**
Council Tax	2022/2023	168	168	155	**92%**	11	11	11	**100%**
Careline	2022-2023	6	6	6	**100%**	0	0	0	**N/A**
Website /MHA	2022/2023	30	30	30	**100%**	0	0	0	**N/A**
Con Travel	2022/2023	258	258	258	**100%**	0	0	0	**N/A**
RESOURCES	2022/2023	500	500	484	**97%**	18	18	18	**100%**

Of the 500 stage I complaints received within Resources, 52% were in relation to Concessionary Travel. The complaints are where the resident has been unsuccessful in their application and is unhappy with the decision. The Council has a set of criteria as to who is eligible for a Blue Badge and physical assessments are carried out where required to ensure that these are approved where appropriate.

Council Tax & Benefits accounted for 40% of the complaints within Resources. The most common complaint relates to summons costs applied after a final notice is applied for non-payment however there is no overarching theme of discontent.

2.7 Place Directorate

The table below shows the number of complaints received for the Place Directorate

Housing		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	358	358	319	**89%**	73	73	67	**92%**

Env Services (Technical)		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	869	869	683	**79%**	3	3	2	**67%**

Env Services (Waste)		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	137	137	109	**80%**	0	0	0	**N/A**

Env Services (Streets)		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	146	146	71	**49%**	0	0	0	**N/A**

Libaries		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	35	35	Not Recorded	**N/A**	0	0	0	**N/A**

Leisure Services		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	43	43	Not Recorded	**N/A**	0	0	0	**N/A**

Parking Permits		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	7	7	7	**100%**	0	0	0	**N/A**

Planning		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	25	25	25	**100%**	7	7	7	**100%**

Parking Tickets		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	8	8	8	**100%**	2	2	2	**100%**

PLACE		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	1628	1628	1222	**75%**	85	85	78	**92%**

Over 70% of the complaints within the Place directorate are connected to Environmental Services. These fall under three common categories:

Missed Bins – where the resident remains dissatisfied with their collection. The Council has upgraded the in-cab technology and is rolling that the use of the system across all refuse teams. This will make it easier for residents to report and escalate missed bins and for the service to identify patterns of non-collection. The service already investigating addresses where multiple missed collections occur to understand the reasons why and to implement procedures to improve.

Fly Tipping & Street Cleaning – where residents are unhappy with the cleanliness of their road. The Council runs a responsive cleaning team that removes fly tips within 48 hours. Enforcement teams will investigate certain fly tips with a view to identify the perpetrator and arrange for removal afterwards. The Council has recently introduced a number of mobile CC-TV cameras to help identify and prosecute fly tippers in areas where offences are high.

Road Maintenance – where residents are unhappy with the condition of the pavement or road where they live. The Council has since taken a targeted approach to resurfacing roads in greatest need based upon condition surveys.

Housing accounts for 22% of complaints across the Place Directorate. The most common themes include:

Repairs
- Mould / damp
- Fence repair
- Leaks
- Roof/Ceiling repair

Resident Services
- Parking
- Neighbour disputes, ASB & Fly tipping
- Rent arrears

Housing Needs & Homelessness
- Accommodation
- Rehousing
- Locata

The Housing Service introduced a number of initiatives to improve complaint management:

Reviewed complaints policy in line with the Council's updated policy and the requirements of the Housing Ombudsman Complaint Handling Code

Set up a resident panel early this year to review customer feedback

Every Monday weekly performance is published internally, and reminders are sent in advance to encourage colleagues to comply with timescales.

A dedicated officer is appointed to manage and respond to multiple issues raised by a resident.

Greater analysis to understand how Damp and Mould issues are handled

Engaged with House Mark to submit monthly data in order to help benchmark with other social housing providers.

Developed a complaints satisfaction survey to capture feedback on complaint handling.

2.8 People Directorate

The table below shows the number of complaints received for the People Directorate

Childrens Services		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	69	69	43	**63%**	9	9	9	**100%**

Adult Services		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	116	116	77	**66%**	16	16	12	**75%**

PEOPLE		STAGE I				STAGE II			
		Received	Answered	<15 days	%Timescale	Received	Answered	<20 days	%Timescale
	2022/2023	185	185	120	**65%**	25	25	21	**84%**

There were 69 Stage I complaints within Childrens' Services and these fell into two categories:

Education and SEN accounted for 26 complaints where the complainant was unhappy with the education provision allocated to their child.

Childrens Social Care accounted for 43 complaints where the complainant was dissatisfied with the professional judgement and decision made in assessments or reports. In context, there were 4,549 children open to the service throughout 2022/23 with 3,018 referrals made.

There were 116 stage I complaints made against Adult Social Care. This is in context of 9,599 requests for a service being made with 4,220 adults receiving long term care alongside 1,698 receiving short term care.

The predominant theme is the charge for care. This includes concerns with the financial assessment process and outcome, information regarding paying for care, invoices and financial advice.

Although response times are longer than those in other services, it should be mentioned that the issues tend to be more complex, requiring investigation usually by social workers with already high case loads. During this time, residents are updated with progress.

The learning from complaints includes

- Further awareness of staff to complete reviews on the IT system in a timely manner
- Consultation with care leavers regarding their pathway plan
- Greater adherence to statutory timescales.
- A refresh of complaints handling and feedback processes so that there is a robust and effective system in place for ensuring timely and quality responses and for monitoring purposes.
- Better clarity on charging for care provision

2.9 Local Government & Social Care Ombudsman (LGSCO)

The LGSCO received 95 complaints last year and investigated twenty-three (24%) of these. Of the 23 investigated, seventeen (74%) of these were upheld. This compares to an uphold rate of 77% against similar-sized Local Authorities.

In all cases the Council complied with the LGSCO recommendations.

In two instances (12%) the Council had provided a satisfactory remedy before the complaint reached the Ombudsman. Although this is a higher rate than all but one of our NW neighbours, the national average was 15% highlighting that there is further work to be done to resolve issues as soon as possible.

The table below shows the service areas from where the LGSCO received complaints.

SERVICE	2022/23	2021/22
Adults	23	17
Council Tax	15	4
Corporate	4	2
Education	13	10
Environment	12	15
Highways	11	9
Housing	14	16
Planning	2	12
Other	1	1
TOTAL	**95**	**86**

The Ombudsman has been more selective about the complaints they look at in detail due to resource constraints, so have prioritised those where it is in the public interest to investigate.

It has meant that changes in uphold rates this year has increased as they are less likely to carry out investigations on ‘borderline’ issues, so are naturally finding a higher proportion of fault overall. There has been an industry increase from 71% to 77%. Harrow saw a slight decrease from last year’s uphold rate of 78% which is pleasing considering the bar was raised.

Of the 72 complaints rejected by the LGSCO,

- 30 were premature (had not followed the Council’s complaints process)
- 30 were closed after initial enquiries (usually because there is a separate process/tribunal to follow)
- 6 cases were rejected as no fault was evident (the complainant did not agree with the council’s decision)
- 3 complainants were redirected to the appropriate body by the LGSCO
- 3 cases were rejected due to insufficient information and no follow up from the complainant

The table below gives a perspective of the ratio of complaints received that end up with the LGSCO.

SERVICE	2022/23	Complaints	% to LGO
Adults	23	116	19.8%
Council Tax	15	203	7.4%
Corporate	4	297	1.4%
Education	13	69	18.84%
Environment	12	1006	1.2%
Highways	11	146	7.5%
Housing	14	358	3.9%
Planning	2	25	8.0%
Other	1	93	1.1%
TOTAL	**95**	**2,313**	**4.1%**

When filtered by service, there is no pattern or trends in the type of complaint received by the LGSCO.

The Ombudsman did point out that there were occasions when the Council did not respond in a timely manner to the LGSCO which delayed their response and seven of the LGSCO recommendations were not completed within a timely manner. These issues have been addressed with the relevant services to prevent a further occurrence in the future and an escalation process is in place to highlight any potential delays.

In comparison to our North West London neighbours, Harrow performed well in the number of complaints being upheld after investigation by the LGSCO. The National Average was 77%

.	PERCENTAGE (NUMBER) UPHELD	COMPLIANCE WITH LGSCO RECOMMENDATION	SATISFACTORY REMEDY ALREADY PROVIDED BY COUNCIL
HOUNSLOW	86% (15)	100%	13%
HARROW	74% (17)	100%	12%
BRENT	76% (22)	100%	41%
BARNET	78% (39)	100%	8%
HILLINGDON	86% (24)	100%	8%

There were two cases where the Council had failed to correctly signpost complainants to the LGSCO at the end of the local complaints process. This issue has been addressed with the relevant service area to ensure that the correct templates are used so that all relevant information is shared with the customer.

The LGSCO annual letter can be found in Appendix B

2.10 Conclusion - corporate complaints

The Council strives to deliver high quality services to all residents and customers and welcome all feedback on our services and suggestions for improvement.

Staff work hard to understand the reasons for the complaints, and where a consistent theme or issue has been established, have taken action to prevent the poor service that triggered those complaints from being repeated.

The Corporate Complaints officer continues to review data on a monthly and quarterly basis to establish themes and trends. The Complaint co-ordinators network ensures that issues can be discussed and best practise shared.

Data relating to complaint responses is a flagship action and wider performance data is reported on a quarterly basis to Directors and Heads of Service to prompt reflection on what services need to do to improve, change or prevent a reoccurrence. Particular attention is focused on responding appropriately to complaints first time and reducing complaints being escalated to the higher stages.

This reporting has led to some constructive discussions with Senior Management, and as a result we have been able to take feedback and apply it across many areas of the complaints process.

The Customer Services team continue to provide training and support to Officers within the Council, with a strong focus on Customer Service ethos to ensure that a consistently high level of customer service is provided to our residents and service users.

2.11 Complaints against Members 2022/2023

Four complaints were dealt with during the period 1 April 2022 to 31 March 2023, this compares to five complaints for the previous year. Historically in years with elections there tend to be more complaints. One of the complaints the complainant did not provide any details. In one case the resident did not respond to further enquiries and in three cases no evidence was found of a breach.

In order to deal with each complaint the Monitoring Officer contacts the member who is subject to the complaint and consults the Independent Person. The Independent Persons are appointed by council and were recruited after a member interview panel.

Under the procedure for dealing with member the Monitoring Officer in consultation with the Independent Person is able to filter out complaints that:

• do not fall within the code of conduct;
• are considered to be frivolous or vexatious;
• are about events which took place more than 6 months' prior to the receipt of the complaint by the Monitoring Officer, unless there are exceptional circumstances; and/ or

• do not merit further investigation on public interest grounds.

For the period April 2022-March 2023

Complaint	Alleged Provisions of Code engaged / allegation made by the resident	Decision
1	Not treating others with respect	No evidence found of a breach.
2	Not treating a resident with respect and not responding to correspondence	Councillors responded to the correspondence and no evidence found of a breach.
3	Not treating a resident with respect	Resident did not respond to further inquiries
4	Calling in a planning application	No evidence found of a breach of the code of conduct.

3.0 Legal Implications

Corporate complaints

Having an effective complaints management system is part of an effective corporate governance framework, allowing the Council to continuously review and improve its services in response to feedback.

Residents and service users who remain dissatisfied with council services, having followed the internal complaints process, have a right to complaint to the LGSCO or the Housing Ombudsman (for landlord related matters). These are independent bodies responsible for investigating complaints made against local authorities (and social landlords). Under the Local Government Act 1974, the LGSCO is responsible for investigating complaints against local authorities, investigating complaints about adult social care providers from people who arrange or fund their own adult social care and for providing advice and guidance on good administrative practice. It is responsible for making findings of maladministration and injustice.

The LGSCO has the power to make recommendations to a local authority following a complaint on how to improve its services and to put things right for the complainant. The recommendations are not mandatory and the local authority does not have to accept or follow them. Remedies recommended by the LGSCO can include an apology, financial compensation, a review of procedures, staff training, and reconsideration of a decision and payment of money where this should have been paid.

Case law has held that maladministration includes bias, neglect, inattention, delay, incompetence, ineptitude, perversity, turpitude and arbitrariness. Examples of maladministration include excessive or unreasonable delay, making misleading or inaccurate statements, failing to follow a specified procedure, failing to consult or liaise, failing to provide information when requested to do so, not keeping adequate records and failing to investigate or reply to a query from a member of the public. The LGSCO is concerned with the manner in which the decision was reached, as opposed to the actual decision.

The LGSCO has published guidance on good complaints handling and principles of good administrative practice. This guidance states that to ensure effective governance the statutory governance officers should be aware of and engaged with complaints and should intervene at the right time. Learning from complaints should be at the centre of the risk management framework and audit function. The principles for effective complaints handling include getting it right by complying with the law and policies, being customer focused, being open and accountable, acting fairly and proportionately, putting things right, including apologising and putting right injustice and seeking continuous improvement.

There are specific legal requirements for certain types of complaint, including children's social care, adult social care, school admissions and transport, housing benefit and council tax, homelessness, standards and member conduct and parking and traffic offences. Some matters will be outside the complaints policy due to other statutory routes being available to complain about the decision or service.

Section 5 of the 1989 Local Government Act requires the Monitoring Officer to report maladministration or failure in relation to LGSCO complaints to members.

3.1 Member complaints

Under the Constitution the Governance, Audit, Risk Management and Standards Committee has the following powers and duties:

- Monitoring the operation of the Members' Code of Conduct.

3.2 The Members' Code of Conduct is set out in the constitution. The Council's arrangements under which complaints about Member conduct are investigated and decided comply with the relevant provisions of the Localism Act 2011. All complaints are dealt with in consultation with one of the council's Independent Persons that the council has to appoint under the Localism Act.

4.0 Financial Implications

There are no financial implications associated with this report.

5.0. Risk Management Implications

Risks included on corporate or directorate risk register? **YES**
"The Council provides a poor customer service" is included on the corporate risk register and rated at C3 (medium likelihood/moderate impact)

Separate risk register in place? **NO**

Are the relevant risks contained in the register are attached/summarised below? **NO**

The following key risks should be taken onto account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
The Complaints policy is not adopted by staff.	• A separate guidance document has been created to inform staff • Complaints coordinators are in place across the Council and network meetings to share best practise is in place. • Officers can liaise with the senior staff within Customer Services for assistance	GREEN
The Complaints policy does not improve the customer experience	• There are baseline measurements to understand the current position • These will be measured throughout the year so that any necessary restorative actions can take place	GREEN
Customers are unaware of the complaints policy and cannot access it	• The policy is available on-line • A copy of the policy can be obtained upon request	GREEN
Customers do not understand the policy and/or find it confusing	• Council Officers are able to explain the policy • Google Translate can be used to translate the policy into another language	GREEN

6.0 Equalities implications / Public Sector Equality Duty

6.1 This report is to provide an overview of complaints received to the Council throughout the year 2022/23

6.2 It is a breach of the Member Code of Conduct to discriminate against people on the grounds of any of the protected characteristics in the Equality Act. Members have been provided with training in the Code of Conduct this area. When dealing with complaints the Monitoring Officer consults the Member complained about and the Independent Person.

7.0 Council Priorities

Dealing effectively with complaints assists the council with putting residents first.

1. **A council that puts residents first**

2. **A borough that is clean and safe**

3. **A place where those in need are supported**

Section 3 - Statutory Officer Clearance

Statutory Officer:
Signed by the Chief Financial Officer : Sharon Daniels
Date: 20.11.23

Statutory Officer:
Signed by the Monitoring Officer : Jessica Farmer
Date: 20.11.23

Mandatory Checks

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

Section 4 - Contact Details and Background Papers

Contact: Jonathan Milbourn
Assistant Director for Digital, Data & The Customer Experience
Jonathan.milbourn@harrow.gov.uk : 020 8863 5611

Background Papers: NONE

Corporate Complaint's Policy

1. Introduction

The Council is committed to providing the highest standard of service to all its customers. Our aim is to get things right first time. However, if you are not entirely satisfied with any aspect of our service, please tell us and we will do our best to resolve the matter as quickly as possible. Furthermore, we will learn from our mistakes to ensure that the customer experience is one that continually improves.

The procedure explains how you can make a complaint regarding the quality of our services, what standards you can expect when you do so, and what you can do if you are still dissatisfied.

We will investigate your complaint, give you an explanation and make every effort to resolve the matter to your satisfaction. If we have made a mistake, or the problem has been caused by us, we will apologise.

2. Aims and Objectives

All feedback should be dealt with in a fair, confidential, consistent, and timely manner.

The objectives of the complaints policy are to:

- provide an accessible means for all service users, or their advocates, to complain if they are dissatisfied, or to offer compliments and suggestions if they choose.
- provide a fair and consistent process for resolving complaints.
- establish timescales for complaint resolution.
- work towards an agreed solution with residents and service users
- ensure that the response is written in a way that is easy to understand to the recipient
- facilitate the use of complaint information as a means of improving service quality.
- performance monitor complaint responses to ensure that the corporate standards are met
- ensure complainants and members of staff have the same rights to be treated with courtesy and respect.

3. Complaints

3.1 Defining a complaint

A complaint can be raised if anyone is dissatisfied with the service, actions, or lack of action from the London Borough of Harrow .

3.2 How complaints can be made

The Council encourages any resident or service user who has a concern to first speak to a member of staff in the relevant service area. If there has been a problem the member of staff should try to resolve it. However, if a service user if not happy and wants to make a complaint, we need to make it easy for them to do so.

Although we accept complaints made by telephone or in person it's helpful to have them in writing, so that we have a clear record of the complainant's views on what went wrong and what the Council should do to put things right.

Complaints can be made online at https://www.harrow.gov.uk/complaints

If writing a letter, please send to

The Corporate Complaints Manager
London Borough of Harrow
PO Box 1358
Harrow
HA3 3QN

If the Council receives a complaint and decides there is a more appropriate resolution, this will be explained.

3.3 Support and advocacy

Many people feel daunted at the prospect of making a complaint. They may be unsure about how to go about it, or how best to put their case. The council has a positive approach to complaints and will encourage people to seek the support of friends or other advocates such as Citizens Advice Bureau. The Council may be able to assist people in finding such support give assistance to people who have difficulty with written or spoken English by signposting them to organisations which may be able to provide support in dealing with their complaint.

The council will, where appropriate, accept complaints from advocates or third parties, provided that the person affected has given their prior written (email/letter) consent.

3.4 Anonymous Complaints

In normal circumstances the council is unlikely to be able to effectively deal with an anonymous complaint, as the council needs to correspond with and in some cases meet with the complainant in order to address their concerns. Therefore, a judgement will be made on a case-by-case basis whether to proceed.

3.5 Complaints that fall outside of the Council’s complaint policy

Certain types of complaint will not be dealt with through the Council’s complaints procedure because there are other processes more suitable for dealing with them, or because they are outside the Council’s control. This includes, though not exclusively:

- Matters of law or central government policy.
- Comments on the lawfulness or reasonableness of Council policy as opposed to how it has been applied in a particular case
- Complaints that have already been decided by a court or independent tribunal
- Complaints that have already been decided by either the Local Government & Social Care Ombudsman or Housing Ombudsman
- Complaints where the complainant or the Council has started legal proceedings and, in some cases, issued formal pre-action correspondence.
- Services for which there are alternative statutory appeal or tribunal processes,
- Complaints about a school or a member of the school staff. These should be made to the head teacher and then the Chair of the school’s governing body.
- Requests for Council services such as reporting a missed bin as these should be raised as a service request.
- Complaints of a vexatious nature
- Complaints about the merits of an insurance claim or matters that would be more appropriately considered by an insurer.
- Enforcement Agent fees
- Complaints from staff about personnel matters, including appointments, dismissals, pay, pensions and discipline.

3.6 Time Limits

It is far easier to find out what happened and to put things right if complaints are received at the time. As time passes it becomes more difficult to investigate events fairly and fully – people’s memories fade, staff who were closely involved may have left the Council, or records may no longer be available.

For these reasons, the Council will normally only accept complaints made within three months of the incident or circumstances that lead to the complaint. However, if there are exceptional circumstances (illness, changes in personal circumstances, etc) provided by the complainant for the delay in submitting the complaint, the Council may make a discretionary decision to consider the complaint providing the circumstances are evidenced.
If the Council receives a complaint and decides to not to accept it on the above grounds the customer should be told why.

4. Complaints procedure

The Council should seek to resolve complaints at the earliest opportunity. Where possible, prior to implementing the formal two-stage process outlined below, every attempt should be made to deal with complaints quickly and informally, at the point of service delivery. Please note the exceptions to this process in section 4.9

4.1 Stage 1

The Council's aim is to resolve complaints as quickly as possible to the customer's satisfaction at this stage. This means that responses must be open and honest, admitting fault when things have gone wrong and setting out a package of measures to put things right, including the offer of an apology, details of changes in procedures to avoid a recurrence and in appropriate circumstances a monetary payment

If a concern cannot be resolved satisfactorily at the point of service delivery, a formal complaint must be recorded – unless an exemption, as set out in Section 3.5 is applicable.

The Council will nominate an appropriate officer to respond to the complaint at this stage.

Complaints should be acknowledged within three working days, and a full response given within fifteen working days. If a full response is not possible due to complexity or ongoing investigation, then a holding response will be sent outlining progress and expected timescales.

Complaints submitted by web form on the Council's website will be acknowledged automatically.

Complaints made in person or over the telephone will be acknowledged by the member of staff receiving the complaint.

Some Council services are provided by external contractors. In those cases, the contractor may be required to reply to a complaint at Stage I and they are expected to conform to the Council's standards for dealing with complaints.

4.2 Stage 2

If you are dissatisfied with the outcome of the Stage I investigation, the Council will arrange for the complaint to be reviewed by a senior manager or a designated officer.

The stage I letter will outline how to do this

The request should be acknowledged within three working days, and a full written reply sent within twenty working days, unless more time is required, in which case a holding response should be sent outlining the process and expected timescales.

Stage 2 complaints should be received within a calendar month of the stage 1 response

4.3 Acknowledging Complaints

All acknowledgements should include:

- a brief summary of the complaint as the Council understands it
- the date the complainant should expect a full response
- contact details of the sender
- Who is handling the complaint
- A reference

If a full response (see below) can be made within the three working days an acknowledgement need not be sent.

4.4 Right to escalation

The full response at all stages should include information on the right to escalate the complaint. The complainant should be advised that if they remain dissatisfied they will have to:
(a) Submit a written response to the Council providing details of why they remain dissatisfied; and
(b) Submit the response within one month from the date of the full response letter.

4.5 The Local Government and Social Care Ombudsman/Housing Ombudsman

The Local Government and Social Care Ombudsman (LGSCO) and the Housing Ombudsman ('Housing Ombudsman') considers complaints about public bodies including local authorities. The LGSCO investigates complaints about: poor service; failure to provide a service and administrative failure. The Housing Ombudsman investigates complaints relating to the Council's actions as a landlord.

The LGSCO and Housing Ombudsman will only consider complaints if the complainant has exhausted the two stages of the Council's own complaints procedure. However, the LGSCO and Housing Ombudsman have discretion to investigate a complaint prior to the Council conducting its own investigation in exceptional circumstances.

The Corporate Complaints Manager oversees all matters relating to the LGSCO and Housing Ombudsman on behalf of the Council.

4.6 Timescales

The timescales for response are illustrated below:

Stage 1: 15 working days
Stage 2: 20 working days

The timescales start as from the date the complaint was received by the Council, not within the department against which the complaint is made.

4.7 Extending Response timescales

We should always try to keep to our published timescales for dealing with complaints. But sometimes investigations take longer, perhaps because we need to get information translated, or the complaint is unusually complex.
In certain cases, when a complaint is complex, it may be necessary to extend the timescales set out in this policy. If this is the case, the complainant must be informed of the reason why timescales cannot be met and informed when they should receive a full response.

Notification should be sent to the complainant at the first possible opportunity.

4.8 Complaints about more than one service

In the event that a complaint involves more than one service, a co-ordinated single response will be sent in the event that matters cannot be separated. The customer should be informed of what arrangement has been agreed in the acknowledgement of their complaint

4.9 Exceptions for Children's and Adult Social Care complaints
There are different complaint procedures and timescales that apply to some complaints by users of the council's Social Care services. Complaints regarding Adult Social Care and Childrens' services are dealt with through a statutory process.
T: 020 8901 2680
E: complants.adultsandchildrens@harrow.gov.uk
W: www.harrow.gov.uk/complaints

4.10 Complaints involving other agencies or contractors

Increasingly the Council works with outside organisations that may have different complaint policies and procedures to ours. This can be confusing and frustrating for complainants, and we should endeavour to have simple systems in place for handling complaints under our arrangements with other agencies or contractors. Wherever attempts to resolve matters between our customers and other agencies or contractors have failed, the Council will consider such complaints under our corporate policy.

In certain cases, the contractor may have their own complaints process.

4.11 Complaints about Councillors

Complaints about the conduct of Councillors are outside the scope of this procedure and are dealt with in accordance with the Code of Conduct for councillors which can be found in the Council's Constitution on its website at www.harrow.gov.uk/elections/complain-councillors

5. Rights and responsibilities

5.1 Customer Rights

Our residents/service users have the right:

- to be always treated with respect and courtesy.
- to have a friend or other representative help them with their complaint.
- to be kept informed about the progress of their complaints; and
- to receive an apology if a complaint is partially or fully upheld

5.2 Staff Rights

Our staff members have the right to be always treated with respect and courtesy.

5.3 Unacceptable behaviour by complainants

The council is committed to dealing with all complaints fairly and impartially and to providing a high quality service to those who make them.

As part of this service there is not normally a limit on the contact complainants have with the council. However, even if the matters raised have already been fully dealt with, there may be complainants who, because of the frequency of their contact with the council, hinder its consideration of their and other people's complaints. There is a point when further work on these matters will have an adverse effect on the service offered to others who have a legitimate claim on officers' time and the Council cannot justify the time and expense in corresponding further regarding the issue

Such complaints may be referred to as “unreasonable and unreasonably persistent complaints”. The complaints may become persistent, vexatious, or repetitive.

The complainant may, despite having had an original complaint investigated and been notified of the outcome, not accept that the matter is concluded. The complainant will have exhausted the internal complaints procedure.

Exceptionally therefore it may be necessary to take action to limit or terminate their contact with the council.

In consultation with the Director of Customer Services, the Corporate Complaints Officer shall be authorised to identify a complaint as “unreasonable or unreasonably persistent” under the terms of this policy.

The Corporate Complaints Officer shall determine any restrictions which shall be imposed in respect of a complainant who has been found to have made an “unreasonable or unreasonably persistent complaint”. Any restrictions imposed will be appropriate and will normally follow a prior warning to the complainant. The options most likely to be considered are:

- Requesting contact in a particular form (for example, letters only)
- Requiring contact to take place with a named officer
- Restricting telephone calls or visits to specified days and times
- Terminating further communication

In all cases where it is decided to treat a complaint as unreasonable or unreasonably persistent, the council will write to tell the complainant why the decision has been made and what action is being taken as above.

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Local Government &
Social Care
OMBUDSMAN

19 July 2023

By email

Mr Dewsnap
Managing Director
London Borough of Harrow

Dear Mr Dewsnap

Annual Review letter 2022-23

I write to you with your annual summary of complaint statistics from the Local Government and Social Care Ombudsman for the year ending 31 March 2023. The information offers valuable insight about your organisation's approach to complaints. As always, I would encourage you to consider it as part of your corporate governance processes. As such, I have sought to share this letter with the Leader of your Council and Chair of the appropriate Scrutiny Committee, to encourage effective ownership and oversight of complaint outcomes, which offer such valuable opportunities to learn and improve.

The end of the reporting year, saw the retirement of Michael King, drawing his tenure as Local Government Ombudsman to a close. I was delighted to be appointed to the role of Interim Ombudsman in April and look forward to working with you and colleagues across the local government sector in the coming months. I will be building on the strong foundations already in place and will continue to focus on promoting improvement through our work.

Complaint statistics

Our statistics focus on three key areas that help to assess your organisation's commitment to putting things right when they go wrong:

Complaints upheld - We uphold complaints when we find fault in an organisation's actions, including where the organisation accepted fault before we investigated. We include the total number of investigations completed to provide important context for the statistic.

Over the past two years, we have reviewed our processes to ensure we do the most we can with the resources we have. One outcome is that we are more selective about the complaints we look at in detail, prioritising where it is in the public interest to investigate. While providing a more sustainable way for us to work, it has meant that changes in uphold rates this year are not solely down to the nature of the cases coming to us. We are less likely to carry out investigations on 'borderline' issues, so we are naturally finding a higher proportion of fault overall.

Our average uphold rate for all investigations has increased this year and you may find that your organisation's uphold rate is higher than previous years. This means that comparing uphold rates with previous years carries a note of caution. Therefore, I recommend comparing this statistic with that of similar organisations, rather than previous years, to better understand your organisation's performance.

Compliance with recommendations - We recommend ways for organisations to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

Satisfactory remedy provided by the authority - In these cases, the organisation upheld the complaint and we were satisfied with how it offered to put things right. We encourage the early resolution of complaints and credit organisations that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your organisation with similar authorities to provide an average marker of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data, and a copy of this letter, will be uploaded to our interactive map, Your council's performance, on 26 July 2023. This useful tool places all our data and information about councils in one place. You can find the detail of the decisions we have made about your Council, read the public reports we have issued, and view the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

Your organisation's performance

I welcome that your Council agreed to, and implemented, the recommendations we made in 17 cases during the year, however, it is disappointing that in seven of those cases recommendations were not completed within the agreed timescales. Delays can compound the injustice already experienced by the complainant and reduces the confidence residents have in the Council when it fails to act within the timescales agreed.

In addition, there were several occasions this year when our investigations were delayed by the Council providing late or incomplete responses to our enquiries and draft decisions. Lastly, we dealt with two cases where the Council had failed to correctly signpost complainants to this service at the end of the local complaints process. I would like to remind the Council of the importance of ensuring that the public are made aware of our service and their right to pursue a complaint.

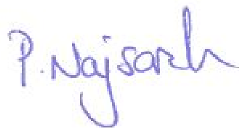
I invite the Council to review its arrangements for liaising with this office to ensure responses are on time and to consider how it might reduce delays in complying with agreed recommendations. I hope to see improved performance in the year ahead.

Supporting complaint and service improvement

I know that complaints offer organisations a rich source of intelligence and insight that has the potential to be transformational. These insights can indicate a problem with a specific area of service delivery or, more broadly, provide a perspective on an organisation's culture and ability to learn. To realise the potential complaints have to support service improvements, organisations need to have the fundamentals of complaint handling in place. To support you to do so, we have continued our work with the Housing Ombudsman Service to develop a joint complaint handling code that will provide a standard for organisations to work to. We will consult on the code and its implications prior to launch and will be in touch with further details.

In addition, our successful training programme includes practical interactive workshops that help participants develop their complaint handling skills. We can also offer tailored support and bespoke training to target specific issues your organisation might have identified. We delivered 105 online workshops during the year, reaching more than 1350 people. To find out more visit www.lgo.org.uk/training or get in touch at training@lgo.org.uk.

Yours sincerely,



Paul Najsarek
Interim Local Government and Social Care Ombudsman
Interim Chair, Commission for Local Administration in England

Complaints upheld

74%

74% of complaints we investigated were upheld.

This compares to an average of **77%** in similar organisations.

17
upheld decisions

Statistics are based on a total of **23** investigations for the period between 1 April 2022 to 31 March 2023

Compliance with Ombudsman recommendations

100%

In **100%** of cases we were satisfied the organisation had successfully implemented our recommendations.

This compares to an average of **99%** in similar organisations.

Statistics are based on a total of **17** compliance outcomes for the period between 1 April 2022 to 31 March 2023

- Failure to comply with our recommendations is rare. An organisation with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedy provided by the organisation

12%

In **12%** of upheld cases we found the organisation had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **15%** in similar organisations.

2
satisfactory remedy decisions

Statistics are based on a total of **17** upheld decisions for the period between 1 April 2022 to 31 March 2023

LONDON BOROUGH OF HARROW

REPORT FOR:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	29 November 2023
Subject:	Treasury Management Mid-Year Report 2023/24
Responsible Officer:	Sharon Daniels, Interim Director of Finance and Assurance
Exempt:	No
Wards affected:	All wards
Enclosures:	None

Section 1 – Summary and Recommendations

This report provides a Mid-Year Update of the Council's Treasury Management activities in 2023/24 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice.

Recommendations:
Committee is requested to:

1. Note the Mid Year Treasury Management position for 2023/24

2. Refer this report to Cabinet for noting

Reason: (for recommendations)

3. To promote effective financial management and comply with regulations issued under the the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

4. To keep Members informed of Treasury Management activities and performance for 2023/24.

Section 2 – Report

1.0 **Background**

1.1 The purpose of this report is to update Members with the Council's Treasury Management activity in 2023/24, presenting performance to 30th September 2023 in accordance with the Council's Treasury Management Practices and in compliance with the CIPFA Treasury Management Code of Practice

1.2 Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;

- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3 The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.

1.5 The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

2.0. Reporting Requirements

2.1. The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

2.2. **Treasury Management Strategy Statement Report** – The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

The 2023/24 TMSS was presented to Council on 23 February 2023.

2.3. **Mid-Year Review Report** – This is presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

This report fulfills the requirements of the the Mid-Year Review for 2023/24.

2.4. **Treasury Management Outturn Report** – This is typically presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports.

Scrutiny – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet/Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised.

2.5. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151

Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

3.0. Options considered

3.1. N/A

4.0. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1. The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by Council on 23 February 2023.

4.2. There are no policy changes proposed to the TMSS approved for 2023/24; the details in this report update the position in the light of the updated economic environment, budgetary changes and revised capital programme outturn forecast contained in the 2023/24 Q2 Revenue and Capital Budget Monitoring Report being presented to Cabinet on 19th December 2023.

5.0. Compliance with Prudential Indicators

5.1. It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2023/24 during the half year ended 30 September 2023 (and up to 21 November 2023 at the point this report was despatched).

5.2. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

Prudential Indicator for Capital Expenditure

5.3. The Council's Capital Programme is a key driver of Treasury Management activity. The output of the Capital Programme is reflected in the statutory prudential indicators, which are designed to provide Member's with an overview of the impact of the capital expenditure plans and ensure that these remain prudent, affordable and sustainable.

5.4. Table 1 shows the revised budget and the forecast outturn for 2023/24. The original budget for 2023/24 was agreed at Council in February 2023. The revised budget reflects updates to the 2023/24 original budget to reflect slippage from the 2022/23 capital outturn which has been rolled forward into 2023/24. The forecast outturn reflects the estimated capital spend for the full year.

Table 1 - Capital Expenditure

Capital expenditure	2023/24 Revised Budget £'000	2023/24 Forecast Outturn £'000
General Fund Resources Directorate	11,026	7,253
People's Directorate	19,269	9,978
Place Directorate	75,729	50,581
General Fund	**106,024**	**67,812**
HRA	57,505	44,628
Total	**163,529**	**112,440**

5.5. The 2023/24 Q2 Capital Budget Monitoring Report provides further details of the updated forecast outturn position.

5.6. **Changes to the Financing of the Capital Programme**
Table 2 illustrates how the Council's capital expenditure plans (table 1) will be funded. The net financing need for the year increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 2 - Financing of Capital Expenditure

Financing of capital expenditure	2023/24 Revised Budget £'000	2023/24 Forecast Outturn £'000
General Fund Capital Receipts	0	0
Capital Grants	34,621	24,373
BCiL	5,408	3,992
NCiL	966	966
Section 106	1,091	741
Revenue	0	0
External Funding	**42,086**	**30,072**
GF Net financing need for year	**63,938**	**37,740**
Total General Fund	**106,024**	**67,812**
HRA Capital Receipts	5,282	5,282
Capital Grants	3,804	3,748
Section 106	1,835	1,835
Revenue	17,579	13,142
External Funding	**28,500**	**24,007**
Net financing need for year (HRA)	**29,005**	**20,621**
Total HRA	**57,505**	**44,628**
GF & HRA Net Financing need for year	**92,943**	**58,361**

Capital Financing Requirement (CFR)

5.7. The is the total historic outstanding capital expenditure incurred by the Council, which has not yet been paid for from either revenue or capital resources such as grant or other external funding and it is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which requires funding from borrowing, will increase the CFR. The Council makes an annual charge to the revenue budget for the repayment of its debt liability, the Minimum Revenue Provision, which acts to reduce the CFR and charge prudential borrowing to the General Fund over time.

5.8. The Original Capital Financing Requirement for 2032/24 as reported in the Treasury Management Strategy Statement report to Cabinet in February 2023 was £644m as follows:

Table 3 - Capital Financing Requirement

Capital Financing Requirement £'000	2023/24 Original Estimate
CFR – General Fund	457,932
CFR – HRA	186,183
Total CFR	**644,115**

5.9. Table 4 reflects the latest projections for the 2023/24 CFR based on the both the revised budget for 2032/24 and the forecast outturn from the 2023/24 Q2 Capital Budget Monitoring Report, (summarised in tables 1 and 2). The revised CFR figure for 2023/24 incorporates the impact of the slippage from 2022/23 which was approved to be carried forward into 2023/24 by cabinet in July 2023.

5.10. The starting point to arrive at the revised CFR is the actual CFR as at 31st March 2023. The actual CFR at 31.3.2023 was £579.708m (£418.900m GF & £160.808m HRA). The CFR based on the revised budget for 2023/24 of £649.934m in Table 4 is arrived at by increasing the actual CFR of £579.708m by £92.943m (for an increase in net financing need) but reducing it by £22.717m which is the Minimum Revenue Provision (MRP).

Table 4 – Capital Financing Requirement

Capital Financing Requirement **£'000**	**2023/24 CFR based on Revised Capital Budget**	**2023/24 CFR based on Forecast Outturn**
CFR – General Fund	460,121	433,972
CFR – HRA	189,813	181,429
Total CFR	**649,934**	**615,401**
Movement in CFR from 2022/23	**70,226**	**35,693**
Movement in CFR represented by		
Net financing need for the year (table 2)	92,943	58,361
Less MRP/VRP and other financing movements	-22,717	-22,668
Movement in CFR	**70,226**	**35,693**

Authorised Limit and Operational Boundary

5.11. No changes have been proposed to the Council's Operational Boundary and Authorised Limit which were approved as part of the 2023/24 TMSS on 23 February 2023.

<u>Operational Boundary</u>

5.12. This limit is based on the Council's programme for capital expenditure, Capital Financing Requirement and cash flow needs for the year. It is the limit beyond which external debt is not normally expected to exceed.

Table 5 – Operational Boundary

Operational boundary £'000	**2023/24**
Borrowing	644,115
Other long-term liabilities	13,471
Total	**657,586**

Authorised Limit

5.13. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council.

5.14. It is the statutory limit determined under section 3(1) of the Local Government Act 2003. Under the Act, the Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 6 – Authorised limit

Authorised limit £'000	2023/24
Borrowing	674,115
Other long-term liabilities	23,471
Total	**697,586**

6.0. Economic Update

6.1. The first half of 2023/24 saw Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle. At the Bank of England's latest meeting on 2nd November, the rate remained unchanged at 5.25%.

6.2. CPI inflation fell from 8.7% in April to 6.7% in September, its lowest rate since February 2022.

Interest Rate Forecast

6.3. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

6.4. The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

7.0. Treasury Position as at 30 September 2023

Investments

7.1. In accordance with the CIPFA Treasury Management Code of Practice and DLUHC (Previously MHCLG) Investment Guidance, the TMSS sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

7.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

Table 7 - Investments & Returns

Investment Portfolio	31-Mar-23			30-Sep-23		
	Principal (£'000)	Average Rate (%)	Average Life (days)	Principal (£'000)	Average Rate (%)	Average Life (days)
- UK Government	29,000	3.99%	7	42,050	5.21%	8
- MMFs	1,651	4.11%	3	40,008	5.27%	2
- Banks	48,743	2.01%	3	31,090	4.17%	2
Total Investments	**79,394**	**2.78%**	**4**	**113,148**	**4.94%**	**4**

7.3. The Council held £113.1m of investments as at 30 September 2023 compared with £79m at 31 March 2023. The portfolio remains highly liquid with the yield reflecting the current market for liquid investments. The internal borrowing strategy of the Authority, focusing on minimising the net cost of borrowing, also prevents longer term investment with a consequential impact on investment return.

7.4. The Council's investment income budget for 2023/24 is £1.104m and the forecast outturn is £2.663m. This includes income from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy waste plant. The term of the loan is 25 years at an interest rate of 7.604%. Loan balance when plant went live was £16.89m which included interest accrued from 2013 upto 2016. The loan balance at the 31 March 2023 was £14.91m..

7.5. During the period cash investments have been held with Royal London, DWS and Fidelity Money Market Funds, DMO, Lloyds, Royal Bank of Scotland PLC, and Handelsbanken. Counterparty use has been in accordance with the credit criteria set out in the TMSS. Officers can confirm that the approved limits within the Annual Investment Strategy have not been breached to the period of 21th November 2023.

7.6. There are no changes proposed to the Council's Investment Counterparty Criteria approved in the 2023/24 TMSS.

Borrowing

7.7. The Council continues to run an internal borrowing strategy with a borrowing portfolio of £417m (excluding £17.6m of PFI and Finance Lease Liabilities) which is below the actual CFR of £580m as at 31 March 2023 and the revised estimate of the CFR for 31 March 2024 of £615m, based on the forecast outturn for the period from the 2023/24 Q2 Capital Budget Monitoring Report.

7.8. The Authority's current borrowing portfolio has not changed since 31 March and no new borrowing has been undertaken in 2023/24 to date. It is very unlikely the any further borrowing will need to be taken out by 31st March 2024.

7.9. The forecast outturn on borrowing costs is £9.15m, a favourable variance of £1.13m on the budget of £10.28m, reflecting the continued internal borrowing strategy adopted by the Authority.

Table 8: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-23			30-Sep-23		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	343,461	3.43%	34.56	343,461	3.43%	34.06
- Market	73,800	3.53%	39.72	73,800	3.53%	39.22
Total borrowing	417,261	3.45%	35.48	417,261	3.45%	34.97

7.10. The Director of Finance will continue to keep borrowing decisions under review.

7.11. The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the 2023/24 Treasury Management Strategy. The maturity structure table (9) below includes one Lenders Option Borrowers Option (LOBO) market loan for £20.8m at its next call date of 4th December 2023, which is the earliest date the lender can require repayment.

Table 9: Maturity Structure of Borrowing

Maturity structure of borrowing	Lower	Upper	Actual 31.03.23	Actual 30.09.23
Under 12 months	0%	40%	5%	5%
12 months to 2 years	0%	30%	0%	0%
2 years to 5 years	0%	30%	1%	2%
5 years to 10 years	0%	40%	6%	5%
10 years and above	30%	100%	88%	88%

8.0. Risk Management Implications

This report is for noting and there are no direct risk management implications to this report.

9.0. Procurement Implications

There are no procurement implications arising from this report.

10.0. Legal Implications

The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. These are contained within this report.

The Act, accompanying statutory guidance and Codes of Practice referred to through capital financing regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

11.0. Financial Implications

In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

12.0. Equalities implications / Public Sector Equality Duty

There is no direct equalities impact.

13.0. Council Priorities

This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels
Signed off by the Chief Financial Officer
Date: 19/11/2023

Statutory Officer: Caroline Eccles
Signed on behalf of the Monitoring Officer
Date: 21/11/2023

Chief Officer: Alex Dewsnap
Signed off by the Managing Director
Date: 21/11/2023

Mandatory Checks

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

EqIA carried out: NO – report is for information and not decision making.

EqIA cleared by: N/A

Section 4 - Contact Details and Background Papers

Contact: Sharon Daniels – Interim Director of Finance & Assurance, Sharon.Daniels@harrow.gov.uk,

Background Papers: None