

# **Governance, Audit, Risk Management and Standards Committee Supplemental Agenda**

**Date: Tuesday 13 July 2021**

## **. Agenda - Part I**

### **13. Any Other Urgent Business**

Which cannot otherwise be dealt with.

13(a) INFORMATION REPORT - External Audit Plans 2020/21: (Pages 3 - 72)

Report of the Director of Finance

13(b) Draft Statement of Accounts 2020-21: (Pages 73 - 210)

Report of the Director of Finance

## **. Agenda - Part II - Nil**

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

Agenda	Special Circumstances/ Grounds for Urgency
13a. Information Item - External Audit Plans 2020/21	Members are requested to consider the report, which was not available at the time the agenda was published as the External Audit Plans have only recently been finalised and sent to the Council by the External Audit. The report needs to be considered at this meeting because the 2020-21 external audit is due to commence shortly. The audit is expected to be substantially complete before the next GARMS meeting.

13b. Draft Statement of Accounts 2020/21	Members are requested to consider the report, which was not available at the time the agenda was published as officers were still finalising the draft Statement of Accounts 2020/21.
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**Report for: GOVERNANCE, AUDIT,  
RISK MANAGEMENT  
AND STANDARDS  
COMMITTEE**

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**Date of Meeting:** 13 July 2021

**Subject:** INFORMATION REPORT  
External Audit Plans 2020/21

**Responsible Officer:** Dawn Calvert, Director of Finance  
and Assurance

**Exempt:** No

**Wards affected:** All

**Enclosures:** External Audit Plans for the Council  
and the Pension Fund 2020/21

## **Section 1 – Summary and Recommendations**

This report provides the Committee with an opportunity to consider the External Audit Plans 2020/21 from the Council's External Auditors.

**Recommendations:**

The Committee is requested to note the attached External Audit Plans (Audit Strategy Memoranda) for the Council and the Pension Fund.

## Section 2 – Report

### Background

#### External Audit Plans (Audit Strategy Memoranda) for 2020/21

1. The External Audit Plans (Audit Strategy Memoranda) provide the Council with clarity about how the external audit of the Council's accounts and Pension Fund accounts for 2020/21 will be conducted. The audit plan sets out the following:-

- a. Engagement and Responsibilities Summary;
- b. Audit scope, approach and timeline – the Authority will consider the need for consolidated group accounts;
- c. Significant risks and judgement areas as summarised below:-
  - i. Management override of controls (applies to both Audit Plans) – would include testing of journals, significant accounting estimates and any unusual transactions;
  - ii. Revenue and expenditure recognition - Potential for fraudulent revenue recognition in specific areas – detailed testing of transactions will be undertaken as part of the audit;
  - iii. Property, plant and equipment valuations;
  - iv. Pension Fund defined benefit valuation (from the Authority's view);
  - v. Other key areas of management judgement and enhanced risks – would include accounting estimates – no specific areas have been identified during the audit planning stage;
  - vi. For the Pension Fund, valuation of unquoted investments;
- d. Value for Money conclusion - this will be reviewed in conjunction with the delivery of the Medium Term Financial Strategy;
- e. Fees for audit and other services;
- f. Auditor's commitment to independence;
- g. Materiality and misstatements – a materiality threshold of around 1.5% of gross revenue expenditure for the Council's accounts and on a benchmark of net assets for the Pension Fund Accounts has been set for the 2020/21 audit (1.5% in 2019/20 for both the Council and Pension Fund). This gives an overall materiality level of £9.1m (£9.3m 2019/20) for the Council and £14.5m (£12.75m 2019/20) for the Pension Fund. The materiality levels for misstatements (the level of triviality) is set at £279k (£279k 2019/20) for the Council and £430k (£382k 2019/20) for the Pension Fund. In addition there are performance materiality levels for both LBH and the Pension Fund, and a specific materiality level for the Pension Fund account.

2. The Committee is asked to consider the plans.

## **Legal Implications**

There are no direct legal implications arising from this report.

## **Financial Implications**

There are no direct financial implications arising from this report.

## **Risk Management Implications**

Receipt of the audit plans is included within the closure of accounts timetable.

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 on behalf of the Chief Financial Officer

Sharon Daniels

**Date:** 6<sup>th</sup> July 2021

**Statutory Officer:**

Signed on behalf of the Monitoring Officer

Rashmi Chopra

**Date:** 7<sup>th</sup> July 2021

**Chief Officer:**

Signed by the Corporate Director

Charlie Stewart

**Date:** 5<sup>th</sup> July 2021

**Mandatory Checks**

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

**Section 4 - Contact Details and Background Papers**

**Contact:** Paul Gower (Interim Technical Accounting Manager)

Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

**Background Papers:**

1. Harrow Council 2020-21 Audit Strategy Memorandum (final)
2. Harrow Council Pension Fund 2020-21 Audit Strategy Memorandum (final)

If appropriate, does the report include the following considerations?

- |                |    |
|----------------|----|
| 1 Consultation | No |
| 2 Priorities   | No |

# Audit Strategy Memorandum

Harrow Council

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Year ended 31 March 2021



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Appendix - Key communication points

This document is to be regarded as confidential to Harrow Council. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.





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

13 July 2021

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

Dear Governance, Audit, Risk Management and Standards Committee Members

## **Audit Strategy Memorandum – Year ended 31 March 2021**

We are pleased to present our Audit Strategy Memorandum for Harrow Council for the year ended 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing London Borough of Harrow which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us, and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07387 242052

Yours faithfully

**Lucy Nutley**

**Mazars LLP**

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

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

# 01

Section 01:

## **Engagement and responsibilities summary**

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# 1. Engagement and responsibilities summary

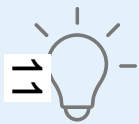
## Overview of engagement

We are appointed to perform the external audit of Harrow Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Governance, Audit, Risk Management and Standards Committee, as those charged with governance, of their responsibilities.



### Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Executive Director of Finance and Corporate Resources is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Executive Director of Finance and Corporate Resources use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



### Value for money

We are also responsible for forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



### Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

# 02

Section 02:

**Your audit engagement team**

## 2. Your audit engagement team



**Lucy Nutley**  
**Director and Engagement Lead**  
  
Email: Lucy.Nutley@mazars.co.uk  
Telephone: 07387 242052



**Stuart Frith**  
**Engagement Manager**  
  
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**Paddy Sadd**  
**Assistant Manager**  
  
Email: Paddy.Sadd@mazars.co.uk  
Telephone: 07581 008590

# 03

Section 03:

**Audit scope, approach and timeline**

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# 3. Audit scope, approach and timeline

## Audit scope

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

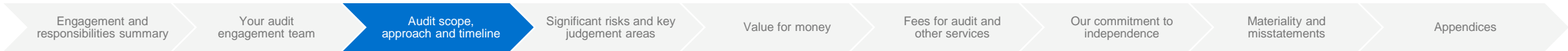
Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place, then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may use a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balances, and disclosures.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



# 3. Audit scope, approach and timeline

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## Planning July 2021

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

## Completion November – December 2021

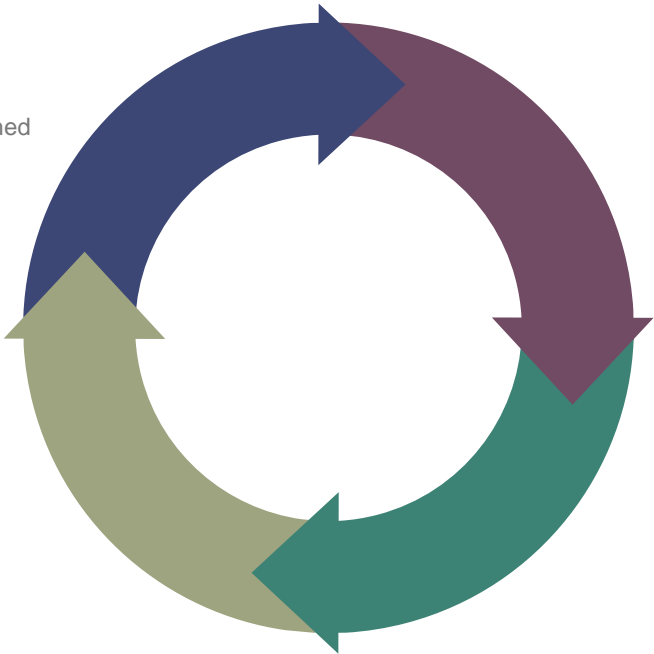
- Final review and disclosure checklist of financial statements
- Final file review
- Agreeing content of letter of representation
- Reporting to the Governance, Audit, Risk Management and Standards Committee
- Reviewing subsequent events
- Signing the auditor’s report

## Interim July 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including completion of our tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork August – October 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting





# 3. Audit scope, approach and timeline

## Reliance on internal audit

We do not intend to rely on the work of internal audit. However, we will review their work and use it to inform our assessment of the control environment and we will modify the nature, extent and timing of our audit procedures.

We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

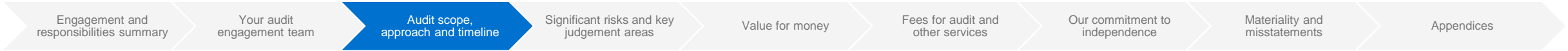
## Service Organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council 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. We have not identified any relevant service organisations.

## Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’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
Defined benefit liability	Hymans Robertson	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.
Property, plant and equipment valuation	Internal valuer	For both sets of property valuations we will: <ul style="list-style-type: none"><li>review the Gerald Eve analysis of property valuation movements provided centrally by PSAA and consider the outcome of the Council’s internal valuer’s valuations in comparison with these, challenging conclusions as appropriate; and</li><li>where considered necessary will complete further review and challenge using our own internal expert</li></ul>
Investment Property valuations	Gerald Eve	



# 04

Section 04:

**Significant risks and other key judgement areas**

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# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

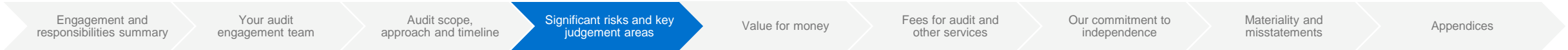
## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but do not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

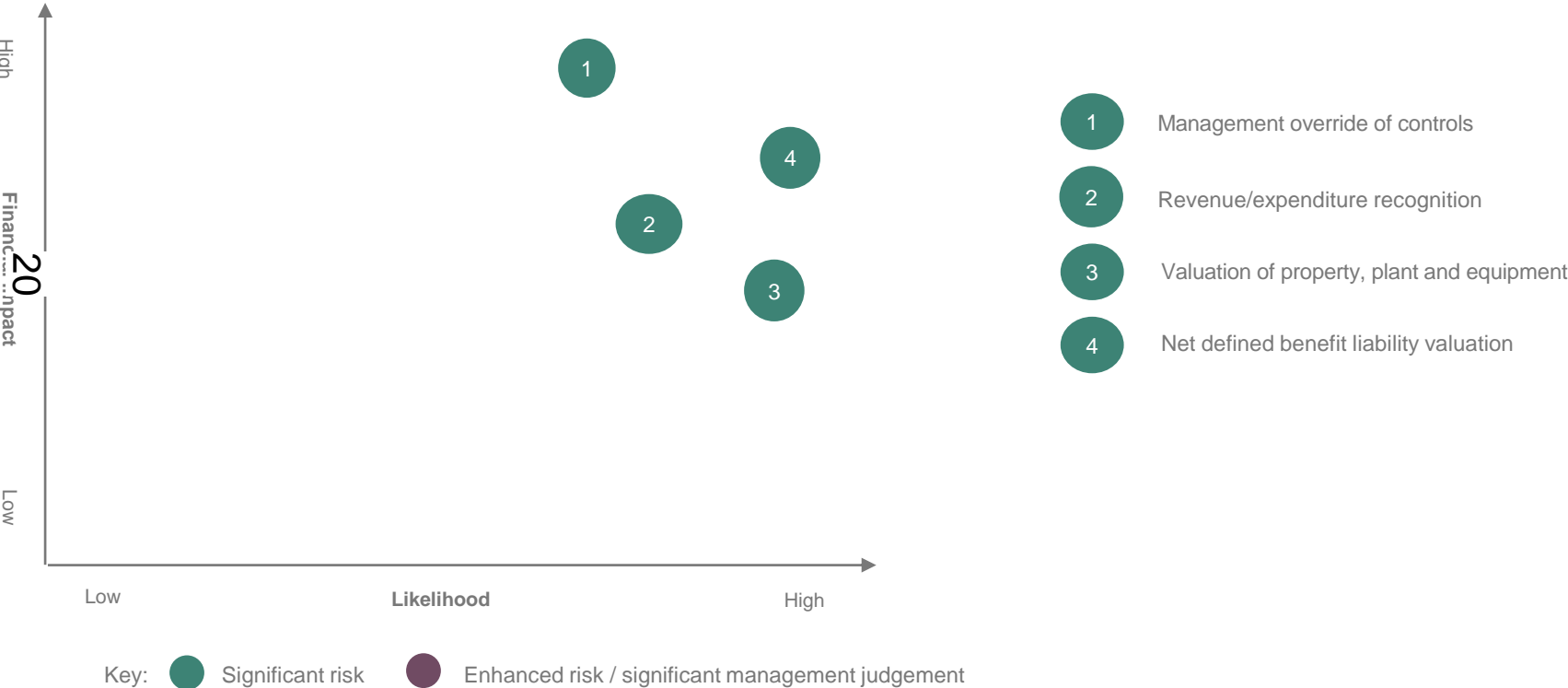
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



# 4. Significant risks and other key judgement areas

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit, Risk Management and Standards Committee

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1  21	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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.</p> <p>Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"><li>• accounting estimates included in the financial statements for evidence of management bias;</li><li>• any significant transactions outside the normal course of business; and</li><li>• journals and other adjustments recorded in the general ledger in preparing the financial statements.</li></ul>

# 4. Significant risks, key audit matters and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
22	<p><b>Risk of fraud in revenue recognition</b></p> <p>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.</p> <p>Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure. In particular we can rebut the revenue recognition risk for income derived from Council Tax, main revenue Grants and NNDR due to the low inherent risk associated with these amounts.</p> <p>For the Council we deem the risk to relate specifically to material income streams within the Council, where the level of inherent risk is higher.</p>	●	○	●	<p>We plan to address 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.</p> <p>We will carry out:</p> <ul style="list-style-type: none"><li>• detailed testing of transactions within the 2020/21 financial statements to confirm they are accounted for in the correct year;</li><li>• testing from receipts around the year-end to provide assurance that there are no material unrecorded items of income in the 2020/21 accounts.</li></ul>



# 4. Significant risks and other key judgement areas

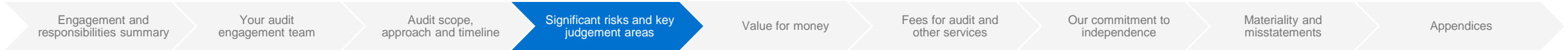
## Significant risks

	Description	Fraud	Error	Judgement	Planned response
23	<p>3 <b>Property, plant and equipment valuation (including Investment Property valuations)</b></p> <p>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. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.</p> <p>In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>	○	●	●	<p>We will address this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach.</p> <p>We will also assess the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially.</p> <p>In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"><li>• assess the valuer's qualifications;</li><li>• assess the valuer's objectivity and independence;</li><li>• review the methodology used; and</li><li>• perform testing of the associated underlying data and assumptions.</li></ul> <p>We will also follow up on recommendations made during the 2019/20 audit regarding PPE valuations.</p>

# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	<p><b>Net defined benefit liability valuation</b></p> <p>The latest triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021.</p> <p>The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.</p>	○	●	●	<p>As the Council is the Fund administrator, we will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson.</p> <p>We will also:</p> <ul style="list-style-type: none"><li>• assess the skill, competence and experience of the Fund's actuary;</li><li>• challenge the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation;</li><li>• carry out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.</li></ul>

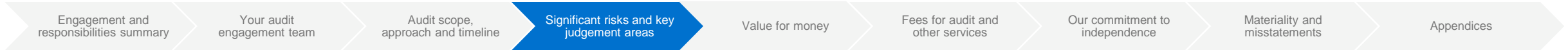




# 4. Significant risks and other key judgement areas

## Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
6	<b>Grant accounting</b>  As a result of the impact of the pandemic on the financial demands on the council, in terms of reduced income and increased and new expenditure patterns and the overall impact on the financial position of the council, there has been a provision of material revenue grant funding by Central Government.  The funding has been through a number of separate grants and in respect of different areas of lost income or increased expenditure, with some of the grants having specific conditions for use or being directed as funding for specific items of expenditure. As a result individual grants will, under the requirements of the CIPFA code, have different accounting requirements and as such each will require separate analysis to ensure the accounting treatment is appropriate.	○	●	●	We will discuss the Council's approach to considering the terms and conditions associated with each of the grants received, and its associated proposals for accounting, ensuring these accounting proposals are in line with the requirement as set out in the CIPFA code.



# 05

## Section 05: **Value for Money**

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# 5. Value for Money

## The framework for Value for Money work

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

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

### 27 Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

- 1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
- 2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
- 3. **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 approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none"><li>• NAO guidance and supporting information</li><li>• Information from internal and external sources including regulators</li><li>• Knowledge from previous audits and other audit work undertaken in the year</li><li>• Interviews and discussions with staff and Members</li></ul>
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.  Our commentary will also highlight: <ul style="list-style-type: none"><li>• Significant weaknesses identified and our recommendations for improvement</li><li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>



# 5. Value for Money

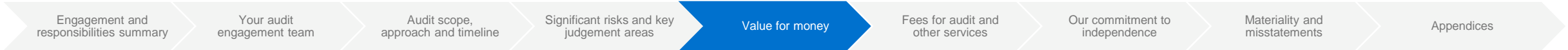
## Significant Value for Money risks

The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2020/21 financial year, we have identified the following significant risk(s) to our VFM work:

	Description of significant risk	Planned response
1	The Authority’s Medium Term Financial Plan developed from the Medium Term Financial Strategy (MTFS) has identified the need to use £3.8m of reserves and the need to make significant savings.	We will review the controls put in place by the Authority to ensure financial resilience, including the development and implementation of the Medium Term Financial Plan, and that this has taken into consideration factors such as funding reductions, salary and general inflation and demand pressures.  We will specifically review management actions and mitigations to deliver the budgeted position.

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# 06

Section 06:

**Fees for audit and other services**

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# 6. Fees for audit and other services

## Fees for work as the Council’s appointed auditor

At this stage of the audit, we are not planning any divergence from the scale fees set by PSAA.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work (Scale fee)	£116,057	£116,057
Fee variations	TBC	TBC

## 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. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Other services - Housing Benefits Subsidy Assurance	£17,750	£17,250
Other services - Teachers’ Pensions	£3,600	£3,500
Other services - Pooled Housing Capital Receipts	£4,100	£4,000
Other services – additional grant claim	TBC	-

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# 07

Section 07:

**Our commitment to independence**

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# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

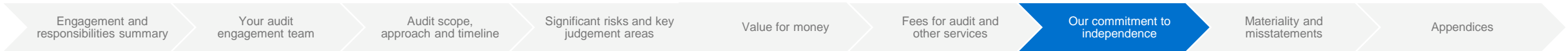
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.





# 08

Section 08:

**Materiality and other misstatements**

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# 8. Materiality and misstatements

## Summary of initial materiality thresholds:

Threshold	Initial threshold
Overall materiality	£9.1m
Performance materiality	£6.1m
Trivial threshold for errors to be reported to GARMS	£279k

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

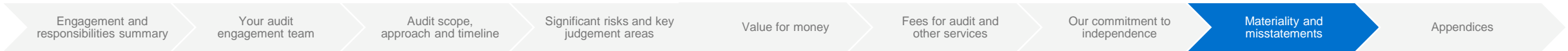
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to GARMS.

We consider that Gross Revenue Expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 8. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1.5% of Gross Revenue Expenditure. This is the same as 2019/20 (2018/19 was 1% of Gross Revenue Expenditure, reflecting our first year of appointment).

Based on prior year audited accounts we anticipate the overall materiality for the year ended 31 March 2021 to be in the region of £9.1m (£9.1m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## 35. Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

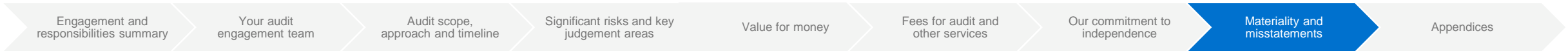
## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to GARMS that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £274k based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Lucy Nutley.

## Reporting to GARMS

The following three types of audit differences will be presented to GARMS:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





## Appendix: Key communication points

# Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

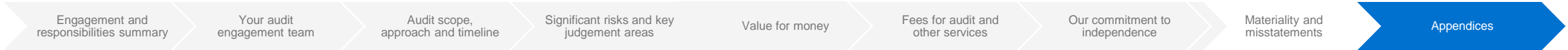
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
<div> <div>38</div> <div>           With respect to misstatements:            Uncorrected misstatements and their effect on our audit opinion;            The effect of uncorrected misstatements related to prior periods;           <ul style="list-style-type: none"> <li>A request that any uncorrected misstatement is corrected; and</li> <li>In writing, corrected misstatements that are significant.</li> </ul> </div> </div>	Audit Completion Report
<div>           With respect to fraud communications:           <ul style="list-style-type: none"> <li>Enquiries of GARMS to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>A discussion of any other matters related to fraud.</li> </ul> </div>	Audit Completion Report and discussion at GARMS. Audit Planning and Clearance meetings

# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	Audit Completion Report
<p>Significant findings from the audit including:</p> <p>39 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</p> <ul style="list-style-type: none"> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to GARMS in the context of fulfilling their responsibilities.</li> </ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

# Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of GARMS into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that GARMS may be aware of.	Audit Completion Report and discussion at GARMS
<div>40</div> With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> </ul> The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



# Mazars

Tower Bridge House  
St Katharine's Way  
London  
E3 1DD

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

\*where permitted under applicable country laws.

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# Audit Strategy Memorandum

## Harrow Council Pension Fund

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Year ending 31 March 2021



# Contents

- 01 Engagement and responsibilities summary
- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Fees for audit and other services
- 06 Our commitment to independence
- 07 Materiality and misstatements
- 44 Appendix – Key communication points

This document is to be regarded as confidential to Harrow Council Pension Fund. It has been prepared for the sole use of Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



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

13 July 2021

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

Dear Governance, Audit, Risk Management and Standards Committee Members

## Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Harrow Council Pension Fund for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Harrow Council Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07387 242052.

Yours faithfully

**Lucy Nutley**

**Mazars LLP**

# 01

Section 01:

## **Engagement and responsibilities summary**

# 1. Engagement and responsibilities summary

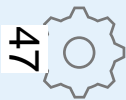
## Overview of engagement

We are appointed to perform the external audit of Harrow Council Pension Fund (the Pension Fund) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Audit and Governance Committee as those charged with governance, of their responsibilities.



### Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Pension Fund's annual report and the Pension Fund's financial statements included in the Statement of Accounts of London Borough of Harrow.



### Going concern

The Pension Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Executive Director of Finance and Corporate Resources is responsible for the assessment of whether it is appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Executive Director of Finance and Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



### Electors' rights

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 London Borough of Harrow and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendix

# 02

Section 02:

**Your audit engagement team**



## 2. Your audit engagement team




**Lucy Nutley**

**Director and Engagement Lead**

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Telephone: 07387 242052




**Stuart Frith**

**Engagement Manager**

Email: [Stuart.Frith@mazars.co.uk](mailto:Stuart.Frith@mazars.co.uk)

Telephone: 07909 982774



**Paddy Sadd**

**Assistant Manager**

Email: [Paddy.Sadd@mazars.co.uk](mailto:Paddy.Sadd@mazars.co.uk)

Telephone: 07581 008590

# 03

Section 03:

**Audit scope, approach and timeline**

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# 3. Audit scope, approach and timeline

## Audit scope

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balances, and disclosures.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



# 3. Audit scope, approach and timeline

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## Planning July 2021

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

## Completion November - December 2021

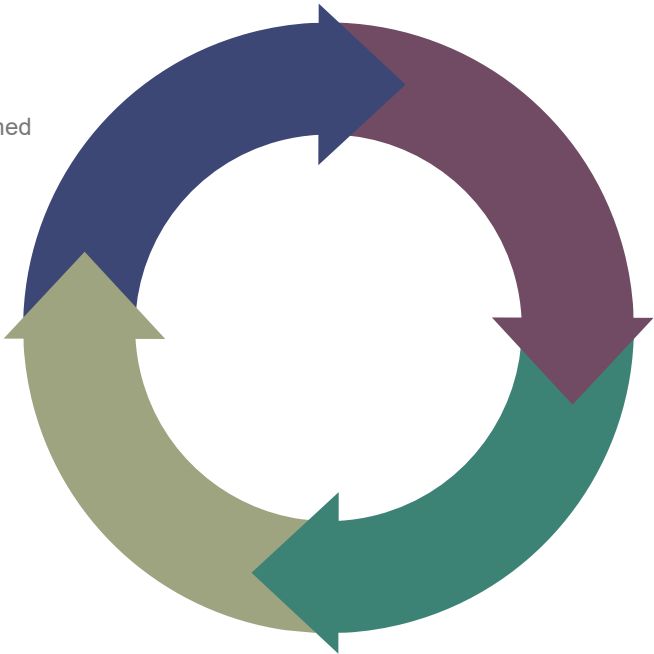
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Governance, Audit, Risk Management and Standards Committee
- Reviewing subsequent events
- Signing the auditor's reports

## Interim July 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including completion of our tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork August to October 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Management’s and our 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	At this stage we have not engaged our own expert for the valuation of level 3 investments.  However, we may engage an expert if considered necessary to support the valuation of unusual or complex level 3 investments.

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information provided to the Pension Fund
Investment valuations and income and all related disclosures	Investment managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.
Investment valuations and income and all related disclosures	Custodian	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.



# 04

Section 04:

**Significant risks and other key  
judgement areas**

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# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

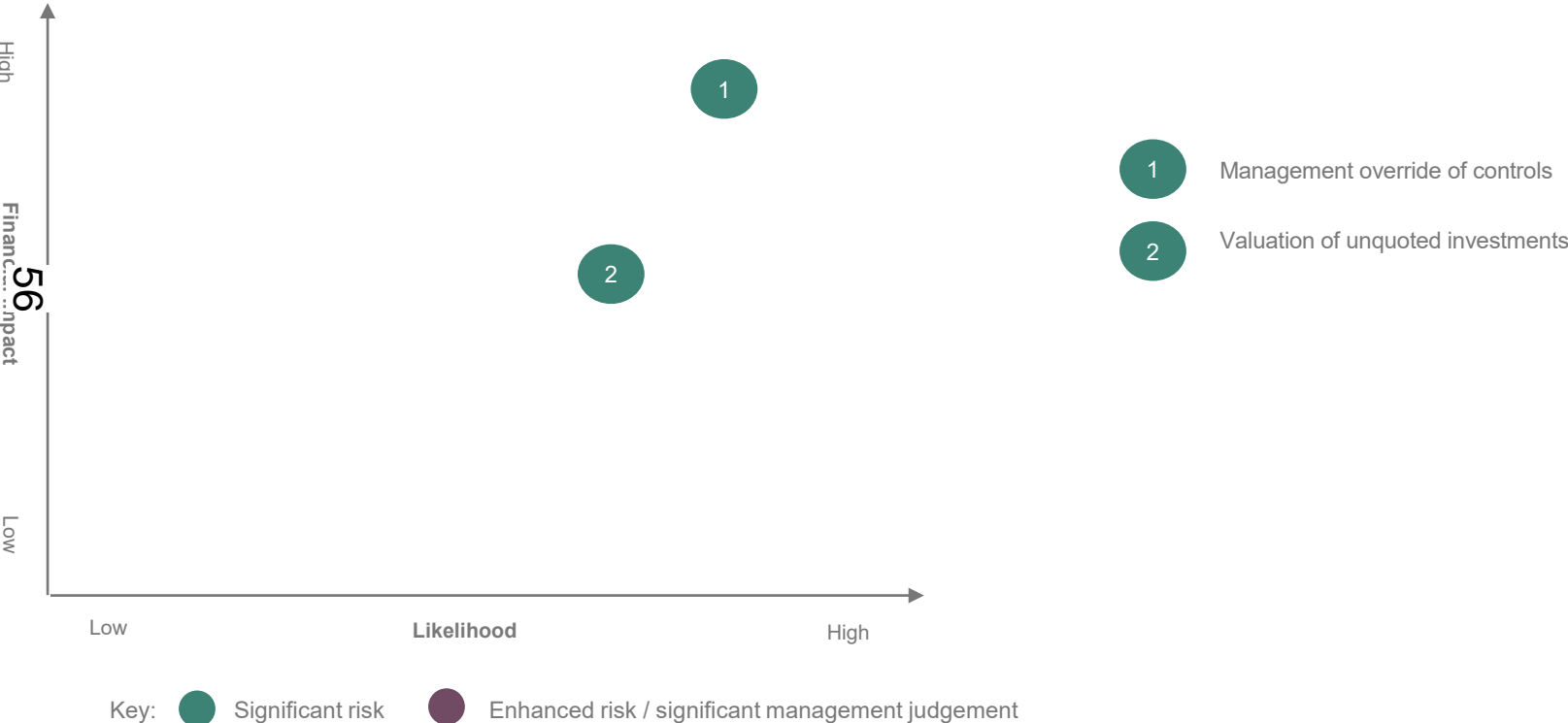
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



# 4. Significant risks and other key judgement areas

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Pension Fund. We have summarised our audit response to these risks on the next page.





# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit, Risk Management and Standards Committee .

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1  57	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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.</p> <p>Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"><li>• accounting estimates included in the financial statements for evidence of management bias;</li><li>• any significant transactions outside the normal course of business; and</li><li>• journals and other adjustments recorded in the general ledger in preparing the financial statements.</li></ul>

# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of unquoted investments</b></p> <p>As at 31 March 2020, the Pension Fund held investments which were not quoted on an active market with a fair value of £72.165 million, accounting for 9.7% of the Fund's net investment assets.</p> <p>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.</p> <p>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.</p>	○	●	●	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund manager reports to the custodian's report;</li> <li>• agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and</li> <li>• where audited accounts are available, check that they are supported by a clear opinion.</li> </ul>



# 05

Section 05:

**Fees for audit and other services**

59

# 5. Fees for audit and other services

## Fees for work as the Pension Fund’s appointed auditor

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work		
Scale fee	£16,170	£16,170
Fee variations	TBC	TBC

The scale fee was initially set by PSAA in 2018.

## Fees for non-PSAA work

We have not been separately engaged by the Pension Fund to carry out additional work.

# 06

Section 06:

**Our commitment to independence**

01

# 6. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



# 07

Section 07:

## **Materiality and other misstatements**

8

# 7. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	14,500
Performance materiality	10,100
Specific materiality:	
Fund account overall materiality	3,600
Fund accounts performance materiality	2,500
Trivial threshold for errors to be reported to the Audit and Governance Committee.	430

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets as at 31 March 2021. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

We consider that the net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 7. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1.5% of Net Assets. Based on the fair value of investments reported as at 31 March 2021 we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £14.5m (£11.7m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on medium inherent risk, meaning that we have applied 60% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.35m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.

## Reporting to GARMS

The following three types of audit differences will be presented to GARMS:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





## Appendix: Key communication points

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# Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: 68 <ul style="list-style-type: none"> <li>Uncorrected misstatements and their effect on our audit opinion;</li> <li>The effect of uncorrected misstatements related to prior periods;</li> <li>A request that any uncorrected misstatement is corrected; and</li> <li>In writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>Enquiries of GARMS to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>A discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at GARMS Audit Planning and Clearance meetings

# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	Audit Completion Report
<p>Significant findings from the audit including:</p> <p>69 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</p> <ul style="list-style-type: none"> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to GARMS in the context of fulfilling their responsibilities.</li> </ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

# Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of GARMS into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that GARMS may be aware of.	Audit Completion Report and the GARMS meetings
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty;</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> </ul> <p>The adequacy of related disclosures in the financial statements.</p>	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

## Mazars

Tower Bridge House  
St Katharine's Way  
London  
E1W 1DD

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

\*where permitted under applicable country laws.

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**Report for: Governance, Audit,  
Risk Management and  
Standards Committee  
(GARMS)**

---

<b>Date of Meeting:</b>	13th July 2021
<b>Subject:</b>	Draft Statement of Accounts 2020-21
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Draft Statement of Accounts 2020-21

## **Section 1 – Summary and Recommendations**

This report sets out the draft Statement of Accounts 2020-21.

**Recommendations:**

The Committee is asked to consider and note the draft Statement of Accounts 2020-21.

## **Section 2 – Report**

### **Background**

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. Due to the Coronavirus pandemic the legislative requirements have been relaxed and this has continued for 2020-21. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) have revised the deadlines to 31st July 2021 for the draft accounts and 30th September 2021 for the audited accounts.
2. The reporting of the Statement of Accounts is a major part of the strategic principle of providing proper management and stewardship of all the Council's resources. The Accounts have been prepared in accordance with proper accounting practices and relevant statutory requirements as set out in the following:-
  - a. The Code of Practice on Local Authority Accounting in the United Kingdom 2020-21;
  - b. All relevant International Financial Reporting Standards (IFRS)

### **Current situation**

3. The Council's accounts for 2020-21 are now closed subject to any audit adjustments. The Council met the relaxed statutory deadline of 31st July and published its draft accounts on 5th July 2021. In addition the comprehensive schedule of required working papers has been provided to the External Auditor ahead of the arranged audit start date. This will be the third year that Mazars LLP will audit the Council's accounts.
4. Members are reminded that a GARMS Committee meeting is scheduled for later in the year to consider and approve the audited Statement of Accounts. The audited accounts presented at this meeting will incorporate any amendments agreed by the external auditor and the Council. The auditor will attend the meeting and present their External Audit Report for 2020-21. The accounts are due to be signed off by the external auditor by the revised statutory deadline of 30th September 2021.
5. The Pension Fund Committee considered the draft Pension Fund Annual Report and Financial Statements on 24th June 2021 and will be asked to consider the Pension Fund External Audit Completion Report and approve the Pension Fund Annual Report in November 2021.

6. The Public Inspection of the accounts has been taking place from 6th July 2021 and will conclude on 16th August 2021.

## **Accounts Summary**

7. The Narrative Report includes the revenue and capital outturn performance of the Council for 2020-21 and provides an outlook for the future.
8. The Expenditure and Funding Analysis compares the outturn shown in the Narration Report with true economic cost of providing services valued in accordance with proper accounting practices as shown in the Comprehensive Income and Expenditure Statement. The differences between the outturn and CIES are mainly capital items and IAS19 pension costs.
9. The Comprehensive Income and Expenditure Account (CIES) shows the true economic cost of providing Council services. The deficit reported for the year was £47m.
10. However, under the statutory regulations some CIES costs (e.g. depreciation, impairments, IAS 19 costs, etc.) are not taken into account when setting the Council Tax and Dwelling Rents as these are technical accounting adjustments. These are reversed in the Movement in Reserves Statement which summarises the Council's total usable and unusable reserves.
11. The Balance Sheet sets out the financial position of the Council as at 31st March 2021. The overall decrease in net assets of £47m is mainly due to the increase in current and long term liabilities and partly offset by an increase in property valuations.
12. The Cash Flow statement shows how the Council generates and uses cash.
13. The Housing Revenue Account (HRA) shows the true economic cost of providing housing services. The surplus reported for the year is £1m
14. The Collection Fund statement is an agent's statement that reflects the statutory obligations of the London Borough of Harrow, as billing authority to maintain a separate Collection Fund.
15. The net assets of the Pension Fund at year end are £968m. This is an increase of £190m against the previous year.

## **Final Statement of Accounts 2019-20**

16. The external auditors have now completed their audit of the Council's 2019-20 accounts and Pension Fund accounts. The auditors have issued unqualified opinions. Copies of the Completion Letters are included for the Committee to consider and note.

### **Legal Implications**

There are no direct financial implications arising from this report.

### **Financial Implications**

There are no direct financial implications arising from this report.

### **Risk Management Implications**

There are no risk management implications.

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

Separate risk register in place? **No**

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

### **Equalities implications / Public Sector Equality Duty**

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

Was an Equality Impact Assessment carried out? **No**

There are no direct equalities implications.

### **Council Priorities**

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

## **Section 3 - Statutory Officer Clearance**

### **Statutory Officer:**

Signed by the Chief Financial Officer

Dawn Calvert

**Date:** 7<sup>th</sup> July 2021

### **Statutory Officer:**

Signed on behalf of the Monitoring Officer

Joane Mohan

**Date:** 7<sup>th</sup> July 2021

### **Chief Officer:**

Signed by the Corporate Director

Charlie Stewart

**Date:** 7<sup>th</sup> July 2021

## **Mandatory Checks**

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

## **Section 4 - Contact Details and Background Papers**

**Contact:** Paul Gower (Interim Technical Accounting Manager)

Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

### **Background Papers:**

1. Draft Statement of Accounts 20-21
2. LB Harrow Audit Completion Letter 2019-20
3. LB Harrow Pension Fund Audit Completion Letter 2019-20

If appropriate, does the report include the following considerations?

- |                |    |
|----------------|----|
| 1 Consultation | No |
| 2 Priorities   | No |

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# Statement of Accounts

## 2020 - 2021

Subject to Audit



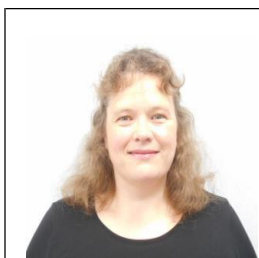
London Borough of Harrow  
Statement of Accounts  
2020 - 2021

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## 1. Narrative Report

### Message from the Director of Finance



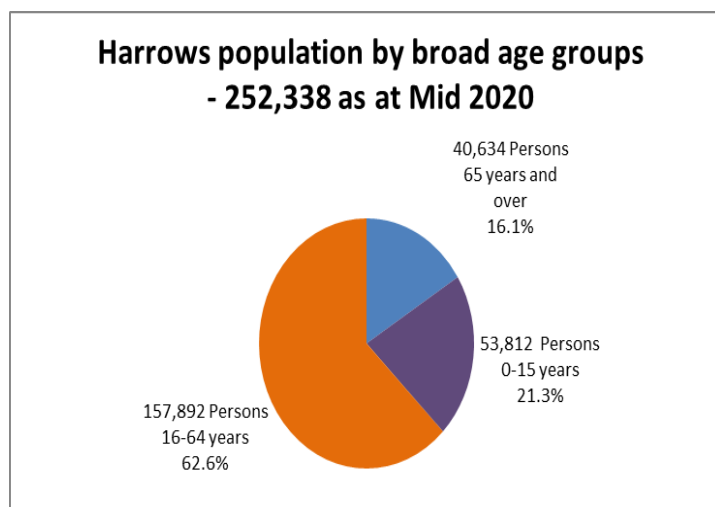
As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2020-21. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement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

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

This report includes the following sections:

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

### 1.1 An Introduction to Harrow



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

## Key Facts about the Council

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

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

## Organisational Structure

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

Chief Executive

Corporate Director - Community and Regeneration

Corporate Director - People's

Corporate Director - Resources

Director of Finance and Assurance

Director of Legal & Governance

Director of Adult Social Services

Director of Public Health

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

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

## 1.2 Summary of the Financial Performance of the Council

### Revenue Budget

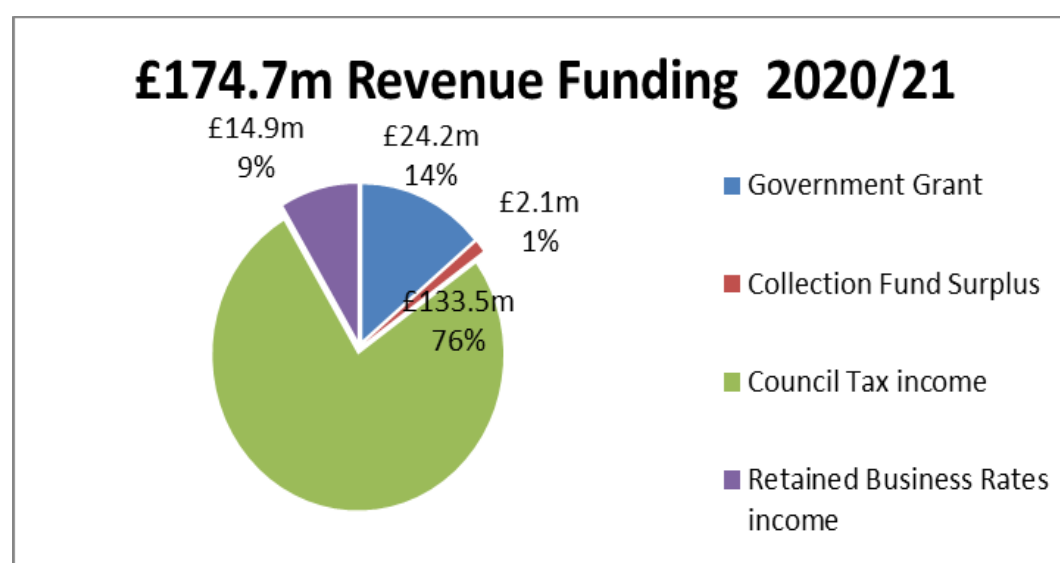
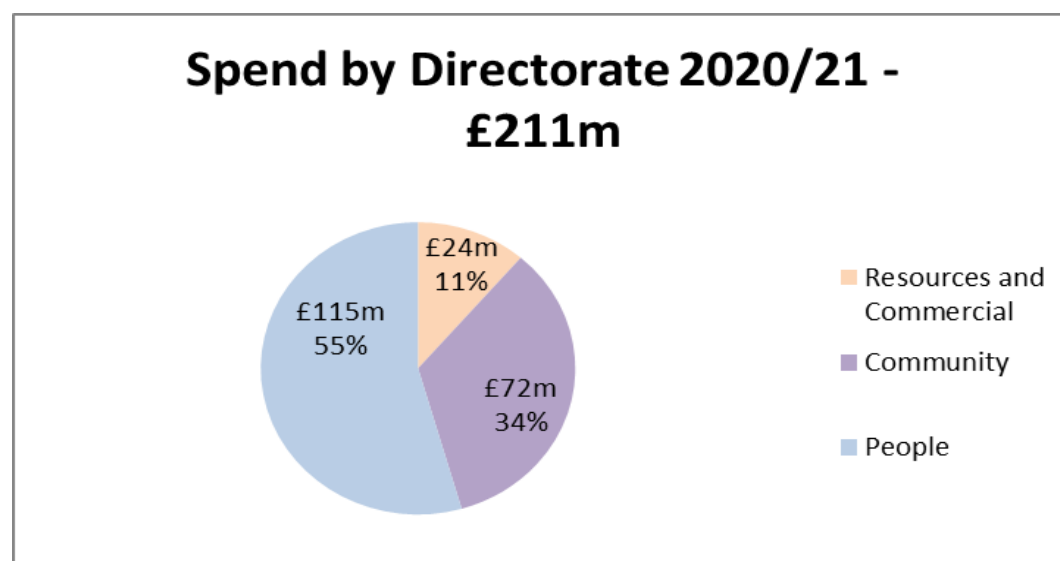
With Local Government being at the forefront of the response to both the public health and economic crisis caused by Covid 19, it is hardly surprising that the pandemic had a significant impact on local government finances. The Council received tranches of emergency funding (£17.6m), Controlling Outbreak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

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

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

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

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



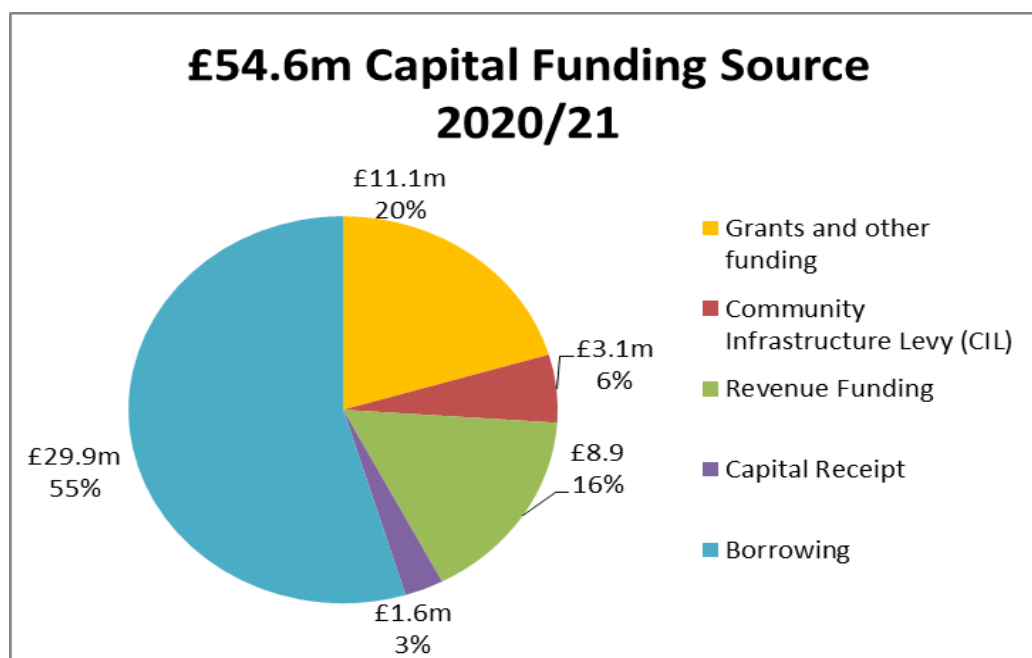
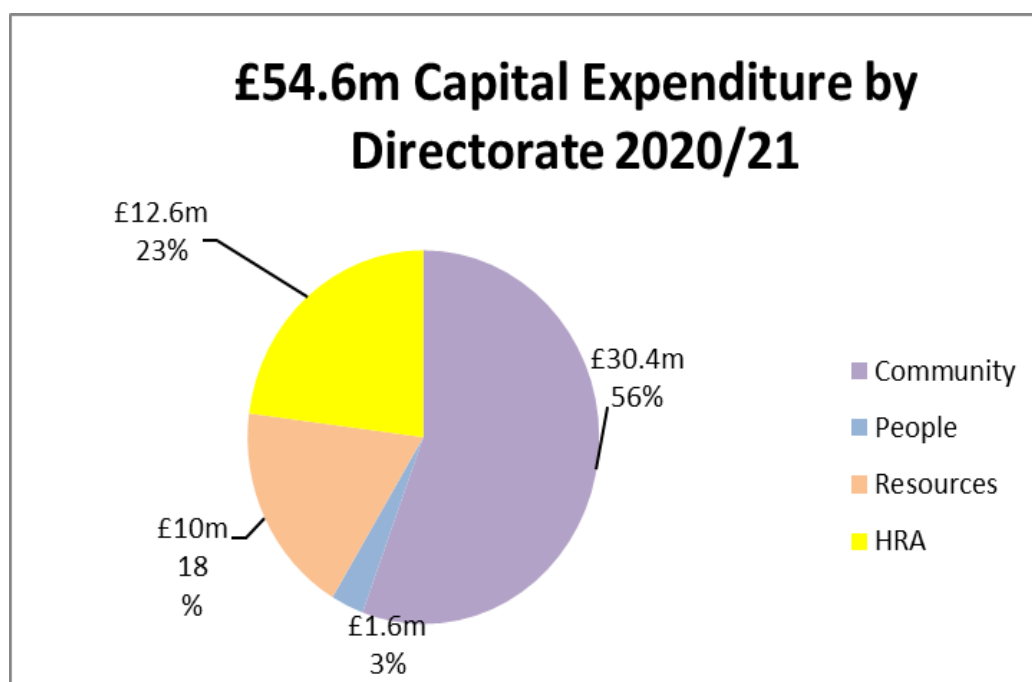
### Capital Programme 2020-21

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

Major projects included in the capital programme were:

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

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



#### Housing Revenue Account (HRA)

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

## Collection Fund

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

## Treasury Management

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

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

## Pensions

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

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

The impact on council tax, however, is dependent on the actuarial valuation of the Pension Fund carried out every three years. The strategy is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by spreading increases over a period of time. At the last valuation, carried out in March 2019, the fund was assessed as being 94% funded, corresponding to a shortfall of £52m. The Council's contribution rate for the financial year 2020-21 was 24.76%.

## **Harrow's 2020-21 Achievements**

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

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

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

Examples of other key achievements during the year include:

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

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

### 1.3 Outlook for the Future

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

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

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

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

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

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

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



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

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

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

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

#### 1.4 Explanation of the Financial Statements

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

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

#### 1.5 The Statement of Accounts

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

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

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

## 1.6 Receipt of further Information and acknowledgements

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

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



**Dawn Calvert CPFA**  
**Director of Finance**  
**5th July 2021**

## **2 Statement of Responsibilities**

### **The Council's Responsibilities**

The Council is required to:

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

### **The Director of Finance's Responsibilities**

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

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

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

The Director of Finance has also:

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

Certification by the Director of Finance:

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



**Dawn Calvert CPFA**  
**Director of Finance**  
**5<sup>th</sup> July 2021**

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

These accounts will be considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC).

**Councillor David Perry**  
**Chairman (GARMSC)**

### **3 Audit Opinion & Certificate**

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

TO BE INCLUDED ON COMPLETION OF AUDIT

**For and on behalf of Mazars LLP, Statutory Auditor**

*Chartered Accountants*

## 4 Presentation of Financial Statements

### 4.1 Comprehensive Income and Expenditure Statement

2019-20				2020-21			
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	/(Income) £000			£000	£000	/(Income) £000
106,782	(38,464)	68,318	People - Adult Services and Public Health		117,719	(49,841)	67,878
203,483	(153,497)	49,986	People - Children and Families		192,613	(160,219)	32,394
96,252	(50,431)	45,821	Community		96,591	(43,426)	53,165
176,601	(149,842)	26,759	Resources		171,948	(141,608)	30,340
25,949	(31,940)	(5,991)	Housing Revenue Account	6.1	25,909	(32,089)	(6,180)
609,067	(424,174)	184,893	<b>Cost of Services</b>		604,780	(427,183)	177,597
13,243	(5,917)	7,326	Other Operating Income and Expenditure	5.8	14,547	(2,729)	11,818
38,252	(1,635)	36,617	Financing and Investment Income and Expenditure	5.9	26,347	(8,247)	18,100
0	(204,079)	(204,079)	Taxation and Non-Specific Grant Income	5.10	0	(224,395)	(224,395)
		24,757	<b>(Surplus) Deficit on Provision of Services</b>				(16,880)
		(38,781)	(Surplus) Deficit on revaluation of property, plant & equipment	5.23.1			(31,271)
		(23,607)	Remeasurements of net pension liability	5.23.4			95,179
		(62,388)	<b>Other Comprehensive (Income) and Expenditure</b>				63,908
		(37,631)	<b>Total Comprehensive (Income) and Expenditure</b>				47,028

## 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
<b>Balance at 31 March 2019 brought forward</b>	(10,008)	(7,474)	(66,235)	(18,138)	(5,713)	(26,541)	(134,109)	(297,801)	(431,910)
<b><u>Movement in reserves during 2019-20</u></b>									
<b>Total Comprehensive Expenditure and (Income)</b> (Note 4.1)	31,187	(6,430)	0	0	0	0	24,757	(62,388)	(37,631)
Adjustments between accounting basis & funding basis under regulations (Note 5.6) *	(24,956)	6,289	0	(567)	(2,028)	(8,847)	(30,109)	30,109	0
<b>Net (Increase)/Decrease</b>	6,231	(141)	0	(567)	(2,028)	(8,847)	(5,352)	(32,279)	(37,631)
Other movements *	(6,231)	89	6,142	0	0	0	0	3	3
<b>(Increase)/Decrease in 2019-20</b>	0	(52)	6,142	(567)	(2,028)	(8,847)	(5,352)	(32,276)	(37,628)
<b>Balance at 31 March 2020 carried forward (Note 4.3)</b>	<b>(10,008)</b>	<b>(7,526)</b>	<b>(60,093)</b>	<b>(18,705)</b>	<b>(7,741)</b>	<b>(35,388)</b>	<b>(139,461)</b>	<b>(330,077)</b>	<b>(469,538)</b>
<b>Balance at 31 March 2020 brought forward (Note 4.3)</b>	(10,008)	(7,526)	(60,093)	(18,705)	(7,741)	(35,388)	(139,461)	(330,077)	(469,538)
<b><u>Movement in reserves during 2020-21</u></b>									
<b>Total Comprehensive Expenditure and (Income)</b> (Note 4.1)	(15,837)	(1,043)	0	0	0	0	(16,880)	63,908	47,028
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	(7,643)	1,382	0	4,354	1,329	(2,153)	(2,731)	2,731	0
<b>Net (Increase)/Decrease</b>	(23,480)	339	0	4,354	1,329	(2,153)	(19,611)	66,639	47,028
Other movements	23,480	913	(24,392)	0	0	0	1	(1)	0
<b>(Increase)/Decrease in 2020-21</b>	0	1,252	(24,392)	4,354	1,329	(2,153)	(19,610)	66,638	47,028
<b>Balance at 31 March 2021 carried forward (Note 4.3)</b>	<b>(10,008)</b>	<b>(6,274)</b>	<b>(84,485)</b>	<b>(14,351)</b>	<b>(6,412)</b>	<b>(37,541)</b>	<b>(159,071)</b>	<b>(263,439)</b>	<b>(422,510)</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant from Earmarked Reserves to Unusable Reserves

## 4.3 Balance Sheet

31-Mar-20 £000		Notes	31-Mar-21 £000
1,230,673	Property Plant and Equipment	5.11	<b>1,297,160</b>
72,927	Investment Property	5.13	<b>77,155</b>
16,017	Long Term Debtors	5.15	<b>15,700</b>
<b>1,319,617</b>	<b>Long Term Assets</b>		<b>1,390,015</b>
23,615	Short Term Investments	5.14	<b>17,616</b>
37,659	Short Term Debtors	5.16	<b>64,354</b>
38,606	Cash and Cash Equivalents	5.17	<b>61,468</b>
<b>99,880</b>	<b>Current Assets</b>		<b>143,438</b>
(4,765)	Short Term Borrowing	5.18	<b>(4,560)</b>
(80,873)	Short Term Creditors	5.19	<b>(125,588)</b>
(4,393)	Provisions	5.20	<b>(4,836)</b>
<b>(90,031)</b>	<b>Current Liabilities</b>		<b>(134,984)</b>
(5,907)	Provisions	5.20	<b>(5,971)</b>
(422,403)	Long Term Borrowing	5.14	<b>(422,358)</b>
(424,484)	Other Long Term Liabilities	5.21	<b>(534,488)</b>
(7,134)	Capital Grants Receipts in Advance	5.33.3	<b>(13,142)</b>
<b>(859,928)</b>	<b>Long Term Liabilities</b>		<b>(975,959)</b>
<b>469,538</b>	<b>Net Assets</b>		<b>422,510</b>
(139,461)	Usable Reserves *	5.22	<b>(159,071)</b>
(330,077)	Unusable Reserves *	5.23	<b>(263,439)</b>
<b>(469,538)</b>	<b>Total Reserves</b>		<b>(422,510)</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant Reserve from Earmarked Reserves to Unusable Reserves



#### 4.4 Cash Flow Statement

2019-20 £000		Notes	2020-21 £000
(24,757)	Net (deficit)/surplus on the provision of services	4.1	16,880
71,645	Adjustments to net deficit on the provision of services for non cash movements	5.24.1	49,853
(32,801)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.24.1	(17,953)
14,087	Net cash flow from Operating Activities		48,780
(67,398)	Investing Activities	5.24.2	(24,724)
79,265	Financing Activities	5.24.3	(1,194)
25,954	Net increase/(decrease) in cash and cash equivalents		22,862
12,652	Cash and cash equivalents at the beginning of the reporting period	5.17	38,606
38,606	Cash and cash equivalents at the end of the reporting period	5.17	61,468

## 5 Notes to the Financial Statements

### 5.1 Accounting Policies

#### 5.1.1 General Principles

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

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

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

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

#### Going Concern

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

#### Primacy of Legislative Requirements

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

#### Accruals of Income and Expenditure

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

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

London Borough of Harrow Statement of Accounts 2020-21

### 5.1.2 Cash and Cash Equivalents

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

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

### 5.1.3 Material Items of Income and Expense

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

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

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

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

### 5.1.5 Charges to Revenue for Non-Current Assets

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

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

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

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

### 5.1.6 Accounting for Council Tax and NDR

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

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

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

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

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

### **5.1.7 Employee Benefits**

#### **Benefits Payable during Employment**

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

#### **Termination Benefits**

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

#### **Post-Employment Benefits**

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

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

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

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

## The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme.

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

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

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

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

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

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

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

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### **Discretionary Benefits**

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

#### **5.1.8 Events After the Reporting Period**

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

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

#### **5.1.9 Financial Instruments**

##### **Financial Liabilities**

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

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

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

##### **Financial Assets**

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

### **Financial Assets Measured at Amortised Cost**

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

### **Expected Credit Loss Model**

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

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

#### **5.1.10 Intangible Assets**

The Council does not hold material intangible assets.

#### **5.1.11 Government Grants, Contributions and Donated Assets**

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

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

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

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

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

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

### 5.1.12 Investment Property

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

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

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

### 5.1.13 Joint Operations

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

### 5.1.14 Leases

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

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

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

#### The Council as Lessee

##### Finance Leases

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

Lease payments are apportioned between:

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



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

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

### **Operating Leases**

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

### **The Council as Lessor**

#### **Finance Leases**

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

#### **Operating Leases**

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

#### **5.1.15 Overheads and Support Services**

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

#### **5.1.16 Heritage Assets**

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

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

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

### 5.1.17 Property, Plant and Equipment (PPE)

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

#### Recognition

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

#### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

### **Impairment**

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following basis:

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

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

## Componentisation

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

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

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

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

## Disposals

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

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

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

### 5.1.18 Fair Value Measurement

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

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

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

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

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

### 5.1.19 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

### **5.1.20 Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

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

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

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

#### **Contingent Liabilities**

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

#### **Contingent Assets**

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

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

### **5.1.21 Reserves**

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

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

### **5.1.22 Revenue Expenditure Funded from Capital under Statute**

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

### 5.1.23 Accounting for Schools

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

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

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

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

### 5.1.24 Value Added Tax (VAT)

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

### 5.1.25 Group Accounts

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

## 5.2 Critical Judgements in Applying Accounting Policies

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

### Funding

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

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

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

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

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



Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Pooled property funds within the Pension Fund are valued by the asset managers using professional valuers as set out in the fund arrangements.	The 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.
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#### 5.4 Accounting Standards that have been issued but have not yet been adopted

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

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

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

## 5.5 Expenditure and Funding Analysis

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

2019-20			2020-21		
Net Expenditure Chargeable to General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis Note 5.5.1 £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000	Net Expenditure Chargeable to General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis Note 5.5.1 £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000
66,356	1,962	68,318	70,963	(3,085)	67,878
42,469	7,517	49,986	43,901	(11,507)	32,394
49,095	(3,274)	45,821	72,155	(18,990)	53,165
9,214	17,545	26,759	(12,259)	42,599	30,340
(52)	(5,939)	(5,991)	1,252	(7,432)	(6,180)
167,082	17,811	184,893	176,012	1,585	177,597
(167,082)	6,946	(160,136)	(174,760)	(19,717)	(194,477)
0	24,757	24,757	1,252	(18,132)	(16,880)
(17,482)			Opening General Fund and HRA Balance	(17,534)	
(52)			Plus Surplus on General Fund and HRA Balance in Year	1,252	
(17,534)			Closing General Fund and HRA Balance as at 31 March *	(16,282)	

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

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

2020-21

	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Earmarked Reserves £000 (Note c)	Non-Specific Grant Income £000 (Note d)	Other Differences £000 (Note e)	Total Adjustments £000 (Note f)
People - Adult Services and Public Health	(496)	1,033	(632)	0	(2,990)	(3,085)
People - Children and Families	(13,459)	3,952	(6,027)	0	4,027	(11,507)
Community	(5,331)	2,474	(3,971)	0	(12,162)	(18,990)
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	(11,128)	6,495	(27,549)	51,125	(17,358)	1,585
Other income and expenditure	(15,875)	9,429	0	(51,125)	37,854	(19,717)
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of	(27,003)	15,924	(27,549)	0	20,496	(18,132)

2019-20

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

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

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

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

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

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

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

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

2020-21	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>						
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	18,081	(79)	0	0	0	(18,002)
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	(786)	0	0	0	0	786
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
<b>Total Adjustments to Revenue Resources</b>	<b>(39,076)</b>	<b>(9,927)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49,003</b>
<b>Adjustments between Revenue and Capital Resources:</b>						
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
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>31,433</b>	<b>11,309</b>	<b>582</b>	<b>(7,664)</b>	<b>(3,355)</b>	<b>(32,305)</b>
<b>Adjustments to Capital Resources:</b>						
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)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>3,772</b>	<b>8,993</b>	<b>1,202</b>	<b>(13,967)</b>
<b>Total Adjustments</b>	<b>(7,643)</b>	<b>1,382</b>	<b>4,354</b>	<b>1,329</b>	<b>(2,153)</b>	<b>2,731</b>

2019-20	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>						
Pension costs transferred to the Pensions Reserve	(24,492)	(646)	0	0	0	25,138
Depreciation	(27,861)	(7,659)	0	0	0	35,520
Impairment	7,274	111	0	0	0	(7,385)
Premiums and Discounts on Debt Restructure	403	45	0	0	0	(448)
Movements in market value of Investment Properties	(14,307)	0	0	0	0	14,307
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	(442)	0	0	0	0	442
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	571	0	0	0	0	(571)
Transfer to Dedicated Schools Grant Reserve	(2,944)	0	0	0	0	2,944
Revenue expenditure funded from capital	(3,268)	0	0	0	0	3,268
Non Current assets written out on disposal	(1,271)	(3,213)	0	0	0	4,484
<b>Total Adjustments to Revenue Resources</b>	<b>(66,337)</b>	<b>(11,362)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77,699</b>
<b>Adjustments between Revenue and Capital Resources:</b>						
Minimum Revenue Provision	21,978	8	0	0	0	(21,986)
Capital expenditure funded from revenue balances	3,681	0	0	0	0	(3,681)
Capital grants and contributions	15,152	7,523	0	0	(14,201)	(8,474)
Transfer of sale proceeds credited to the CIES	3,689	6,437	(10,126)	0	0	0
Administrative cost of non-current asset disposals	(19)	(82)	101	0	0	0
Payment to the Housing Capital Receipts Pool	0	(3,882)	3,882	0	0	0
Use of capital receipts to fund revenue expenditure	(3,100)	0	3,100	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,647	0	(7,647)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>41,381</b>	<b>17,651</b>	<b>(3,043)</b>	<b>(7,647)</b>	<b>(14,201)</b>	<b>(34,141)</b>
<b>Adjustments to Capital Resources:</b>						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	5,619	0	(5,619)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	2,476	0	0	(2,476)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	5,354	(5,354)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>2,476</b>	<b>5,619</b>	<b>5,354</b>	<b>(13,449)</b>
<b>Total Adjustments</b>	<b>(24,956)</b>	<b>6,289</b>	<b>(567)</b>	<b>(2,028)</b>	<b>(8,847)</b>	<b>30,109</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant from Earmarked Reserves to Unusable Reserves

## 5.7 Earmarked reserves

	Balance at 31-Mar-19	Transfers Out 2019-20	Transfers In 2019-20	Balance at 31-Mar-20	Transfers Out 2020-21	Transfers In 2020-21	Balance at 31-Mar-21
	£000	£000	£000	£000	£000	£000	£000
<b>Earmarked Reserves:</b>							
Transformation Reserve	(7,526)	0	0	(7,526)	2,176	0	(5,350)
Business Rates Pool Reserve	(4,279)	4,279	(1,800)	(1,800)	1,033	0	(767)
Budget Planning Reserve	(6,829)	4,200	0	(2,629)	0	(14,060)	(16,689)
Capacity Building Reserve	(4,261)	2,212	(1,172)	(3,221)	1,221	0	(2,000)
Collection Fund Reserve	0	0	0	0	0	(8,925)	(8,925)
PFI Sinking Funds	(3,923)	0	(114)	(4,037)	0	(86)	(4,123)
Projects in Progress	(2,384)	2,384	(3,224)	(3,224)	3,224	(2,041)	(2,041)
Revenue Grant Reserve	(4,926)	719	(2,862)	(7,069)	1,228	(2,972)	(8,813)
Public Health	(2,127)	280	0	(1,847)	20	(545)	(2,372)
MTFS Implementation Cost	(2,067)	292	0	(1,775)	1,426	0	(349)
CIL - Harrow	(8,948)	3,612	(2,452)	(7,788)	3,095	(2,038)	(6,731)
Other Earmarked Reserves	(5,033)	618	(1,207)	(5,622)	1,698	(4,821)	(8,745)
<b>Total Earmarked Reserves *</b>	<b>(52,303)</b>	<b>18,596</b>	<b>(12,831)</b>	<b>(46,538)</b>	<b>15,121</b>	<b>(35,488)</b>	<b>(66,905)</b>
Locally Managed School Balances	(13,227)	466	0	(12,761)	0	(3,113)	(15,874)
HRA Earmarked Reserves	(705)	127	(217)	(794)	0	(912)	(1,706)
<b>Total</b>	<b>(66,235)</b>	<b>19,189</b>	<b>(13,048)</b>	<b>(60,093)</b>	<b>15,121</b>	<b>(39,513)</b>	<b>(84,485)</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant from Earmarked Reserves to Unusable Reserves

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

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

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

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

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

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

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

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

**5.8 Other operating income and expenditure**

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

**5.9 Financing and investment income and expenditure**

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

**5.10 Taxation and non- specific grant income**

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

## 5.11 Property, plant and equipment

2020-21	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2020	449,655	558,983	58,712	213,221	1	70,952	16,697	<b>1,368,221</b>	<b>45,818</b>
Reversal of accumulated depreciation on revaluation	(6,755)	(8,119)	0	0	0	0	0	<b>(14,874)</b>	0
Additions	3,269	7,624	1,690	7,675	441	32,871	0	<b>53,570</b>	9
Revaluation increases/(decreases) recognised in the Revaluation Reserve	19,087	10,881	0	0	0	0	1,303	<b>31,271</b>	2,576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	18,539	0	0	(467)	0	(70)	<b>18,002</b>	0
Derecognition - Disposals	(2,228)	0	0	0	0	0	0	<b>(2,228)</b>	0
Reclassifications/ Transfer	9,771	7,596	1,226	1,227	26	(19,273)	(573)	<b>0</b>	0
<b>At 31 March 2021</b>	<b>472,799</b>	<b>595,504</b>	<b>61,628</b>	<b>222,123</b>	<b>1</b>	<b>84,550</b>	<b>17,357</b>	<b>1,453,962</b>	<b>48,403</b>
<b>Accumulated Depreciation</b>									
At 1 April 2020	(6,755)	(10,574)	(28,745)	(91,302)	0	0	(172)	<b>(137,548)</b>	<b>(2,783)</b>
Reversal of accumulated depreciation on revaluation	6,755	8,119	0	0	0	0	0	<b>14,874</b>	0
Depreciation charges for 2020-21	(7,350)	(9,594)	(6,176)	(11,359)	0	0	(10)	<b>(34,489)</b>	<b>(687)</b>
Derecognition - Depreciation on Disposal	361	0	0	0	0	0	0	<b>361</b>	0
<b>At 31 March 2021</b>	<b>(6,989)</b>	<b>(12,049)</b>	<b>(34,921)</b>	<b>(102,661)</b>	<b>0</b>	<b>0</b>	<b>(182)</b>	<b>(156,802)</b>	<b>(3,470)</b>
<b>Net Book Value</b>									
<b>At 31 March 2021</b>	<b>465,810</b>	<b>583,455</b>	<b>26,707</b>	<b>119,462</b>	<b>1</b>	<b>84,550</b>	<b>17,175</b>	<b>1,297,160</b>	<b>44,933</b>
<b>At 31 March 2020</b>	<b>442,900</b>	<b>548,409</b>	<b>29,967</b>	<b>121,919</b>	<b>1</b>	<b>70,952</b>	<b>16,525</b>	<b>1,230,673</b>	<b>43,035</b>



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

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

### 5.11.1 Depreciation

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

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

### 5.11.2 Capital commitments

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

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

### 5.11.3 Revaluations

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

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

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

Rolling revaluation programme:

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infra-structure Assets £000	Asset Under Construction £000	Surplus Assets £000	Total £000	Investment Property £000
Valued at historical cost	0	0	26,707	119,462	84,550	0	230,719	0
Valued at fair value:								
As at 31st March 2021	465,810	396,490	0	0	0	17,175	879,475	77,155
As at 31st March 2020	0	51,418	0	0	0	0	51,418	0
As at 31st March 2019	0	27,008	0	0	0	0	27,008	0
As at 31st March 2018	0	75,028	0	0	0	0	75,028	0
As at 31st March 2017	0	33,511	0	0	0	0	33,511	0
Total Cost or Valuation as at 31st March 2021	<b>465,810</b>	<b>583,455</b>	<b>26,707</b>	<b>119,462</b>	<b>84,550</b>	<b>17,175</b>	<b>1,297,159</b>	<b>77,155</b>

This table excludes community assets valued at £1K

#### 5.11.4 Trust, Foundation, Voluntary Aided and Academy Schools

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

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

#### 5.12 Heritage assets

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

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

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

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

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

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

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

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

#### 5.13 Investment properties

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

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

## 5.14 Financial instruments

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

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

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

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

### Gains and losses on financial instruments

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

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

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

### Fair value of assets and liabilities

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

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

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

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

### 5.15 Long term debtors

31-Mar-20		31-Mar-21
£000		£000
15,864	West London Waste Authority	15,568
153	Other Loans	132
<u>16,017</u>	<b>Total</b>	<u>15,700</u>

### 5.16 Short term debtors

31-Mar-20		31-Mar-21
£000		£000
1,047	Business Rates & Council Tax *	25,138
34,738	Trade debtors	34,645
1,874	Other debtors	4,571
<u>37,659</u>	<b>Total</b>	<u>64,354</u>

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

### 5.17 Cash and cash equivalents

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

**5.18 Short term borrowing**

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

**5.19 Short term creditors**

31-Mar-20		31-Mar-21
£000		£000
(8,714)	Business Rates & Council Tax	(10,316)
(57,766)	Trade Creditors	(97,051)
(14,393)	Other Creditors	(18,221)
<u>(80,873)</u>	<b>Total</b>	<u>(125,588)</u>

**5.20 Provisions**

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

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

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

**5.21 Other long term liabilities**

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

**5.22 Usable reserves**

31-Mar-20		Note	31-Mar-21
£000			£000
(10,008)	General Fund	4.2	(10,008)
(60,093)	Earmarked Reserves *	5.7	(84,485)
(7,526)	Housing Revenue Account	6.1	(6,274)
(7,741)	Major Repairs Reserve	6.2.4	(6,412)
(18,705)	Capital Receipts Reserve	5.22.1	(14,351)
(35,388)	Capital Grants and Contributions Unapplied	5.22.2	(37,541)
<b>(139,461)</b>	<b>Total Usable Reserves</b>		<b>(159,071)</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant reserve from Earmarked Reserves to Unusable Reserves

**5.22.1 Capital receipts reserve**

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

General			General		
Fund	HRA	Total	Fund	HRA	Total
2019-20	2019-20	2019-20	2020-21	2020-21	2020-21
£000	£000	£000	£000	£000	£000
(4,002)	(14,136)	(18,138)	(4,572)	(14,133)	(18,705)
(3,689)	(1,750)	(5,439)	0	(162)	(162)
0	(4,687)	(4,687)	0	(4,494)	(4,494)
19	82	101	0	60	60
0	3,882	3,882	0	5,178	5,178
3,100	0	3,100	0	0	0
0	0	0	2,178	1,594	3,772
0	2,476	2,476	0	0	0
<b>(4,572)</b>	<b>(14,133)</b>	<b>(18,705)</b>	<b>(2,394)</b>	<b>(11,957)</b>	<b>(14,351)</b>

**5.22.2 Capital grants and contributions unapplied**

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

General			General		
Fund	HRA	Total	Fund	HRA	Total
2019-20	2019-20	2019-20	2020-21	2020-21	2020-21
£000	£000	£000	£000	£000	£000
(23,792)	(2,749)	(26,541)	(29,552)	(5,836)	(35,388)
(10,323)	(3,878)	(14,201)	(3,332)	(23)	(3,355)
4,563	791	5,354	1,202	0	1,202
<b>(29,552)</b>	<b>(5,836)</b>	<b>(35,388)</b>	<b>(31,682)</b>	<b>(5,859)</b>	<b>(37,541)</b>



**5.23 Unusable reserves**

31-Mar-20 £000		Notes	31-Mar-21 £000
(182,432)	Revaluation Reserve	5.23.1	(209,602)
(571,335)	Capital Adjustment Account	5.23.2	(606,335)
11,573	Financial Instruments Adjustment Account	5.23.3	11,128
407,120	Pensions Reserve	5.23.4	518,223
(2,495)	Collection Fund Adjustment Account	5.23.5	12,291
4,556	Accumulating Compensated Absences Adjustment Account	5.23.6	7,133
2,944	Dedicated Schools Grant Reserve *		3,731
(8)	Deferred Capital Receipts Reserve	5.23.7	(8)
<b>(330,077)</b>	<b>Total Unusable Reserves</b>		<b>(263,439)</b>

\* Comparative figures have been amended to move the Dedicated Schools Grant from Earmarked Reserves to Unusable Reserves

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

**5.23.1 Revaluation reserve**

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

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

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

2019-20				2020-21		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
(99,480)	(47,118)	(146,598)	Balance at 1 April	(108,943)	(73,489)	(182,432)
(31,338)	(27,433)	(58,771)	Upward revaluation of property, plant & equipment	(49,591)	(19,672)	(69,263)
15,895	372	16,267	Less: reversal of past impairments charged to Provision of Services	24,383	52	24,435
(15,443)	(27,061)	(42,504)	Upward revaluation of assets charged to the revaluation reserve	(25,208)	(19,620)	(44,828)
12,409	77	12,486	Impairment of property, plant & equipment	19,248	742	19,990
(8,694)	(69)	(8,763)	Less: impairments charged to Provision of Services	(6,122)	(311)	(6,433)
3,715	8	3,723	Impairments charged to the revaluation reserve	13,126	431	13,557
			(Surplus) / Deficit on revaluation of non-current assets not posted to			
(111,208)	(74,171)	(185,379)	(Surplus) / Deficit on the Provision of Services	(121,025)	(92,678)	(213,703)
			Difference between fair value depreciation and historical cost			
2,017	765	2,782	depreciation	3,408	622	4,030
248	(83)	165	Accumulated gains on assets sold or scrapped	0	71	71
2,265	682	2,947	Amount written off to the Capital Adjustment Account	3,408	693	4,101
<b>(108,943)</b>	<b>(73,489)</b>	<b>(182,432)</b>	<b>Balance at 31 March</b>	<b>(117,617)</b>	<b>(91,985)</b>	<b>(209,602)</b>



### 5.23.2 Capital adjustment account

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

The Account contains accumulated gains and losses on Investment Properties.

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

2019-20				2020-21		
General				General		
Fund	HRA	Total		Fund	HRA	Total
£000	£000	£000		£000	£000	£000
(282,595)	(265,696)	(548,291)	Balance at 1 April	(303,178)	(268,157)	(571,335)
27,861	7,659	35,520	Reversal of depreciation charged to the CIES	26,812	7,677	34,489
(7,274)	(111)	(7,385)	Asset Impairment/ (Reversal of Impairment)	(18,081)	79	(18,002)
1,271	3,213	4,484	Non Current assets written out on Disposal	0	1,868	1,868
3,268	0	3,268	Revenue expenditure funded from capital under statute	1,246	0	1,246
(2,265)	(682)	(2,947)	Amounts written off from the revaluation reserve	(3,408)	(693)	(4,101)
(22,703)	0	(22,703)	Deferred credit on transfer of fixed asset	0	0	0
0	(2,476)	(2,476)	Use of the Capital Receipts Reserve	(2,178)	(1,594)	(3,772)
0	(5,619)	(5,619)	Use of the Major Repairs Reserve	0	(8,993)	(8,993)
(9,389)	(4,437)	(13,826)	Capital grants credited to the Cl&E	(7,449)	(3,695)	(11,144)
(21,978)	(8)	(21,986)	Minimum Revenue Provision	(18,644)	(9)	(18,653)
(3,681)	0	(3,681)	Revenue Contribution to Capital Outlay	(3,210)	(500)	(3,710)
14,307	0	14,307	Movements in the market value of Investment Properties debited/credited to the Cl&E Statement	(4,228)	0	(4,228)
(303,178)	(268,157)	(571,335)	Balance at 31 March	(332,318)	(274,017)	(606,335)

### 5.23.3 Financial instruments adjustment account

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

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

### 5.23.4 Pensions reserve

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

2019-20		2020-21
£000		£000
405,589	<b>Balance at 1 April</b>	407,120
(23,607)	Remeasurement of the net defined benefit liability	95,179
	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	
48,470	Employer's pensions contributions and direct payments to pensioners payable in the year	39,547
(23,332)		(23,623)
<u>407,120</u>	<b>Balance at 31 March</b>	<u>518,223</u>

### 5.23.5 Collection fund adjustment account

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

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

### 5.23.6 Accumulating compensated absences adjustment account

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

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

### 5.23.7 Deferred capital receipts reserve

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

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

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

## 5.24 Notes to the Cash Flow Statement

### 5.24.1 Operating activities

2019-20 £000		2020-21 £000
	<b>The cash flows for operating activities include the following items:</b>	
16,864	Interest payable & similar charges	16,918
(1,635)	Interest and Investment income	(1,237)
11,480	Other investment income	(7,010)
	<b>The surplus or deficit on the provision of services has been adjusted for the following non cash movements:</b>	
25,138	Adjustment for pension funding	15,924
(1,532)	Increase/(Decrease) in Provision	507
28,135	Impairment and Depreciation	16,487
(571)	Accumulated Absence	2,576
4,484	Carrying amount of non-current assets disposed	1,868
907	Other non cash items charged to CIES	(4)
14,307	Movement in the value of investment properties	(4,228)
685	Billing authority Collection Fund adjustments	(22,672)
	<b>Items on an accrual basis</b>	
(4,260)	(Increase)/Decrease in Debtors	(3,026)
4,352	Increase/(Decrease) in Creditors	42,421
71,645	<b>Adjustments for non cash movements</b>	49,853
(10,126)	Proceeds from the sale of non-current assets	(4,656)
(22,675)	Capital grants credited to surplus or deficit on the provision of services	(13,297)
(32,801)	<b>Adjustments for investment and financing activities</b>	(17,953)

### 5.24.2 Investing activities

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

### 5.24.3 Financing activities

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

## 5.25 Expenditure and income analysed by nature

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

2019-20		2020-21
£000	Notes	£000
<b>Expenditure</b>		
209,601	Employee benefits expenditure	209,173
124,371	Housing benefits	115,914
217,732	Other service expenses	227,612
25,076	Support service recharges (excl. employee costs)	30,388
32,288	Depreciation and impairment	21,694
51,495	Other expenditure 5.8 - 5.9	40,893
<b>660,563</b>	<b>Total expenditure</b>	<b>645,674</b>
<b>Income</b>		
(128,630)	Fees, charges and other service income	(113,218)
(295,545)	Revenue grants included within cost of services 5.33.1	(313,966)
(211,631)	Other income 5.8 - 5.10	(235,370)
<b>(635,806)</b>	<b>Total income</b>	<b>(662,554)</b>
<b>24,757</b>	<b>(Surplus) Deficit on Provision of Services</b>	<b>(16,880)</b>

## 5.26 Road charging schemes under the Transport Act 2000

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

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

**5.27 Pooled budgets – Better Care Fund**

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

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

**5.28 Members' Allowances**

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

2019-20 £000		2020-21 £000
872	Allow ances	891
872	Total	891

## 5.29 Remuneration

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

### 5.29.1 Remuneration bands

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

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

### 5.29.2 Senior officer remuneration

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

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

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

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

Note 1 The officer is not a member of the pension scheme.

Note 2 The Corporate Director commenced on 20th May 2019.

Note 3 The Acting Director left the Council on 30th April 2019.

Note 4 The Director commenced on 27th May 2019.



### 5.30 Termination benefits

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

#### Exit Payments cost

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

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

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

#### Exit payment liabilities

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

### 5.31 External audit costs

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

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

### 5.32 Dedicated Schools Grant

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

Details of the deployment of DSG receivable are as follows:

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

### 5.33 Grants income

#### 5.33.1 Revenue grants included within the cost of services

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

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

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

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

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

#### 5.33.3 Capital grants receipts in advance

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

### 5.34 Related parties

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

#### 5.34.1 United Kingdom Government and other Public Bodies

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

#### Members and senior officers

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

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

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

Organisation	Amount £000
West House and Heath Robinson Museum	7

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

#### 5.34.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

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

### 5.35 Capital Financing

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

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

### 5.36 Leases

#### 5.36.1 The Council as Lessee

#### Finance Leases

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

#### Operating Leases

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

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

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

### 5.36.2 The Council as Lessor

#### Finance Leases

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

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

#### Operating Leases

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

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

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

31-Mar-20		31-Mar-21
£000	Land and Buildings	£000
4,730	Not later than one year	5,559
16,283	Later than one year and not later than five years	18,227
21,518	Later than five years	19,623
<u>42,531</u>		<u>43,409</u>

### 5.37 Private Finance Initiative (PFI)

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

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

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

Outstanding PFI lease liabilities are as follows:

#### Special schools

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

#### NRCs

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

#### 5.37.1 Special schools

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

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

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

#### 5.37.2 Neighbourhood Resource Centres (NRC)

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

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

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

## 5.38 Defined benefit pension schemes

### 5.38.1 Participation in pension scheme

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

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

### 5.38.2 Transactions relating to post-employment benefits

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

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

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

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



**5.38.3 Reconciliation of present value of the scheme liabilities**

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

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

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

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

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

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

**5.38.5 Scheme history**

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

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

### 5.38.6 Basis for estimating assets and liabilities

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

The principal assumptions used by the actuary have been:

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

### 5.38.7 Scheme assets

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

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

### 5.38.8 History of experience gains and losses

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

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

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

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

**5.39 Teachers' Pension Scheme**

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

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

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

**5.40 Nature and extent of risks arising from financial instruments**

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

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

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

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

## Credit risk

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

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

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

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

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

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

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

## Liquidity risk

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

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

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

The maturity structure of long term borrowing is as follows:

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

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

## Market risk

### Interest rate risk

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

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

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

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

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

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

#### **5.41 Trust funds**

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

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

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

#### **5.42 Interests in subsidiary companies**

The Council controls the following subsidiary companies: Concilium Assets LLP, Concilium Group Ltd, Concilium Business Services Ltd and Sancroft Community Care Ltd.

## 6 Housing Revenue Account

### 6.1 Housing Revenue Account (HRA)

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

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

**Statement of Movement on the HRA Balance**

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

**6.2 Notes to the Housing Revenue Account****6.2.1 Dwelling Rents Income**

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

**6.2.2 Non-dwelling Rents**

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

**6.2.3 HRA Fixed Assets**

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

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 1<sup>st</sup> April 2020 would have been £1,530m (£1,497m at 1<sup>st</sup> April 2019), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,087m (2019-20 £1,092m).

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

#### 6.2.4 Major Repairs Reserve

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

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

#### 6.2.5 Capital Expenditure and Funding Statement

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

#### 6.2.6 Capital Receipts

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

Further details are provided in note 5.22.1.

#### 6.2.7 Pensions (IAS 19)

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

Further details are provided in note 5.38.

## 6.2.8 Housing Revenue Account Statistics

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

## 6.2.9 Statement of Movement on the HRA Balance

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

## 7 Collection Fund

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

### 7.1 Statement of Income and Expenditure

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

## Notes to the Collection Fund

### 7.1.1 Income from Council Tax

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

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

### 7.1.2 Business Rates

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

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

### 7.1.3 Business Rate Supplement - Crossrail

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

## 8 Annual Governance Statement

### 8.1 Introduction

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

### 8.2 Responsibility

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

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

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

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

#### **Covid-19 Impact on Governance**

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

#### **Decision Making**

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

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

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

### **Risk Management**

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

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

### **Capacity & Capability**

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

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

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

### **Financial Impact**

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

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

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

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

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

### **8.3 Effectiveness of Key Elements of the Governance Framework**

Each year the Council undertakes a review of its governance arrangements to ensure the delivery of good governance in accordance with the requirements of the Accounts and Audit Regulations 2015 and in accordance with Delivering Good Governance in Local Government: Framework 2016 published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (Solace).

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

#### **8.3.1 Behaviour of Members and Staff**

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

The Council values are incorporated into the staff induction programme as well as the performance appraisal process and the staff are measured against these values annually.

#### **8.3.2 Compliance with Laws and Regulations**

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

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

Amongst other things the Act:

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

- allowed ministers to close schools and other premises.

In response to this the Council has:

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

### **8.3.3 Acting in the Public Interest**

During 2020/21 the Council can demonstrate a commitment to openness and acting in the public interest. This has been achieved via the implementation of a governance structure which includes codes of conduct, a Standards Committee, 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.

### **8.3.4 Communication and Consultation**

The Council's Communications Team worked with all parts of the Council and a wide range of partner organisations and external stakeholders on media relations, marketing, campaigns, consultations, events, publications and social media in order to assist the Council in improving its relationship with its public. This includes keeping residents informed of Council activities, engaging them in dialogue around service delivery and soliciting their views to drive change.

### **8.3.5 The Harrow Borough Plan 2020-2030**

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

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





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

### 8.3.6 Putting the Vision into Practice

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

### 8.3.7 Decision-making

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

### 8.3.8 Measuring Performance and External Assurance

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

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

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

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

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

### **8.3.9 External Audit**

During 2020/21 the authority provided timely support, information and responses to the Council's external auditors, Mazars. However the external auditors have yet to complete their audit and sign-off the accounts for 2019/20 meaning that the deadline for publishing the final accounts of 30 November 2020 has not been met. This is an issue across many local authorities and not unique to Harrow Council.

### **8.3.10 Roles and Responsibilities**

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

### **8.3.11 Financial Management**

The Council's financial management arrangements during 2020/21 conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). During 2020/21 the Council delivered its services within the approved budget of £175m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. The final outturn on the revenue budget for 2020/21, after the planned use of reserves which are largely applied to fund one-off projects and cross divisional adjustments including one-off income, is a balanced position after transfers to reserves.

An assessment of the organisation's compliance with the principles of the CIPFA Financial Management Code is in progress and will be reported on in the Final Annual Governance Statement.

### **8.3.12 Monitoring Officer Function**

The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law. The duties of the Monitoring Officer are outlined in Article 12 of the Council's constitution and are undertaken by the Council's Director of Legal and Governance Services. Effective arrangements were in place during 2020/21 to discharge these duties.

### **8.3.13 Head of Paid Service Function**

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

### **8.3.14 Development Needs**

Following the local government elections in May 2018, new Members received a Members Induction pack and a welcome evening was arranged for all elected Members on 8 May, to cover Council values, conduct and Member interests plus a Members Marketplace was held on the 15 May to explain key Council services together with a programme of Member training in May/June 2018. During 2019/20 Member training was also conducted on how to use social media, homelessness and rough sleeping and EU settled status.

### **8.3.15 Managing Risks**

The framework for identifying and managing risks consists of a series of Directorate Risk Registers that feed into an overarching Corporate Register that clearly identifies the owner of each risk. The Corporate Risk Register was reviewed and updated three times during 2020/21 for Q1/Q2 in July/September 2020, for Q3 in November 2020 and for Q4 in February 2021. Each update was presented to the Corporate Strategic Board (CSB) for review and challenge and were presented to the Governance, Audit, Risk Management & Standards (GARMS) Committee to assist the Committee in monitoring progress on risk management in accordance with their Terms of Reference. As a result of an Internal Audit recommendation in December 2020 the risk management implications section of Cabinet reports was reviewed and made more robust by requiring risks to decisions to be identified along with mitigations and red, amber, green (RAG) assurance ratings to be included in all Cabinet reports from January 2021 onwards. This was further strengthened and supported by updated guidance for report authors and a requirement for this section of the reports to be reviewed and signed-off by the Head of Internal Audit who is operationally responsible for the Corporate Risk Management function. In April 2021 the template of decision reports for all other Committees was changed to the updated risk management implications section to provide consistency of approach to all decisions made by Members.

### **8.3.16 Counter Fraud and Anti-corruption Arrangements**

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

### **8.3.17 Scrutiny**

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

- Health
- Community
- People
- Resources

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

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

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

### **8.3.18 Internal Audit**

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

### **8.3.19 Audit Committee**

The duties of the audit committee are undertaken by the Governance, Audit, Risk Management & Standards Committee and an Internal Audit review undertaken during 2018/19 has established it generally operates in-line with the core functions of an audit committee as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2017). Two key actions coming out of the review was the update the Committee's Terms of Reference which were approved by Council and included in the constitution in February 2019 and the introduction of an Annual Report describing the work of the Committee throughout the year and demonstrating that the Committee has undertaken its role effectively. The GARMS Committee's Annual Report 2019/20 was presented to Council in February 2020 confirming that the committee had successfully fulfilled its purpose/role and responsibilities as outlined in its agreed Terms of Reference.

### **8.3.20 Joint Working**

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

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

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

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

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

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

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

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

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

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

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

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

The paragraphs above outline the separate bodies set up by the Council and their relationship with the Council however the annual review of governance 2019/20 highlighted that these bodies are not yet publishing their board agenda, minutes and annual reports. The intention was to address this during 2020/21 however this was not achieved and will be rolled over to 2021/22 to implement.

#### 8.4 Level of Assurance

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

The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2020/21 has yet to be fully determined due to a delay in obtaining assurance from testing of a number of the Council's core financial systems and for the annual review of governance. However based on assurance obtained so far the opinion is likely to be: **Good with improvements required in a few areas:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is generally good with 97% of reports issued being amber, green/amber or green assurance. One red assurance report has been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in this area at risk and no significant governance gaps have been identified so far as part of the annual review of governance process.

#### 8.5 Previous Significant Governance Issues

##### 8.5.1 Depot Redevelopment Project

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

A follow-up of the implementation of the recommendations is in progress. Further details will be included in the final AGS once the follow-up has been completed.

**8.6 Significant Governance Issue 2020/21**

No new significant governance gaps have been identified for 2020/21 so far.

**8.7 Conclusion**

The annual review of governance is currently incomplete however the assurances obtained so far are generally positive on the governance arrangements in place for 2020/21.

**8.8 Declaration**

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

.....

Graham Henson

Leader

Date:

.....

Sean Harriss

Chief Executive

Date:

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2020-21

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

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

**Dawn Calvert CPFA**  
**Director of Finance**  
**5<sup>th</sup> July 2021**



# Harrow Pension Fund Account as at 31 March 2021

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

# Net Assets Statement as at 31 March 2021

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

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.



**Dawn Calvert – CPFA**  
Director of Finance  
5<sup>th</sup> July 2021

# Notes to the Harrow Pension Fund

## Accounts for the year ended

### 31 March 2021

#### NOTE 1: DESCRIPTION OF FUND

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

##### a) General

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

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

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

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

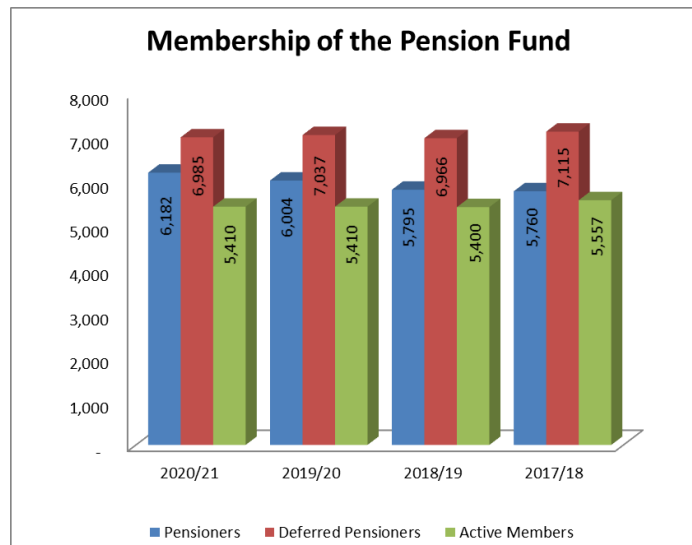
##### b) Membership

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

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff, are automatically entitled to be members of the Fund.
- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

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



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5797	5764	3605	15,166	81.64
Stanmore College	Scheduled Body	91	154	78	323	1.74
Nower Hill High School	Scheduled Body	27	149	141	317	1.71
Heathland and Whitefriars	Scheduled Body	11	81	182	274	1.47
Hatch End High School	Scheduled Body	31	134	68	233	1.25
Rooks Heath College	Scheduled Body	22	98	109	229	1.23
Park High School	Scheduled Body	12	84	103	199	1.07
Canons High School	Scheduled Body	16	75	98	189	1.02
Bentley Wood School	Scheduled Body	9	91	59	159	0.86
Harrow High School	Scheduled Body	13	58	64	135	0.73
St Dominics College	Scheduled Body	41	37	55	133	0.72
Aylward Primary School	Scheduled Body	7	33	70	110	0.59
Salvatorian Academy	Scheduled Body	21	52	18	91	0.49
Priestmead School	Scheduled Body	3	5	79	87	0.47
Pinner High Academy	Scheduled Body	0	7	73	80	0.43
St Georges Primary	Scheduled Body	3	6	67	76	0.41
St John Fisher	Scheduled Body	2	4	60	66	0.36
St Josephs Primary	Scheduled Body	2	4	55	61	0.33
Earlsmead Academy	Scheduled Body	6	9	40	55	0.30
Welldon Park School	Scheduled Body	2	4	43	49	0.26
St Bernadettes	Scheduled Body	5	5	31	41	0.22
Alexandra Academy	Scheduled Body	2	16	22	40	0.22
Sacred Heart High School	Scheduled Body	2	6	31	39	0.21
Avanti House Secondary School	Scheduled Body	0	3	35	38	0.20
St Jerome	Scheduled Body	1	1	33	35	0.19
Avanti House Primary School	Scheduled Body	1	12	21	34	0.18
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Moriah Jewish School	Scheduled Body	9	5	7	21	0.11
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	6	6	0.03
NLCS	Community Admission Body	40	46	50	136	0.73
Busy Bee	Admitted Body	0	0	1	1	0.01
Evergreen Aylward	Admitted Body	0	0	3	3	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
PSC Ltd	Admitted Body	0	0	4	4	0.02
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
SOS Ltd	Admitted Body	0	0	7	7	0.04
Sopria Steria	Admitted Body	4	4	4	12	0.06
ISS Catering	Admitted Body	1	1	13	15	0.08
Evergreen	Admitted Body	0	0	20	20	0.11
<b>Total</b>		<b>6,182</b>	<b>6,985</b>	<b>5,410</b>	<b>18,577</b>	<b>100</b>

**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.

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

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

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

## NOTE 2: BASIS OF PREPARATION

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

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

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – Revenue Recognition

#### a) Contributions income

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

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

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

#### b) Transfers to and from other schemes

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

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

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

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

#### c) Investment income

- i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

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

## **Fund account – Expense items**

### **a) Benefits payable**

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

### **b) Taxation**

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

### **c) Management expenses**

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

#### Administrative expenses

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

#### Oversight and governance costs

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

#### Investment management expenses

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

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

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

## Net Assets Statement

### a) Financial assets

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

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

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

### b) Derivatives

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

### c) Cash and cash equivalents

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

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

### d) Financial liabilities

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

### e) Actuarial present value of promised retirement benefits

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

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

### f) Additional Voluntary Contributions

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

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



**g) Contingent Liabilities**

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

**h) Contingent Assets**

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

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

**Accounting Standards Issued but not yet fully adopted**

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

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

**NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES****Pension Fund liability**

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

**Unquoted private equity investments**

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

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

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

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

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Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> <li>• a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £124.56m</li> <li>• a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £8.78m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £113.41m</li> </ul>
<b>Private equity (Note 16C)</b>	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £7m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
<b>Fair value – basis of valuation (Note 16)</b>	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets, although there was a recovery during the second half of 2020 which has continued in the quarter to 31 March 2021. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. Whilst there is some evidence of economic recovery, at the current time, it is not possible to predict accurately the long term impact of Covid-19, particularly on property investments in some locations and sectors of the economy. Values have been based on the situation prior to Covid-19 on the assumption that values will be restored once global markets recover.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
<b>Pooled Property Fund</b>	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. The outbreak of Covid-19 has impacted global markets and therefore our fund managers have advised that valuations have been reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight can be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – should be attached to valuations of pooled property fund assets than would normally be the case.	The total property pooled investments in the financial accounts are £61.56m. There is a risk that these investments may be understated or overstated in the accounts. A 5% decrease in value would decrease the total valuation by £3.078m.

**NOTE 6: EVENTS AFTER THE REPORTING DATE**

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

**NOTE 7: CONTRIBUTIONS RECEIVABLE****By category**

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

**By type of employer**

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

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

2019-20		2020-21
£'000		£'000
0	Group transfers	0
(1,366)	Individual transfers	(2,027)
<b>(1,366)</b>		<b>(2,027)</b>

**NOTE 9: BENEFITS PAYABLE****By category**

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

**By type of employer**

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

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

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

**NOTE 11: MANAGEMENT EXPENSES**

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

**NOTE 11A: INVESTMENT MANAGEMENT EXPENSES**

<b>2020-21</b>	<b>Total</b>	<b>Management Fees</b>	<b>Other Fees</b>
		<b>£'000</b>	<b>£'000</b>
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
	<b>3,840</b>	<b>3,437</b>	<b>403</b>

<b>2019-20</b>	<b>Total</b>	<b>Management Fees</b>	<b>Other Fees</b>
		<b>£'000</b>	<b>£'000</b>
Pooled Investments - Equities	2,059	1,653	406
Pooled Investments - Alternatives	1,024	927	97
Pooled Investments - Other	904	825	79
Derivatives	52	52	0
Custodian	10	0	10
	<b>4,050</b>	<b>3,457</b>	<b>593</b>

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**NOTE 12: INVESTMENT INCOME**

2019-20		2020-21
£'000		£'000
(3,882)	Pooled Investments - Private equity	(2,899)
(2,026)	Pooled Investments - Property	(859)
(3,151)	Pooled investments - Other	(2,987)
<b>(9,059)</b>		<b>(6,745)</b>

**NOTE 13: EXTERNAL AUDIT COSTS**

2019-20		2020-21
£'000		£'000
(16)	Payable in respect of external audit	(19)
<b>(16)</b>		<b>(19)</b>

**NOTE 14: INVESTMENTS**

Market value		Market value
31 March 2020		31 March 2021
£'000		£'000
	<b>Investment assets</b>	
394,247	Pooled equities investments	525,161
111,463	Pooled bonds investments	122,361
171,230	Pooled alternative investments	201,053
700	Pooled infrastructure	16,099
<b>677,641</b>		<b>864,674</b>
64,140	Pooled property investments	61,561
150	Equity in London CIV	150
8,025	Private equity	6,989
1,092	Derivative contracts: forward currency	9,083
28,153	Cash with investment managers	20,675
<b>779,200</b>		<b>963,132</b>
2,641	Cash deposits	4,399
<b>781,841</b>	<b>Total investment assets</b>	<b>967,531</b>
	<b>Investment liabilities</b>	
(5,852)	Derivative contracts: forward currency	(947)
<b>(5,852)</b>	<b>Total investment liabilities</b>	<b>(947)</b>
<b>775,989</b>	<b>All investments</b>	<b>966,584</b>

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	467,263	0	(33,102)	(39,914)	394,247
Pooled bonds investments	108,159	3,062	(39)	281	111,463
Pooled alternative investments	191,029	95,000	(96,850)	(17,949)	171,230
Pooled property investments	68,171		(426)	(3,605)	64,140
Pooled infrastructure	0	700			700
Equity in London CIV	150				150
Private equity	11,522		(249)	(3,248)	8,025
Derivative contracts: forward currency	756	7,932	(3,365)	(10,083)	(4,760)
	<b>847,050</b>	<b>106,694</b>	<b>(134,031)</b>	<b>(74,518)</b>	<b>745,195</b>
Cash with investment managers	45				28,153
Cash deposits	3,068				2,641
	<b>3,113</b>				<b>30,794</b>
<b>Net investment assets</b>	<b>850,163</b>				<b>775,989</b>

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**NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER**

Market value 31 March 2020	Percentage of Fund	Manager	Investment assets	Market value 31 March 2021	Percentage of Fund
£'000	%			£'000	%
<b>Investments managed by London CIV</b>					
91,705	12	LCIV - Longview	Developed world equities-active	120,618	12
80,816	10	LCIV - CQS	Multi Asset Credit	101,226	10
0	0	LCIV - RBC	Sustainable Equities	67,238	7
700	0	LCIV	Infrastructure	16,099	2
177,589	23	BlackRock	Global equities-passive	247,574	26
350,810	45		Total LCIV	552,755	57
<b>Investments managed outside of the London CIV</b>					
64,140	8	LaSalle	Pooled property	61,561	6
			Cash with investment		
25,128	3	BlackRock	managers	12,726	1
87,635	11	BlackRock	Fixed interest securities	97,538	10
23,828	3	BlackRock	Index-linked securities	24,823	3
2,641	0	Cash Deposits	Cash with Banks	4,399	1
			Emerging markets equities-active		
67,577	9	GMO		89,731	9
90,414	12	Insight	Diversified growth fund	99,827	10
			Cash with investment		
3,025	0	JP Morgan	managers	7,949	1
150	0	LCIV	UK equities-passive	150	0
			Developed world equities-active		
57,376	7	Oldfield		0	0
8,025	1	Pantheon	Private equity	6,989	1
(4,760)	(1)	Record	Forward currency contracts	8,136	1
425,179	55		Total - Managers	413,829	43
<b>775,989</b>	<b>100</b>		<b>Total Investments</b>	<b>966,584</b>	<b>100</b>

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

Market value 31 March 2020	% of total fund	Investment assets	Market value 31 March 2021	% of total fund
£'000			£'000	
90,414	12	Insight Broad Opportunities Fund	99,827	10
91,705	12	LCIV LV Global Equity Fund (Longview)	120,618	12
80,816	10	LCIV Multi Asset Credit (CQS)	101,226	10
87,635	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	97,538	10
67,577	9	GMO Emerging Domestic Opportunities Equity Fund	89,731	9
64,140	8	LaSalle Investors UK Real Estate Fund of Funds	61,561	6
57,376	7	Overstone Global Equity CCF (USD Class A1 Units)	0	0
177,589	23	Blackrock Equity Beta Portfolio	247,574	26
0	0	LCIV Sustainable Equity Fund (RBC)	67,238	7
<b>717,252</b>	<b>92</b>	<b>Total over 5% holdings</b>	<b>885,312</b>	<b>90</b>

## **NOTE 14D: STOCK LENDING**

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the Blackrock Portfolio.

The Blackrock lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from Blackrock pursuant to its Securities Lending Authorisation Agreement

Value of Stock on Loan as at 31 March 2021 £24.4m (6.60%) compared to £23.8m (8.24%) as at 31 March 2020.

## **NOTE 15: ANALYSIS OF DERIVATIVES**

### **Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.



**Analysis of Open forward currency contracts:-**

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	HKD	59,575	GBP	(5,546)	9	
Up to one month	NOK	2,176	GBP	(185)	0	
Up to one month	SGD	632	GBP	(341)	0	
One to six months	GBP	4,509	AUD	(8,056)	60	
One to six months	GBP	3,281	CAD	(5,689)	1	
One to six months	GBP	9,718	CHF	(12,174)	330	
One to six months	GBP	1,395	EUR	(1,540)	83	
One to six months	CAD	2,038	GBP	(1,151)	24	
One to six months	GBP	4,564	HKD	(47,982)	90	
One to six months	GBP	743	JPY	(104,200)	59	
One to six months	GBP	187	NOK	(2,176)	2	
One to six months	GBP	189	NZD	(364)	4	
One to six months	GBP	2,094	SEK	(24,146)	84	
One to six months	GBP	369	SGD	(663)	12	
One to six months	GBP	7,769	USD	(10,574)	104	
Over six months	GBP	37,757	EUR	(42,267)	1,686	
Over six months	GBP	20,731	JPY	(2,930,800)	1,489	
Over six months	GBP	190,907	USD	(256,467)	5,046	
Up to one month	NZD	182	GBP	(93)		(0)
Up to one month	CAD	5,689	GBP	(3,282)		(1)
Up to one month	SEK	12,073	GBP	(1,005)		(1)
Up to one month	CHF	5,591	GBP	(4,310)		(3)
Up to one month	AUD	4,028	GBP	(2,234)		(9)
Up to one month	EUR	12,418	GBP	(10,594)		(13)
Up to one month	JPY	790,200	GBP	(5,209)		(24)
Up to one month	USD	96,379	GBP	(70,065)		(200)
One to six months	CAD	192	GBP	(111)		(1)
One to six months	CHF	992	GBP	(830)		(66)
One to six months	EUR	5,684	GBP	(4,917)		(70)
One to six months	GBP	4,567	CAD	(7,919)		(1)
One to six months	GBP	6,602	HKD	(71,168)		(34)
One to six months	GBP	185	NOK	(2,176)		(1)
One to six months	GBP	341	SGD	(632)		(1)
One to six months	GBP	15,609	USD	(22,096)		(406)
One to six months	JPY	664,400	GBP	(4,425)		(64)
One to six months	SGD	31	GBP	(17)		(1)
Over six months	EUR	869	GBP	(792)		(51)
<b>Open forward currency contracts at 31 March 2021</b>					<b>9,083</b>	<b>(947)</b>
<b>Net forward currency contracts at 31 March 2021</b>						<b>8,136</b>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31 March 2020</b>					<b>1,092</b>	<b>(5,852)</b>
<b>Net forward currency contracts at 31 March 2020</b>						<b>(4,760)</b>

**NOTE 16: FAIR VALUE – BASIS OF VALUATION**

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investment - Multi asset credit	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Not required
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

## Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2021 using data provided by PIRC.

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

	Assessed valuation range (+/-)	Valuation at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	9.10%	8,025	8,755	7,295
Pooled investments - property funds	1.90%	64,140	65,359	62,921
		72,165	74,114	70,216

## NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit and loss</b>				
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
<b>Total</b>	<b>772,423</b>	<b>109,512</b>	<b>84,649</b>	<b>966,584</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit and loss</b>				
Pooled equities investments	394,247			394,247
Pooled bonds investments	111,463			111,463
Pooled alternative investments	90,414	80,816		171,230
Pooled property investments			64,140	64,140
Pooled infrastructure			700	700
Private equity			8,025	8,025
Derivative contracts: forward currency		(4,760)		(4,760)
Cash Deposits / Other	30,794	150		30,944
<b>Total</b>	<b>626,918</b>	<b>76,206</b>	<b>72,865</b>	<b>775,989</b>

## NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

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

Period 2019/20	Market Value 31 March 2019	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses )	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Private Equity	11,522	0	0	0	(249)	(3,248)	8,025
Pooled - Infrastructure	0	0	0	700	0	0	700
Pooled - property	68,171	0	0	0	(426)	(3,605)	64,140
	79,693	0	0	700	(675)	(6,853)	72,865

## NOTE 17: FINANCIAL INSTRUMENTS

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

31 March 2020			31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
394,247	0	0	525,161	0	0
111,463	0	0	122,361	0	0
171,230	0	0	201,053	0	0
700	0	0	16,099	0	0
64,140	0	0	61,561	0	0
150	0	0	150	0	0
8,025	0	0	6,989	0	0
1,092	0	0	9,083	0	0
0	32,083	0	0	26,109	0
0	716	0	0	767	0
<b>751,047</b>	<b>32,799</b>	<b>0</b>	<b>942,457</b>	<b>26,876</b>	<b>0</b>
<b>Financial liabilities</b>					
(5,852)	0	0	(947)	0	0
0	0	(236)	0	0	(402)
<b>(5,852)</b>	<b>0</b>	<b>(236)</b>	<b>(947)</b>	<b>0</b>	<b>(402)</b>
<b>745,195</b>	<b>32,799</b>	<b>(236)</b>	<b>941,510</b>	<b>26,876</b>	<b>(402)</b>
<b>777,758</b>			<b>967,984</b>		
<b>Grand Total</b>					

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

### Risk and risk management

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

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

### Market risk

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

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

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

### Price risk

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

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

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

Assets type	Potential market movements (+/-) %
Equities	14.20
Bonds	7.70
Alternatives	7.10
Pooled Property	2.20
Private Equity	7.50

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

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
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
<b>Total</b>	<b>941,510</b>		<b>1,043,956</b>	<b>839,064</b>

Asset type	Value as at 31 March 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Pooled equities investments	389,487	12.00	436,225	342,749
Pooled bond investments	111,463	6.90	119,154	103,772
Pooled alternative investments	171,230	6.30	182,017	160,443
Pooled property investments	64,140	1.90	65,359	62,921
Private Equity	8,025	9.10	8,755	7,295
Pooled Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
<b>Total</b>	<b>745,195</b>		<b>812,361</b>	<b>678,030</b>

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 and the impact of a 1% movement in interest rates are as follows:

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



Assets exposed to interest rate risk	Carrying amount as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,794	0	30,794	30,794
Fixed interest securities	87,635	876	88,511	86,759
<b>Total change in assets available</b>	<b>118,429</b>	<b>876</b>	<b>119,305</b>	<b>117,553</b>

This analysis demonstrates that changes in interest rates do not impact on the value of cash and cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.1%

A 7.1% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

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

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

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

### Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria

The Council believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2021 was £25.1m (31 March 2020: £30.8m). This was held with the following institutions.

Summary	Balances at 31 March 2020	Balances at 31 March 2021
	£'000	£'000
<b>Bank accounts</b>		
Royal Bank of Scotland	2,641	4,399
JP Morgan	3,025	7,949
BlackRock	25,128	12,726
	<b>30,794</b>	<b>25,074</b>

### Liquidity risk

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

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

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of illiquid assets was £84.6m. This represented 8.76% of the total Fund assets (31 March 2020: £72.9m).

### Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

## NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation takes place as at 31 March 2022.

The key elements of the funding policy are:

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

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

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (74% at the March 2016 valuation). This corresponded to a deficit of £52m (2016 valuation: £228m).

Contribution increases are being phased in over the 3 years' ending 31 March 2023.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

## Financial assumptions

Other financial assumptions	2016 %	2019 %
Price inflation (CPI)	2.1	2.3
Salary increases	2.4	3.0
Pension increases	2.1	2.3
Funded basis discount rate	3.8	4.3

## Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.

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

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

## Commutation assumption

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

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

31 March 2020		31 March 2021
£m		£m
(1,104)	Present value of promised retirement benefits	(1,389)
697	Fair value of scheme assets	871
<b>(407)</b>	<b>Net Liability</b>	<b>(518)</b>

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### IAS19 Assumptions used

	2019-20	2020-21
	% pa	% pa
Inflation/pensions increase rate assumption	1.9	2.9
Salary increase rate	2.6	3.6
Discount rate	2.3	2.0

### NOTE 21: CURRENT ASSETS

31 March 2020		31 March 2021
£'000		£'000
<b>Short Term Debtors:</b>		
661	Contributions due - employers	561
55	Sundry debtors	66
1,289	Cash owed to Fund	1,035
<b>2,005</b>		<b>1,662</b>

### NOTE 21A: LONG TERM DEBTORS

31 March 2020		31 March 2021
£'000		£'000
0	Lifetime Tax Allowances	140
<b>0</b>		<b>140</b>

**NOTE 22: CURRENT LIABILITIES**

31 March 2020		31 March 2021
£'000		£'000
(156)	Sundry creditors	(119)
(80)	Benefits payable	(283)
<b>(236)</b>		<b>(402)</b>

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

Market value 31 March 2020		Market value 31 March 2021	
£'000		£'000	
2,268	Prudential Assurance	2,268	*
553	Clerical Medical	617	
224	Utmost (Previously Equitable Life)	237	
<b>3,045</b>		<b>3,122</b>	

\* Based on Valuation @ 31st March 2020 as Prudential unable to supply updated valuation until August 21

**NOTE 24: AGENCY SERVICES**

There were no payments of this type

**NOTE 25: RELATED PARTY TRANSACTIONS****Harrow Council**

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

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

31 March 2020		31 March 2021
£'000		£'000
(20,634)	Employer's Pension Contributions to the Fund	(20,663)
906	Administration expenses paid to the Council	908
1,289	Cash held by the Council	1,035

## Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

## NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Councils' Director of Finance (S151 Officer) and the Pension Fund Manager.

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

31 March 2020		31 March 2021
£'000		£'000
91	Short-term benefits	105
0	Termination benefits	0

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2021 totalled £53.3m (31 March 2020: £65.8m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and LCIV Infrastructure Fund.

## NOTE 27: CONTINGENT ASSETS

One admitted body employer in the Fund holds an insurance bond/guarantee to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

## London Borough of Harrow Pension Fund (“the Fund”) Actuarial Statement for 2020/21

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

### Description of Funding Policy

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

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

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

### Funding Position as at the last formal funding valuation

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

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

### Principal Actuarial Assumptions and Method used to value the liabilities

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

### Method

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



### Assumptions

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

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

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

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

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

\*Aged 45 at the 2019 Valuation.

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

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

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



Gemma Sefton FFA

06 May 2021

For and on behalf of Hymans Robertson LLP



## 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

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

Direct line: +44 (0)207 063 4634  
Email: [lucy.nutley@mazars.co.uk](mailto:lucy.nutley@mazars.co.uk)  
Date: 6 July 2021

Dear Governance, Audit, Risk Management and Standards Committee Members,

## **London Borough of Harrow – 2019/20 audit of financial statements**

### **Conclusion of pending matters – Audit Completion Report**

Following on from our recent correspondence 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 presented to the Audit Committee on 22 October.

The outstanding matters and the conclusions reached are detailed in the following tables:

Matter	Update / Conclusion reached
Journal testing	Our work has completed in this area, with nothing to report
Income and Expenditure sample testing	Our work has completed in this area, with nothing to report
Property, plant and equipment valuation and existence testing	Our work has completed in this area, with nothing to report
Review of the final annual report and accounts	Our work has completed in this area, with nothing to report. An unadjusted disclosure error has been identified in the accounting policies
Debtors and creditors testing	Our work has completed in this area, with nothing to report
Provisions and reserves testing	Our work has completed in this area, with nothing to report
Events after the reporting period	Our work has completed in this area, with nothing to report
Review and closure procedures	Our work has completed in this area, with nothing to report
Whole of Government Accounts	Our work is due to complete in this area, shortly after we have certified the 2019/20 accounts

Significant Risk	Update / Conclusion reached
Management override of controls	Our work has completed in this area, with nothing to report
Risk of fraud and error in revenue recognition	Our work has completed in this area, with nothing to report
Valuation of property, plant and equipment	Our work has completed in this area, with nothing to report. An Emphasis of Matter has been included on the opinion in respect of the 'material valuation uncertainty' placed on the valuation of the Council's land and buildings and investment property.  This is not a qualified opinion
Valuation of defined benefit liability	Our work has completed in this area, with nothing to report. An Emphasis of Matter has been included on the opinion in respect of the 'material valuation uncertainty' placed on the valuation of the Council's share of Harrow Pension Fund's pooled property fund investments.  This is not a qualified opinion

During the completion period, we identified that the financial statements do not include the full suite of required disclosures in relation to the fair value of investment properties and surplus assets as required by the Code. Management do not consider this to be material departure from the Code or that the accounts are materially misstated as a result of this. The 2019-20 accounts will remain unadjusted however, the Council will expand disclosures in the 2020-21 accounts to address the issue.

I have today signed our audit opinion for the 2019/20 financial statements.

We regret the length of time the completion period has taken and will be working to learn lessons from the 2019/20 audit.

If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,



Lucy Nutley  
For and on behalf of Mazars LLP



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Date: 6 July 2021

Dear Governance, Audit, Risk Management and Standards Committee Members,

## **London Borough of Harrow Pension Fund – 2019/20 audit of financial statements**

### **Conclusion of pending matters – Audit Completion Report**

Following on from our recent correspondence 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 presented to the Audit Committee on 22 October.

The outstanding matters and the conclusions reached are detailed in the following tables:

Matter	Update / Conclusion reached
Investment testing – confirmation of investments, return on investments	Our work has completed in this area, with nothing to report
Journal testing	Our work has completed in this area, with nothing to report
Contributions and benefits testing	Our work has completed in this area, with nothing to report
Assurance provided for London Borough of Harrow Council audit	Our work has completed in this area, with nothing to report
Review of the final annual report and accounts	Our work has completed in this area, with nothing to report.
Events after the reporting period	Our work has completed in this area, with nothing to report
Review and closure procedures	Our work has completed in this area, with nothing to report

Significant Risk	Update / Conclusion reached
Management override of controls	Our work has completed in this area, with nothing to report
Valuation of unquoted investments	Our work has completed in this area, with nothing to report. An Emphasis of Matter has been included on the opinion in respect of the 'material valuation uncertainty' placed on the valuation of the Pension Fund's pooled property fund assets.  This is not a qualified opinion

I have today signed our audit opinion for the 2019/20 financial statements.

We regret the length of time the completion period has taken and will be working to learn lessons from the 2019/20 audit.

If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,



Lucy Nutley  
For and on behalf of Mazars LLP