AUDIT COMMITTEE

SUPPLEMENTARY PACK

Monday, 14th September, 2020

at 6.30 pm

Tim Shields
Chief Executive

Contact:
Peter Gray
Governance Services Officer
Tel: 020 8356 3503
Email: Peter. Gray@hackney.gov.uk

The press and public are welcome to attend this meeting

Hackney

AGENDA

Monday, 14th September, 2020

ORDER OF BUSINESS

Financial Statements Audit 2019/20 – Annual Governance Report (Council and Pension Fund)

AUDIT COMMITTEE **MEETING DATE 2020/21** **14 September 2020**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **All**	
GROUP DIRECTOR **Ian Williams, Finance and Corporate Resources**	

1. CORPORATE DIRECTOR'S INTRODUCTION

1.1 The Annual Governance Report (ISA260) from the Council's external auditors sets out the position on the audit of the Council's and Pension Fund's financial statements and the conclusion on the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources.

2. RECOMMENDATION

2.1 The Audit Committee is recommended to note the contents of the report.

3. REASONS FOR DECISION

3.1 The external auditors are required to report to "those charged with governance" any matters arising from the annual audit of the Council's financial Statements and those of the authority's Pension Fund before they are able to issue audit opinions on those statements.

4. BACKGROUND

4.1 The Annual Governance Report discharges the external auditor's responsibility under the International Standards of Auditing (ISA) (UK & Ireland) 260, communication of audit matters with those charged with governance.

4.2 **Policy Context**

4.3 **Equality Impact Assessment**
For the purposes of this report, an Equality Impact Assessment is not applicable.

4.4 **Sustainability**
Not applicable - This report contains no new impacts on the physical and social environment.

4.5 **Consultations**
Not applicable

4.6 **Risk Assessment**
Details of the auditor's assessment of risk associated with the audit of the accounts will be outlined in the ISA260 Report.

5. EXTERNAL AUDITOR'S ISA260 REPORT

5.1 At the time of writing this report, work on the audits of both the Council's main accounts and the Pension Fund accounts is in the final stages and the auditor's ISA260 report is being finalised pending completion of the audit. The auditors will present the final report at the Audit Committee and a copy will be distributed to members of the Committee prior to the meeting.

5.2 The auditor expects to issue an unqualified audit opinion on the Council's accounts and the Pension Fund accounts; and a value for money conclusion well before the revised 30 November 2020 deadline (normally 31 July, but extended because of Covid19) by end September 2020.

5.3 To date the Council has received no objections to the 2019/20 accounts although work in relation to an objection to the 2016/17 accounts is still ongoing, and we have received requests to inspect documents in relation to certain aspects of the accounts in line with the public inspection regime.

5.4 Audit fees currently stand at £175,611 for the Council audit, and £16,168 for Pension Fund audit, however the Council audit fee is anticipated to increase, reflecting group accounts and additional work done on Property Plant and Equipment. The Council is in negotiations with the external auditor on the final fee.

5.5 The external auditors will present the ISA260 report at the Audit Committee meeting and take any questions from members of the Committee regarding the audit of the accounts.

6 FRC REVIEW OF 2018/19 AUDIT WORK

6.1 The FRC reviewed the Mazars 2018/19 financial statements audit and value for money work at the London Borough of Hackney. Their review concluded that significant improvements were required to the financial statements audit and that limited improvements were required to the value for money work.

6.2. Four specific areas were highlighted where the financial statements audit was deemed not to have been to the required standard in terms of the audit file evidence, as follows:

Valuation of Property, Plant and Equipment (PPE)
Valuation of pension fund assets
Capital grants
Completeness of expenditure

6.3. Mazars have confirmed that this had no impact on their overall opinion on the authority's accounts and that they believe they have addressed these issues during the 2019/20 audit ensuring that sufficient evidence is documented on their own files.

6.4. It should be noted that the review was of Mazars audit work and not the Council's processes or supporting documentation.

7 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

7.1 The contents of the Annual Governance Report for both the Council's Accounts and the Pension Fund Accounts from the external auditor will be agreed with myself and the appropriate Officers.

7.2 As set out above, the work to finalise the audit of the Council's Accounts and the Pension Fund Accounts is at the time of writing near completion. It is pleasing to note that once again it is anticipated that the auditor will be able to issue unqualified opinions in respect of both sets of accounts. In addition, we also expect to receive an unqualified conclusion relating to Value for Money.

7.3 The good practice of ensuring the standards are being maintained has continued in 2019/20. This is particularly noteworthy when considered in the context of significant cuts in central government financing to local government and the resulting reductions that have been made across Finance & Corporate Resources, where the corporate responsibility for production of the Statement of Accounts lies.

7.4. This is the second year that Mazars have audited the Councils account following the reprocurement of external auditing services via the Public Sector Audit Appointments Ltd (PSAA). It is pleasing to note that a good working relationship has continued with the auditors and officers of the Council. As a result of this and the resulting co-operation between officers and external auditors, it is anticipated that the main audit for both Pension Fund and Council's main statements will be complete by the end of September.

7.5. I would like to place on record my thanks to the auditors for the way they have worked with my Officers to ensure that the audit is completed within the required timeframes. I am pleased to note that we have continued to enjoy a very constructive relationship with the auditors throughout the year and would like to thank them for their work over this period.

7.6. I would also like to thank all those officers involved with the preparation of the Statement of Accounts for the hard work that they have undertaken to ensure that we can complete the audit both on time and without qualification.

8. COMMENTS OF THE DIRECTOR OF LEGAL

8.1 Section 151 of the Local Government Act 1972 provides that 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.'

8.2 The proper administration of the Council's affairs includes the obligation on the Council to have its accounts audited in accordance with the Audit Commission Act 1998.

8.3 The Council's Constitution gives the Audit Committee responsibility for adopting the annual statement of accounts and for considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit which need to be brought to the attention of the Council.

8.4 Consideration of this report by the Audit Committee is in pursuance of the above mentioned obligations and is part of the Council's fulfilment of its duties.

APPENDICES

1 – Draft External Audit Report 2019/20 (to follow)

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

Report Author	Michael Honeysett	☎ 020 8356 3332
Comments of the Group Director of Finance and Corporate Resources	Michael Honeysett	☎ 020 8356 3332
Comments of the Director of Legal Services	Dawn Carter-McDonald	☎ 020 8356 4817

Audit Completion Report

London Borough of Hackney

Year ending 31 March 2020

CONTENTS

MAZARS

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

Audit Committee
London Borough of Hackney Pension Fund
1 Hillman Street
London
E8 1DY

14 September 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 15 January 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
Mazars LLP

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

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Hackney ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 14 September 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

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

Status of our work

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

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. As outlined in more detail in section 2, we intend to include an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty disclosed in note 4 of the financial statements.

Value for Money conclusion

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

Whole of Government Accounts (WGA)

We are awaiting receipt of the Group Audit instructions from the National Audit Office at the time of presenting this report. We anticipate completing our work on WGA relatively quickly once these instructions have been received.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Journals	🟠	We are currently completing our review of the detailed testing completed.
Income and Expenditure	🟠	We are awaiting final pieces of supporting evidence from management in respect of our income, expenditure and payroll sample testing.
LPFA IAS19 assurances	🟠	We require the auditor of the LPFA to provide us with assurances in respect of the material valuation and disclosures of the IAS19 liability within the Council's financial statements.
PPE valuation and existence testing	🟠	Our work on land and building valuations, including the review of the material valuation uncertainty and material adjustments to the valuations is ongoing. We are also completing our confirmation of asset existence
Debtors / Creditors	🟠	We are awaiting final pieces of evidence from management in respect of our debtor and creditor samples.
Group accounts	🟠	We are awaiting confirmation of sign-off from the auditor of the group companies to allow completion of the consolidation process.
Closure procedures and review	🟠	Our final reviews and completion work needs to be performed, including a further technical review of the financial statements and consideration of post balance sheet events until the date of sign-off.
Whole of Government Accounts (WGA)	🟢	Our work on the WGA return will take place later in the year

Status
- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- 🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

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

Our audit approach

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

Materiality

We set materiality at the planning stage of the audit at £20.9m using a benchmark of 1.5% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.5m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.675m based on 3% of overall materiality.

1. EXECUTIVE SUMMARY (CONTINUED)

Overview of our group audit approach

Our Audit Strategy Memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Hackney Housing Company Limited (subsidiary);	Statutory audit	Mazars LLP (Milton Keynes)	We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work.	None
Hackney PRS Housing Company Limited (Subsidiary)	Statutory audit	Mazars LLP (Milton Keynes)	We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work	None
Hackney LLR Housing Company Limited (subsidiary)	Statutory audit	Mazars LLP (Milton Keynes)	We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work	None
Otto Management Company Limited (subsidiary)	None – below audit threshold	Mazars LLP (Milton Keynes)	We confirmed management's judgement that the company is not material to the group financial statements.	None
Makers Management Company Limited (subsidiary)	None – below audit threshold	Mazars LLP (Milton Keynes)	We confirmed management's judgement that the company is not material to the group financial statements.	None

Group materiality

We set materiality at the planning stage of the audit at £20.91m using a benchmark of 1.5% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.6m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.68m based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

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

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
	Audit conclusion As noted above, our work in this area is ongoing and we will provide an update on any issues arising to the Audit Committee. At this stage, there are no significant findings arising from our review of areas of potential management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition	Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we can rebut the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts. We are not rebutting the income risk relating to other material income streams within the Council, such as charges for use of Council facilities, where the level of inherent risk is higher.
	How we addressed this risk We addressed this risk by obtaining a detailed understanding of the Council's processes which assure the Council that revenue and expenditure are materially recognised in the correct accounting year, and performed the following work: • detailed testing of transactions within the 2019/20 financial statements to confirm they were accounted for in the correct year; • testing from receipts around the year-end to provide assurance that there were no material unrecorded items of income in the 2019/20 accounts.
	Audit conclusion As noted above, our work in this area is ongoing and we will provide an update on any issues arising to the Audit Committee At this stage, there are no significant findings arising from our review of revenue recognition. .

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, Plant & equipment valuation	Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate current value as at that date. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end current value. In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG. Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area. <u>Update to risk</u> The Covid-19 pandemic has had an impact on all markets with initial significant impact on valuations. In March 2020, RICS issued a valuation practice alert in response to the Coronavirus global pandemic, setting out guidance in light of the potential impact on the ability of valuers to undertake valuations, noting there may be a greater level of uncertainty over valuations as a result of a lack of comparable market or cost data. This potential lack of relevant recent market or cost data upon which to base a valuation, combined with a potentially limited ability to physically inspect properties, has given rise to a potential for material valuation uncertainty disclosures within valuers' reports. It is noted that, even where data is available, the current market circumstances may make that data less reliable than has previously been the case. The alert has reminded valuers of the potential need to disclose that material uncertainty exists over the valuations as part of their reports. It is clear in the alert that such a disclosure is not a disclaimer and that valuers can still provide valuations where material uncertainty exists. The Council's valuer applied a material valuation uncertainty paragraph to their valuations performed as at 31 March 2020. This will also be recognised in the final accounts (note 4).
	How we addressed this risk We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end were not materially misstated, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, and considered the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we: • assessed the valuer's qualifications; • assessed the valuer's objectivity and independence; • reviewed the methodology used; and • performed testing of the associated underlying data and assumptions.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, Plant & equipment valuation (continued)

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

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

Audit conclusion

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

Audit work identified an error in the index figure used to calculate DRC valuations, with a national figure being used, as opposed to a more localised index. Recalculation of the valuations using the correct index identified a material misstatement, which has been adjusted for in the financial statements.

The Council's valuer has included a material valuation uncertainty paragraph within their valuation report. The Council has included a disclosure of material valuation uncertainty in note 4 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. Our opinion on the Council's financial statements is not modified in respect of this matter.

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2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Defined benefit liability valuation	The latest triennial valuation London Borough of Hackney pension fund was completed at 31 March 2019. As an admitted body within the fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2020. The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with these valuations, we determined there is a significant risk in this area. We note the council also discloses assets and liabilities in respect of the London Pension Fund Authority which, as individually material, will also be considered by our review of the disclosures and a separate requites for work to be performed on our behalf.
	How we addressed this risk We addressed this risk by reviewing the controls that the Council had in place over the information sent to the Scheme Actuary by the fund administrators (London Borough of Hackney Pension Fund). We also: • assessed the skill, competence and experience of the Fund's actuary; • challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; • carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.
	Audit conclusion There have been no significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements, although our internal review of this work remains to be completed. We await confirmation of findings arising from the work of the auditor of the LPFA.

Management judgement	Description of the management judgement
NNDR Appeals	The business rates retention scheme came into operation at 01/04/2013 and it requires the Council to calculate a provision based on the appeals on the 2005/10 appeals list, 2017 appeals list, future periods relating to the 2017 appeals list, NHS Trust, cases where a reduction in the rateable value is determined, i.e. Iceland case, etc. These calculations have judgement elements and can be complex in nature.
	How our audit addressed this area of management judgement We reviewed the appeals listings from the Valuation Office Agency (VOA) and assessed the reasonableness of the judgemental elements within the calculations. We have further reviewed the reasonableness of the provision through use of external data (Analyse Local) with regards to the threats of appeals arising in periods subsequent to the 2017 appeals list.
	Audit conclusion There were no significant findings arising from our review of the NNDR appeals provision.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council on 15 June 2020 and were of a good quality. Supporting working papers were made available to us at the start of the audit and were also of a good quality.

Significant matters discussed with management

We discussed the following significant matters with management:

- The impact of COVID-19 on the Council, including potential impact on risks of material misstatement to the valuation of Property, Plant & Equipment, the assessed provision for expected credit losses and the potential overall impact on the Council's financial position.
- Going Concern – we have reviewed managements' assessment of the Council as a going concern and have reviewed treasury management forecasts and Cabinet finance papers to support the going concern assessment.
- Group Accounts – the Council has assessed its subsidiaries, associates and joint ventures and considered some of them to be material and have prepared group accounts accordingly. We have considered management's judgement and the associated working papers prepared for the consolidated group accounts and are satisfied that the accounts are not materially misstated as a result of this judgement.

Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit two weeks later than originally planned, as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections in relation to the 2019/20 accounts.

PSAA (under direction from the Secretary of State for Communities and Local Government) have appointed Mazars LLP to undertake work on the objection raised in 2016/17 relating to the Hackney Technology and Learning Centre PFI contract. Our work on this is ongoing.

Modifications required to our audit report

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

As described further within our response to the significant risk over the valuation of the Council's PPE portfolio, our draft auditor's report set out in Appendix B, includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties. Our opinion on the Council's and Group's financial statements is not qualified in respect of these matters.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Use of suspense accounts – Level 2

Description of deficiency

As part of the audit we have completed a detailed review of the Council's bank reconciliations and the various reconciling items that exist within them. We identified, within the reconciliation of the Council's main bank account balance, a significant reconciling item of £9.6m, which relates to items in a suspense account awaiting appropriate clearing journal adjustments.

Suspense accounts should be reviewed and cleared regularly and such a significant balance should not be allowed to build up.

Potential effects

While we recognise that the balance has been reconciled and the content of the £9.6m is understood, and correctly reflected in the bank figure in the financial statements, not completing the analysis and processing of suspense adjustments on a timely basis increases the complexity of the reconciliation process and the volume of transactions that need to be considered and tracked on an ongoing basis within the reconciliation process.

Recommendation

While we are aware that the council is in the process of ensuring the reconciling items are appropriately cleared, we recommend that the council seeks to complete this process at the earliest opportunity.

Management response

DRC property valuations – Level 2

Description of deficiency

During the course of our review and challenge of the revaluation of land and building valuations, for DRC assets that had been revalued in year, we identified that the valuer had used an incorrect rate when calculating the valuation. A national rate had been used as opposed to a more specific, local rate. The effect of using the local rate increased the valuation by £36.8 million. An audit adjustment has been posted to this effect (see page 15)

Potential effects

The use of an incorrect index when calculating a valuation may give rise to a material error being recorded within the assessed value of Property, Plant & Equipment, and subsequently within the council financial statements.

Recommendation

The council should ensure the valuation work completed, and any associated use of indices, is subject to detailed review, challenge and confirmation to ensure that the correct rate has been used.

Management response

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.672m.

Unadjusted misstatements 2019/20

We have not identified any misstatements during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

Adjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: PPE			39,200	
	Cr: CIES - Reversal of past impairments		27,400		
	Cr: CIES – Revaluation gain		11,800		
	Dr: Adjustments between accounting and funding basis (MIRS)	39,200			
	Cr: Unusable reserves – revaluation reserve				11,800
	Cr: Unusable reserves – capital adjustment account				27,400
	Adjustments arising as a result of the correction to revaluations, using the correct indices, for DRC assets revalued in year and recorded within the fixed asset register at the year end.				
	Total adjusted misstatements	**39,200**	**39,200**	**39,200**	**39,200**

Disclosure amendments

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

- **Accounting polices**: A number of revisions to ensure the accounts reflect the requirements of the Code.
- **Group accounts** – improvements to disclosures and amendment to the location within the financial statements
- **General**: A number of other changes have been made to the financial statements not requiring individual analysis.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

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

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

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

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

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council has well developed arrangements setting out how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. The Audit Committee fulfils the expected functions of such a committee and has continued to meet regularly throughout the year, receiving reports of internal and external audit, and challenged the findings and recommendations as appropriate. During the year the Audit committee has received the results of a deep dive into SEND and has been kept up to date on the financial impact of councils decisions and involved with the work resulting from the responses to the Covid-19 pandemic. The Corporate Risk Register is formally reported regularly to HMT and to Audit Committee with a supporting analysis detailing movements in risk levels. There are a number of developed risk registers at service levels which are also subject to regular review and challenge, with presentations to the Audit Committee as considered appropriate. The Council had a Medium Term Financial Plan in place for the year ended 31 March 2020, covering the period 2022/23, and this considered factors such as funding reductions, inflation, demand pressures, and include a sensitivity analysis. Throughout the year the Mayor and Cabinet are provided with regular financial reporting including an assessment of the overall position. This has been updated and expanded to include details associated with the council's response to the Covid-19 pandemic, and its potential longer term impact, as this has developed. The 2019/20 budget, as approved in February 2019, was challenging and included both savings and an increase in Council tax to help fund the identified shortfall. The financial plan for 2020/21, developed from the MTFS and approved by Cabinet, is also challenging and included the need for further savings. The council continues to review and update this to reflect its consideration of the impact of the response to the pandemic, as well as the details from returns prepared for MHCLG, and identify its response.	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	At the time of setting the 2019/20 budget, the Council had forecast an outturn overspend of approximately £6.935 million, with this being funded by the application of unspent Council Tax and NNDR Collection Fund surpluses. The budget for 2020/21 was balanced, but the Council had recognised it had to fund cost pressures and income reductions and had a need for a further £30m of savings by 2022/23 after assuming an annual 4 per cent Council Tax increase. The Council did not include the well-documented cost pressure it faced in SEND in this analysis as they have an expectation of this being at least partially funded. Prior to the setting of the 2020/21 budget the council had identified savings of around £13 million, leaving a gap of £17 million, although it had also identified other cost pressures over the life of the MTFS. When considering the savings that need to identified, the council is using five main methods to discuss and assist in identifying other savings initiatives to close the gap: - Scrutiny Panel (through Budget Task and Finish Groups) - Cabinet led working groups - HMT / Cabinet Steering groups - Co-ordinated Cross Council Approach to resource deployment - Directorate specific initiatives. Throughout these groups, there has been excellent member and officer working to achieve a common goal. While these groups continue to progress the impact of the pandemic, and in particular lockdown and any continuing restrictions, has impacted on the effective and sustainable deployment of resources. In response to its own financial monitoring needs, as well as the information requests from MHCLG, the Council performed a range of assessments and analysis on the impact, considering both changes in service delivery and costs, as well as identified and potential changes in income. These, and updates to likely cash flows, are being regularly reported internally (as well as to MHCLG) and are used by the council to manage the pandemic response and associated impact as far as can be achieved within the councils resource constraints. In view of the net revenue position for 2019/20, the setting of a balanced budget for 2020/21, its continued approach to seeking further savings, as well as the overall managed response to the pandemic, we consider the approach to securing value for money to be appropriate.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Council works with a range of third parties, for example, working with Hackney Clinical Commissioning Group (CCG) to reduce emergency admissions and provide as much support as possible in a social care setting. During the course of the year the Council received the results of the latest Ofsted inspection of Children's services, which rated the service as 'requires improvement'. In response to this, and prior to the pandemic, the council have developed a whole council response and were developing a plan to move the council to Good and onto Outstanding. While plans are in place, the pandemic has had an impact on the initial delivery of the response, although the Council considers them to be achievable in the short to medium-term. The Council also received an updated review of Housing with Care from the Care Quality Commission (CQC). The previous review, in 2019 rated performance as 'inadequate', and the follow up has recognised that improvements have been made and the overall assessment has improved to 'requires improvement' as a result, with some aspects rated as 'good'.	Yes

Significant Value for Money risks

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

Risk	Work undertaken	Conclusion
Financial sustainability		
The current financial forecast shows that the Council is forecasting budget gap of £30m over the period 2019-20 to 2022-23, primarily a result of unavoidable costs. The Council has identified the need to make further savings of to be able to remain within forecast funding levels and have therefore introduced savings themes which include scrutiny panels, co-ordinated cross council approach to the deployment of resources and directorate initiatives.	We addressed this risk by • Reviewing the controls put in place by the Council to ensure financial resilience, including the development and implementation of the Medium Term Financial Strategy, and that this has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, the pandemic impact, etc. • Reviewing management actions and mitigations to deliver the budgeted position.	We have no significant issues arising from our work to report and note that the Council is continuing to respond to the challenges presented by the COVID-19 pandemic..

Our overall Value for Money conclusion

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

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

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

Dear Lucy

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

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hackney ('the Council') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Group Director, Finance and Corporate Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value; and
- provision for NNDR Appeals.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Group Director - Finance and Corporate Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

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

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts
I confirm I consider where any of the Council's subsidiary companies have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

DRAFT MANAGEMENT REPRESENTATION LETTER

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements, as shown in the appendix to this letter, are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours sincerely

Ian Williams
Group Director, Finance and Corporate Resources, Section 151 Officer

Independent auditor's report to the members of London Borough of Hackney

Report on the financial statements

Opinion

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

In our opinion, the financial statements:

- give a true and fair view of the financial position of London Borough of Hackney and the Group as at 31st March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Group Director, Finance and Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Group Director, Finance and Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of Matter – the valuation of land and buildings and property investments

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's and group's land and buildings as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of Covid-19 has had a significant impact on financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Group Director, Finance and Corporate Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Group Director, Finance and Corporate Resources for the financial statements
As explained more fully in the Statement of Responsibilities, the Group Director, Finance and Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Group Director - Finance and Corporate Resources is also responsible for such internal control as the Group Director, Finance and Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group Director - Finance and Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Group Director, Finance and Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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

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

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

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

DRAFT AUDITOR'S REPORT

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Responsibilities of the Council
The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of London Borough of Hackney, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have:
- completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- undertaken work on the objection raised in 2016/17 relating to PFI, which we were appointed to review during the year by PSAA (under direction from the Secretary of State for Communities and Local Government).

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

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London, E1W 1DD

[Date]

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Lucy Nutley
Director

Mobile: 07387 242052
Email: lucy.nutley@mazars.co.uk

Stuart Frith
Senior Manager

Mobile: 07909 982774
Email: stuart.frith@mazars.co.uk

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Audit Completion Report

London Borough of Hackney Pension Fund

Year ending 31 March 2020

CONTENTS

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

Audit Committee
London Borough of Hackney Pension Fund
1 Hillman Street
London
E8 1DY
14 September 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 10 October 2019. Since then, the COVID-19 pandemic has had significant implications for the UK, including the Pension Fund sector. We have updated our planning work to understand the implications of COVID-19 on our audit and concluded that the original audit risks and other areas of management judgement in the Audit Strategy Memorandum remain appropriate.

In response to the COVID-19 pandemic, MHCLG issued a revised reporting timetable for the Pension Fund to prepare its financial statements for inclusion in the Administering Authority Statement of Accounts and for the audit to be completed. We understand the difficult circumstances that the Pension Fund is facing in order to respond to the pandemic and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
Mazars LLP

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

1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Hackney Pension Fund ('the Pension Fund') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 14 September 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

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

Status of our work

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

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the London Borough of Hackney. Our draft consistency report is provided in Appendix C

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Investments	🟠	Obtaining written confirmation of the investment held by the Pension Fund at year end from one fund manager.
Audit testing	🟠	Completion of final procedures following resolution of outstanding queries in respect of: • Journal testing and review, • Transfers in, • Commutations, • Return on investments and • Financial instruments.
IAS19 and IAS26	🟠	Completion of testing in these areas in order that we can provide requested assurance to the London Borough of Hackney auditor.
Closure procedures and review	🟠	Our final reviews and completion work needs to be performed, including consideration of post balance sheet events until the date of sign-off.
Review of Annual Report	🟢	Our review of the content of the detailed Pension Annual report to confirm consistency with the financial statements has yet to be completed. This has yet to be prepared by the Council.

Status
- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- 🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

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

Our audit approach

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

Materiality

We set materiality at the planning stage of the audit at £22.1m using a benchmark of 1% of net assets available to pay benefits. We set a specific materiality for the fund account of £7.5m at the planning stage of the audit using a benchmark of 10% of benefits payable / contributions receivable.

Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.4m, using the same benchmark. Fund account materiality has been assessed at £7.8m, using the same benchmark.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.672m based on 3% of overall materiality.

Misstatements

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

2. SIGNIFICANT FINDINGS

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page X we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

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

Significant risk	Description of the risk
Management override of controls	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a presumed risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk by performing audit work in the following areas: • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
	Audit conclusion We are completing our testing in this area. There have been no significant findings arising from our review of areas of potential management override of controls completed to date, we will update the committee once our work is complete.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments	As at 31 March 2020, the Pension Fund held investments which were not quoted on an active market with a fair value of £206.3 million, accounting for 13.1 per cent of the Fund's net investment assets. This is a marked increase from the values held as at 31 March 2019 of £8.6 million. The assets are held within overall investment vehicles and are only analysed in full at year end, with the proportion of the Fund's net investment assets included. Inherently such assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing holdings from fund manager reports to the global custodian's report;
- agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- where audited accounts are available, confirming that they are supported by a clear opinion; and
- considering the appropriate analysis of the investment as level 2 or 3 and management's judgement of investment analysis.

Audit conclusion

There were no significant findings arising from our review of the valuation of unquoted investments.

The large increase in the value of level 3 investments held was partly due to a planned increase in private equity during 2019/20. However, following the uncertainty surrounding property valuations as a consequence of the COVID-19 pandemic, management have chosen to analyse their investment in a property fund as a level 3 investment, recognising the inherent uncertainty in the valuation.

Key areas of management judgement

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

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

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

Draft accounts were received from the Pension Fund on 15 June 2020 and were of a good quality. Supporting working papers were made available to us on the first day of the audit and were of a good quality.

Significant matters discussed with management

We discussed the following significant matters:

- Investment Valuations. We discussed the impact of COVID-19 on the Pension Fund, including potential impact on risks of material misstatement. This included obtaining confirmation that investment valuations received were based as at 31 March 2020 and not based on estimates. We requested additional information where this was not the case.
- Uncertainty of property valuations. RICS guidance was issued in April and May to professional valuers, which highlighted the potential valuation uncertainties as at 31 March 2020 as a result of the COVID-19 pandemic. We discussed management's assessment of their specific property related investment funds and whether the funds should be reclassified as Level 3 investments.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. Our audit has been performed remotely, using screen-sharing technology where appropriate.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised in relation to the Pension Fund.

3. SUMMARY OF MISSTATEMENTS

Misstatements

During the audit we have not identified any unadjusted or adjusted misstatements above the trivial threshold of £672k.

Disclosure amendments

The following disclosure amendments were made:

- **Financial instruments**: Improved disclosures in respect of the assessment of financial instruments to ensure that the disclosures are consistent and in line with the requirements of the Code.
- **General**: A number of minor presentational and typographical changes made to the financial statements that do not require individual analysis.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

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

Dear Lucy

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

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hackney Pension Fund ('the Pension Fund') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Group Director Finance and Corporate Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at current or fair value, are reasonable.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Group Director, Finance and Corporate Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

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

Related party transactions
I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

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

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

DRAFT MANAGEMENT REPRESENTATION LETTER

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

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely,

Ian Williams
Group Director, Finance and Corporate Resources, Section 151 Officer

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of London Borough of Hackney

Report on the financial statements

Opinion on the financial statements of London Borough of Hackney Pension Fund
We have audited the financial statements of London Borough of Hackney Pension Fund ('the Pension Fund') for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:
- give a true and fair view of the financial transactions of London Borough of Hackney Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Group Director, Finance and Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Group Director, Finance and Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Group Director, Finance and Corporate Resources is responsible for the other information. The other information comprises the Annual Governance Statement information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B
DRAFT AUDITOR'S REPORT

Responsibilities of the Group Director, Finance and Corporate Resources for the financial statements
As explained more fully in the Statement of Responsibilities, the Group Director, Finance and Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Group Director, Finance and Corporate Resources is also responsible for such internal control as the Group Director, Finance and Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group Director, Finance and Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Group Director, Finance and Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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

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

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of London Borough of Hackney, as a body and as administering authority for the London Borough of Hackney Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London, E1W 1DD

[Date]

APPENDIX C
DRAFT CONSISTENCY REPORT

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HACKNEY ON THE PENSION FUND FINANCIAL STATEMENTS INCLDUED WITHIN THE LONDON BOROUGH OF HACKNEY PENSION FUND ANNUAL REPORT

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

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

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

Respective responsibilities of the Group Director of Finance and Corporate Resources and the auditor
As explained more fully in the Statement of the Group Director of Finance and Corporate Resources Responsibilities, the Group Director, Finance and Corporate Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law. Our responsibility is to report to the Members of London Borough of Hackney as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Hackney.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Hackney describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the members of London Borough of Hackney, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of London Borough of Hackney those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Hackney and London Borough of Hackney's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
for and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London, E1W 1DD

[Date]

APPENDIX D
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Lucy Nutley
Director

Mobile: 07387 242052
Email: lucy.nutley@mazars.co.uk

Stuart Frith
Senior Manager

Mobile: 07909 982774
Email: stuart.frith@mazars.co.uk

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Hackney

Statement of Accounts 2019/20

AUDIT COMMITTEE **MEETING DATE 2020/21** **14 September 2020**	**CLASSIFICATION:** **OPEN** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **ALL**	
GROUP DIRECTOR **Ian Williams, Finance & Corporate Resources**	

1. CORPORATE DIRECTOR'S INTRODUCTION

1.1. This report presents the Accounts for 2019/20 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor.

1.2. The main financial statements show that we continue to manage our finances in line with the resources available.

2. **RECOMMENDATION**

The Audit Committee is recommended to:

2.1 **Approve the Council's 2019/20 Statement of Accounts prior to the audit opinion being issued.**

2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. **REASONS FOR DECISION**

3.1. The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. BACKGROUND

4.1 **Policy Context**

The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for the future financial plans.

4.2 **Equality Impact Assessment**

There are no equality impact issues arising from this report.

4.3 **Risk Assessment**

There are no risks arising directly from this report, although clearly the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5 ACCOUNTS AND AUDIT REGULATIONS

5.1. In recent years, the Accounts and Audit Regulations have required that the unaudited accounts are produced on or before 31st May. For the 2019/20 accounts, with the advent of Covid19, this deadline was pushed back to 31 August. Hackney's draft 2019/20 ccounts were published in mid-June.

5.2. Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 31st August immediately following the end of 2019/20, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.

5.3. Subsequent to the above, the accounts are audited by the Council's external auditors, Mazars. Normally this would need to be finalised by 31 July but, again because of Covid19, the audit deadline has been extended for the 2019/20 accounts to 30 November, by which time:
(a) either by way of a committee or by the members meeting as a whole, the statement of accounts must be considered;
(b)following that consideration, the committee must approve the statement of accounts;
(c)following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;
(d)publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and
(e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.

5.4. The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 19 June 2020, thus ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.

6. 2019/20 STATEMENT OF ACCOUNTS

6.1. At the time of writing this report, the audit of the 2019/20 Statement of Accounts is progressing towards its final stages and it is anticipated that an unqualified audit opinion will be issued by the auditor by the end of September, which is well within the required statutory date of 30th November.

6.2. The Statement of Accounts attached at **APPENDIX 1** is the final statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected. It should be noted that changes identified during the audit have had no impact on the Council's General Fund balance, HRA balance or other usable reserves.

6.3. The Statement of Accounts comprises the following accounting statements:

- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.

- Comprehensive Income and Expenditure Statement – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

- Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.

- Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.

- Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.

- Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.

- Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.

- Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.

- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to approval of the Committee in its own right.

- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.

- Group Accounts section - 2019/20 is Hackney's first year of Group Accounts. Two of our five wholly owned subsidiaries have been consolidated with LB Hackney's main accounts. Of the three which were not consolidated, one was not active, and the accounts of the remaining two were not financially material, and hence there was not a requirement for grouping. This is explained fully in the Group Accounts section, which sits just before the Pension Fund accounts.

7. MOVEMENT IN RESERVES STATEMENT

7.1. The Movement in Reserves Statement shows that the general balance on the General Fund was maintained at £15 million whilst the HRA general balance was reduced from £15 million to £11.2 million. Locally managed funds held by schools reduced by £1.76 millions to £13.195 million. A net of £11.623 million was applied from earmarked General Fund reserves including those set aside to finance the delivery of the Capital Programme, including schemes to expand and refurbish primary schools, annual maintenance and upkeep of the Borough's infrastructure and of course maintenance and improvement of the Council's Housing stock.

7.2. Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.

7.3. As set out above, many of the reserves are to be used in 2019/20 and future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resource not covered by the Council's ongoing revenue budget.

8. COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

8.1. This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.

8.2. The account shows that the Authority spent a gross amount of £1.499 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £1.808 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.

8.3. The General Fund overspend 2019/20 amounted to £9.33 million (including unspent contingencies and income from a number of one-off grants streams), in what continues to be a challenging environment, after almost a decade of central government funding reductions. This position will be challenged further by the impact of Covid19 in 2020/21 and beyond. We implemented and delivered the savings necessary for the 2019/20 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented by funding reductions and rising cost pressures in areas such as temporary accommodation, adult social care and special education needs.

9. THE BALANCE SHEET

9.1. The Balance Sheet sets out the overall financial position of the Council at 31 March 2019. It shows that at 31 March 2019 the Council had total net assets (worth) of £3.542 billion. It shows that the Council owns buildings, land and other property valued at £4.244 billion.

9.2. The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.

9.3. Details of contingent assets and liabilities are set out in notes 45 and 46 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore represent an area of budgetary risk from 2019/20 onwards.

9.4. Whilst Covid19 has not been presented as a contingent liability, there is no doubt its impact on next year's accounts will be considerable and far reaching. The opening narrative report to the accounts provides further detail on this, outlining information provided initially to Cabinet.

9.5. Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements, those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

10. HOUSING REVENUE ACCOUNT

10.1. The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £11.200 million as at 31 March 2020. In addition, the HRA has earmarked reserves of £5.961 million set aside for one-off items of expenditure largely within the housing capital programme, and all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

11. THE COLLECTION FUND ACCOUNT

11.1. The Collection Fund Accounts flow from decisions taken in March 2019 in setting the Budget for 2019/20. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptors (the Greater London Authority for Council tax, and the GLA and Central Government for NNDR. Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.

11.2. The surplus on the Collection Fund relating to Council Tax carried attributable to the Council was £2.741 million. An estimated sum of £3.118 million was taken into account in arriving at the 2019/20 Council Tax, the balance to be accounted for in 2020/21 in accordance with the Collection Fund Regulations.

11.3. As set out above, the arrangements for accounting for NNDR changed with effect from 2013/14 with previously no balance being created within the Collection Fund. An estimated deficit of £692k was factored into budget planning, with the actual being a deficit of £687k.

12. THE PENSION FUND ACCOUNTS

12.1. The Pension Fund Accounts, along with the Annual Report of the Pension Fund, are to be considered by the Pensions Committee at its meeting in September 2019, although they are approved by the Audit Committee as part of the Council's main Statement of Accounts.

12.2. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2019/20, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2020.

12.3. The Accounts show that net value of the assets and liabilities of the Pension Fund have decreased by £81.884 million (5.19%) to £1,493,348 million as at 31 March 2020. Of this reduction, £67.700 million was due to the impact of the reductions in the value of stock market investments held by the Fund and associated investment income. The remaining £14.184 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13. ANNUAL GOVERNANCE STATEMENT

13.1. Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the management of risk.

13.2. During 2016/17 "Delivering Good Governance in Local Government"(CIPFA SOLACE Framework) was revised and the Council's Local Code of Governance was reviewed and updated to reflect the revised principles of governance set out in the CIPFA/SOLACE guidance. The Local Code was considered and endorsed by the Statutory Officers' Group, Scrutiny Panel and the Member for Finance before approval by the Audit Committee in April 2019. The Local Code is available on the Council's website.

13.3. The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.

13.4. The AGS has been presented in accordance with best practice as set out in "Delivering Good Governance in Local Government". The statement is signed by Hackney's Mayor, Chief Executive and Group Director of Finance and Corporate Resources.

13.5. The statement relates to the governance arrangements in place throughout the 2019/20 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.

13.6. In order to demonstrate that the Council has in place an effective and robust governance framework which reflects the Council's Local Code, senior managers were required to complete a self-assessment matrix. These matrices were reviewed and assessed by Group Directors and then co-ordinated by Internal Audit who sample checked to supporting evidence and triangulated against other sources of assurance, such as inspection reports and audit reports. The results of this exercise have formed the basis of the evidence which underpins the corporate AGS

13.7. During 2018/19 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues were identified and an update on the progress with each is included in the 2019/20 AGS.

13.8. During 2019/20 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues have been identified and included within the AGS. These issues relate to:

- Covid19 Pandemic
- Cost pressures within Adult and Children's Social Services
- Ofsted inspection
- Housing Contract Management

13.9. The Audit Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

16 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

16.1 There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.

16.2 The Council has again maintained the position of having a prudent General Fund Balance of £15 million in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2019/20 and future years to fund known or expected liabilities going forward. We received the first Govt grant towards Covid19 expenditure in the last few days of the 2019/20 financial year, and this has been accounted for in reserves for use in future years.

16.3 The financial position shown in the 2019/20 Statement of Accounts demonstrates that the Council has continued to achieve financial stability, i.e., in its Council Tax Collection and in the strength of its Balance Sheet, building on the good progress made in recent years. Provision continues to be made in the budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.

16.4 The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding.

16.5 The Statement of Accounts for the 2019/20 financial year was the second audited by Mazars, following the reprocurement of auditors through the PSAA (Public Sector Audit Appointments Ltd) regime. In advance of the start of the audit officers worked closely with Mazars to build upon the significant progress that has been made in recent years with regard to the efficient auditing of the accounts.

16.6 It is anticipated that comprehensive planning and continued co-operation between the Council's officers and the auditors will result in the main audit for both the Pension Fund and the Council's main statement being completed by the end of September, with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances.

16.7 The 2019/20 accounts have been prepared in particularly challenging circumstances, given Covid19, but we have completed both the draft and final accounts well within the revised deadlines. This reflects positively on the organisation's ability to work under and adapt to challenging conditions.

16.7 In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit, I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to ensure that we can complete the audit both on time and without qualification.

17 COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

17.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.

17.2 The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

17.3 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

APPENDICES

Appendix 1 – 2019/20 Statement of Accounts- (to follow)

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

Report Author	Michael Honeysett	☎ 020 8356 5168
Comments of the Group Director of Finance and Corporate Resources	Michael Honeysett	☎ 020 8356 3332
Comments of the Director of Legal and Governance Services	Dawn Carter-McDonald	☎ 020 8356 4817

London Borough of Hackney

Statement of Accounts 2019/20

Ian Williams, CPFA
Group Director, Finance & Corporate Resources

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Independent auditor’s report to the members of the London Borough of Hackney

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NARRATIVE STATEMENT

The purpose of the narrative report is to provide a concise and understandable guide of the most significant aspects of the Council's financial performance, year-end financial position and cash flows. It is not intended to comment on the policies of the Council.

The financial statements included in this Statement of Accounts are as detailed below.

The **Annual Governance Statement** sets out the framework within which the effectiveness of the Council's internal controls (including financial controls) is managed and reviewed each year. This review reports on significant weaknesses, areas identified for improvement and the actions taken to strengthen these areas.

The **Statement of Responsibilities** sets out the responsibilities of the Council and its Chief Financial Officer (Group Director, Finance and Corporate Resources) for the Statement of Accounts.

The **Movement in Reserves Statement** 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 other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net (Increase) / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

The **Expenditure and Funding Analysis (EFA)** shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The **Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The **Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

The **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are 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.

The **Housing Revenue Account (HRA) Income and Expenditure Statement** shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The **Collection Fund (England)** is an agent’s statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Central Government of council tax and non-domestic rates.

The **Pension Fund** Accounts show the contributions to the Council’s Pension Fund, the benefits paid from it and the financial position as at 31st March 2020. The Council acts as trustee for the pension and trust funds, which are separate from all of the other accounts and are therefore not included in the Balance Sheet.

The **Glossary of Terms** provides an explanation of the technical terms used throughout the above statements.

THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES NARRATIVE REPORT

2019/20 Financial Summary

Introduction

The financial section of this narrative is divided into two parts. The first reviews the financial position before Covid-19 while the second part reviews the potential impact of Covid-19.

The performance of the Council is regularly monitored and reviewed throughout the financial year to assess financial stewardship. Strong financial management and control is a cornerstone of what has enabled the Council to deliver the political priorities that are integral to the regeneration and renewal that Hackney has undergone since 2002. At the end of 2019/20 the Council had an overspend of £9.33m, equating to 0.89% of gross expenditure. This is against a backdrop of significant reductions in grant and substantial cost pressures over the period 2010/11 to 2019/120. In the financial year 2010/11 the government gave Hackney a total of £310m of funding to support local services, but by 2019/20 this had fallen by £140m.

Even though overall the Council manages to deliver within Budget, the Council still faces significant cost pressures in areas such as Social Services, including the provision of children and adult social care, the provision of temporary accommodation for the homelessness and levies.

Delivery of the 2019/20 Budget

As noted above, the revenue budget was set against the background of continuing significant reductions in Central Government support to Local Government and increasing cost pressures. The budget was delivered through efficient financial planning and management and identifying savings and income generation opportunities early. In addition, we have continued to drive out inefficiencies across the Council. This process has been facilitated by appropriate management arrangements and controls to manage the risks and impacts on people, place and staff including;

- **Governance:** Cross Council governance arrangements to manage delivery of the programme including the establishment of a Corporate Board, joint chaired by Group Director, Finance & Corporate Resources and Group Director, Children's, Adults & Community, in relation to Adult Social Care to provide targeted and focused attention to ensure that the financial performance of this service and interaction with the NHS is given a high profile.

- **Financial Monitoring and reporting**: Regular progress updates already embedded in the overall financial position (OFP) to continue to provide updates against savings allowing issues to be managed as appropriate. In addition, the Medium-Term Financial Plan was updated in the 2019/20 Budget Report

- **Risk Management**: The Council has in place mechanisms for managing risks on savings through relevant risk registers and has looked to link the delivery of savings to outputs and performance, taking on board recommendations.

- **Prioritising resources to Corporate Plan objectives**: The 2019/20 budget was agreed by Council in March 2018 and throughout 2019/20 we have been looking at, and have made considerable progress in, developing a budget for 2020/21 and indicative budgets for 2020/21 to 2022/23.

Autumn Budget

Because of the General Election, there was not an Autumn Budget in 2019. The provisions of the 2018 Budget affecting local government are summarized here.

Social Care: £650m for 2019/20 for Adult Social Care and an additional £55m disabled facilities grant in 2018/19, to provide home aids and adaptations for disabled children and adults on low incomes. Of the £650m, £240m is for Adult Social Care and the remaining £410m is for Adults and Children's Social Care. Our share of the total £650m for adult social care is £3.8m. Councils also received £240m to help fund winter pressures in 2018/19 – our share is £1.4m.

Housing: The immediate removal of the HRA borrowing cap was confirmed (from 29 October 2018) and the government estimates an additional 10,000 homes a year will be built, costing the policy £4.6 billion over 5 years (£1.3 billion a year by 2022-23). In addition, there will be £5.5bn additional funding for the Housing Infrastructure fund to support the building of - according to the Government - of 650,000 new homes.

Education: One off £400m in-year capital payment to schools which averages £10,000 per primary school and £50,000 per secondary. The payment will be made directly to schools

Business Rates: Small retail businesses will see their business rates bills cut by a third for two years from April 2019, saving them £900 million according to the Government. Hackney has 9,965 such properties of which 6,871 currently have an amount to pay. The Budget Red Book has confirmed that local authorities will be fully compensated through S31 Grant.

There has been no further update on the overall envelope for public spending to 2023/24 since the 2018 Budget. The envelope is as follows:

Table 1.7: Aggregate departmental resource budgets (Resource DEL excluding depreciation, in £ billion)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total Resource DEL excluding depreciation[1]	**313.0**	**327.0**	**338.4**	**348.7**	**359.5**	**371.6**
NHS England[3]	114.6	121.8	128.2	134.4	141.1	149.0
Departmental resource spending excluding NHS England	198.4	205.3	210.3	214.3	218.5	222.6
OBR allowance for shortfall[2]	-2.2	-1.7	-1.7	-1.7	-1.7	-1.7
OBR resource DEL excluding depreciation forecast	**310.8**	**325.4**	**336.8**	**347.0**	**357.9**	**369.9**

This implies day-to-day total departmental spending growing at an average of 1.2 per cent a year in real terms from 2019/20 but the bulk of this increase is allocated to the NHS. According to HM Treasury when changes to the NHS and Defence spending are considered there will at least be a flat line real terms increase for non-protected departments such as Local Government. Yet the OBR has pointed out that if one looks at current spending per head on departments other than health, spending is still falling over the coming years. This is backed up by the Resolution Foundation which calculated that unprotected departments will still, on average, see cuts in every year from 2020/21 in their per capita real-terms budgets which will be 3 percent lower in 2023 than 2019. Finally, the IFS has stated that there will be a real term freeze on the spending of unprotected departments such as local government but a cut in real terms spend per head.

2019/20 Local Government Finance Settlement

MHCLG published the 2019/20 Final Local Government Finance Settlement on 29 January. For the most part, the 2019/20 Settlement announcement simply confirmed what we already knew. No additional significant funding allocations were announced in addition to those set out in the Autumn Budget. Moreover, the grant cut announced for 2019/20 (£1.3bn) as part of the 4-year Settlement published in 2016, was introduced despite all the representations that the Government has received.

The Secretary of State confirmed the £650 million funding for adults and children’s social care in 2019/20, announced previously. £240 million will go towards easing winter pressures, with the councils having the flexibility to use the remainder - £410 million for either adult or children’s services and, where necessary, to relieve demands on the NHS. Hackney was allocated £3.8m from this. This is on top of the £240 million announced in October to address winter pressures this year. Of this Hackney allocation was £1.4m.

The Secretary of State confirmed the Budget pledge for an extra £84 million over the next five years to expand its Children’s Social Care programmes to support more councils with high or rising numbers of children in care. No indication was given of what Councils will receive the funding

He also confirmed the Budget commitment to provide support for high streets via a £1.5 billion package of support; including a business rates discount worth almost £900 million and a £675 million Future High Streets Fund to help them “adapt and thrive in changing times”; and confirmed the Budget announcement that there will be a further £420 million to repair and improve roads this year.

On a slightly positive note the New Homes Bonus baseline was kept at 0.4% in 2019/20 The baseline reduces all councils grant entitlements and the Government was threatening to put it up in the Technical Consultation.

There will also be no change to the Council Tax Referendum limits published in the Technical Consultation and so London boroughs now have the flexibility to increase their core Council Tax requirement by up to 2.99% and can draw on the Adult Social Care precept to meet demand for services. Police and Crime Commissioners will be able to increase the police precept to £24.

The Secretary of State announced that the Government will directly eliminate the £152.9 million “negative Revenue Support Grant” in 2019/20 using foregone business rates. This will prevent any local authority from being subject to a downward adjustment to their business rates tariffs and top-ups' that could act as a disincentive for growth. No council will lose funding.

The Secretary of State announced that there was a surplus of £180m on the Government's Business Rates levy account because of the growth in business rates in 2019/20 and this was distributed to all authorities based on needs.

The Schools National Funding Formula (NFF) commenced on 1st April 2018. The National Funding Formula is the method that the Government will use to decide how much money will be given to English state schools each year. It aims to ensure that all school budgets are set using consistent criteria. The DfE believes that this will direct resources where they are most needed. 2018/19 – 2021/22 are transition years where local authorities have some continued discretion on the local formula but it is intended that there will be a move to a hard NFF soon after that where schools will be funded directly by central government.

On 24th July 2018, the Minister of State for School Standards made a further announcement on school funding for the year 2019/20. The announcement confirmed many commitments made by the Secretary of State in July 2017, such as confirming the funding formula for 2019/20, which will mean all schools will have received at least a 1% per pupil increase over their 2017/18 baseline, i.e. 0.5% in 2018/19 & 0.5% in 2019/20. However, the uplift does not cover the continuing additional cost pressures on schools as a result of pay and non-pay inflation. The announcement also confirmed that the discretion awarded to local authorities in setting local formula in 2018/19 and 2019/20, is now going to continue in 2020/21 which may result in a further 'soft' year in 2020/21. There has not been any announcement or commitment to maintain or increase school per pupil budgets in 2020/21. This is a concern as it creates great uncertainty for those local authorities where per pupil funding levels are higher than the national formula per pupil funding levels. So further pressures on school's budgets are possible in 2020/21, when the current protections associated with the new NFF for schools are not certain to continue. There is an increase to high needs funding, which is welcome but not at a level which would cover the current cost pressure.

The Early Years National Funding Formula has now been fully implemented. No further significant funding changes are expected in respect of Early Years.

75% Business Rates London Pilot Scheme

In April 2019, the London 100% Business Rates Pilot scheme was rolled forward into 2019/20 but with a local retention of 75% rather than 100%. This gave Hackney (and other boroughs) a local share of 48%, the GLA 27% and the Government 25%.

The other main change from the 2018/19 scheme was the removal of the Government's no-detriment rule which ensured that the pool, as a whole could not be worse off than the participating authorities would have been collectively if they had not entered the pilot pool. In the event this arose, the government would have intervened to provide additional resources.

In other respects, the 2019/20 scheme was the same as the 2018/19 scheme. It is not possible to say at this stage what Hackney's financial gain from the scheme will be as the impact of Covid-19 may result in boroughs increasing their bad debt provisions over and above those assumed in the modelling to date, which will reduce the amount of funding available for distribution.

Future Funding Risks

Clearly the biggest financial risk affecting the Council now stems from Covid-19 and this is considered below. Even before Covid-19 though, there were a number of risks associated with future arrangements for local government external funding. These are now discussed.

2021/22 Local Government Finance Settlement

The 2021/22 Local Government Settlement was planned to be introduced in the context of the 2020 Spending Review and the implementation of Fair Funding. The implementation of Fair Funding has been postponed until at least 2022/23 and it is unlikely that the Spending Review will be produced in 2020. It follows that the 2021/22 Settlement is likely to be some kind of roll over of 2020/21 but it is very unlikely to be as generous as the 2020/21 rollover and at this stage we have no idea of the Government's plans.

Spending Review

There is clearly much uncertainty concerning the Government's spending plans for the period 2021/22 to 2023/24. These were to be published in the 2020 Spending Review but it is highly likely that this will not happen because of Covid-19. It is difficult to see that the Government will lay down firm spending plans with all the uncertainty surrounding the aggregate public spending and resources position following on from Covid-19. Statements have been made by Ministers that there will not be a return to austerity following Covid-19 but there must be some risk of reduced local government core funding. In addition, the spending review also deals with grants from Departments other than MHCLG. Of these, the key ones here are: (i) the Improved Better Care Fund (IBCF) – we have assumed in our planning that it will continue at an annual average of the total funding for IBCF that was received over the period 2017/18 to 2019/20 (£11.6m) in future years; and (ii) Public Health Grant - we have assumed that the grant will continue but with a £0.8m reduction in each year from 2020/21 onwards which is in line with the reductions prior to 2020/21. Given the importance of these grants to the well-being of residents especially in the current and post Covid-19 environment, it is to be hoped that there will be no cuts here

For many years now, local government has existed in an environment of significant financial uncertainty and this is likely to worsen given the issues concerning the timing of the next Spending Review as well as the delay to Fair Funding (discussed below) and the longer term financial impact of Covid-19

Fair Funding Review

A new system of local government funding will be introduced when the Government completes its Fair Funding Review and associated transition arrangements to protect authorities that lose from the Review. The Review was planned to be completed in the Summer of 2020 and introduced in 2021/22 but it has been postponed for another year and will not be implemented until 2022/23.

Whenever it is introduced, Fair Funding holds significant risks for the Council. The Review involves the production of a new formula driven assessment of local authorities' needs and an assessment of resources. The same formula will apply to all authorities. A comparison will then be made between the two constructs and if an authority's needs exceeds its resources it will receive a payment equal to the difference (currently called a top-up); but if its resources exceed its needs then it will then make a payment equal to the difference into a pool (central or local) which will be re-distributed to top-up authorities (the payment is currently called the tariff). Hackney will receive a top up under the new system. For Hackney, there are 3 main factors which drive our Needs Assessment: - Deprivation, Area Costs and Population.

With regards to deprivation, most of the deprivation factors used in the current needs assessment date back to 2011 (Census) and to 2012. Since then Hackney has become less relatively deprived according to measures such as the Index of Multiple Deprivation (IMD) and Free School Meals and so it is highly likely we will lose out from the review of the factors. The replacement of some of the factors will be necessary given the introduction of Universal Credit.

The Area Cost (ACA) is an adjustment factor which compensates authorities that face higher salaries and wages costs and business rates costs, through increased funding. The current calculation methodology is extremely beneficial to us, but it is being reviewed by a separate technical group as part of the review and as almost every proposed change in recent years has reduced the funding Hackney gets from this factor, we are less than enthusiastic about the outcome of the group's work. \We are aware that there are proposals to include travel times and a remoteness as new adjustments within the area cost adjustment (ACA) on the basis of the evidence offered which is scant to say the least. All else being equal this will reduce our ACA derived allocation and the proposed calculation of factors on an individual authority basis will definitely disadvantage us. It is worth pointing out that this proposal ignores the rather obvious fact that London boroughs operate in an employment market that extends well beyond their own borders.

Whilst we could potentially lose from any changes to the deprivation factors and the ACA, the proposed treatment of Population is one element that may benefit us as CLG are now proposing to use projections rather than a static count.

With regards to transitional arrangements, prior to 2011/12, a safety net was applied which unwound the losses from changes to the needs assessments over a long timescale. However, in 2011/12, most authorities, including Hackney's losses were unwound in just two years (the year of introduction and the following year). It follows that if it looks likely that we will lose from changes to the needs assessments, the final outcome will depend on the tightness of the safety nets employed.

In a consultation document released just before Christmas 2019, the Government is proposing to allocate out the Environment Needs Assessment (c. 30% of the overall assessment) simply based on population and the ACA. This will disadvantage high need councils such as Hackney and other urban areas, particularly the inner-city ones, that benefit from the application of the additional cost factors. Given that the proposed per capita distribution will result in less accurate needs assessments than the current assessments, it looks likely that this proposal is politically motivated to move money away from urban areas to the shires. We do not see how the Government can legitimately propose a way of allocating funding that assumes that the need to spend on Environmental services, such as waste collection, street cleaning, homelessness, public transport and libraries for example, depends on population only and that factors such as poverty, density, housing occupancy type and deprivation play no part.

It is interesting that in its technical consultation on relative need, published in December 2017, the Government set out a proposal to include deprivation as a common cost driver within the foundation formula to reflect "the fact that deprived individuals, and particularly income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs". There was broad consensus among respondents on the need to take deprivation into account (86% agreed). It is, therefore, very disappointing that the Government has chosen to disregard the overwhelming weight of opinion in favour of its inclusion in this proposal.

The Government is also proposing to inject significantly more resources into rural areas to be paid for by non-rural areas on the basis of scant empirical evidence. It is even considering introducing a measure of rurality into the ACA. Again, this looks a politically motivated move and it looks increasingly likely that the Fair Funding review, on the basis of the Christmas consultation, is becoming a vehicle for reallocating money away from the inner-city urban areas to shire area councils. This will impact negatively on our funding allocation.

There is also a consultation paper on resources and there are two issues here which are of concern. Firstly, MHCLG will be using the latest business rates data to determine how much income we are assumed to raise from business rates which effectively reduces our external funding from Government by a proportionate amount which means the very large rates income from Principal Place will be included and our funding reduced accordingly. Secondly, MHCLG may include car parking income in the calculation of the resources element which is likely to reduce our funding still further.

Impact of Covid-19

Introduction

The ongoing global pandemic of severe acute respiratory syndrome Coronavirus 2 (SARS-CoV-2), which causes coronavirus disease 2019 (Covid-19), spread to the United Kingdom in January 2020. Transmission within the UK was confirmed in February, leading to an epidemic with a rapid increase in cases in March and April.

This has already had a significant detrimental impact on the economy and public finances, and is presenting businesses, public organisations, and individuals with significant challenges.

COVID-19 affects many of the functions the Council undertakes – in the community, social care, public health, education and supporting vulnerable people.

On the evening of 23 March, Prime Minister Boris Johnson announced in a television broadcast that measures to mitigate the virus were to be tightened further in order to protect the NHS, with wide-ranging restrictions made on freedom of movement, enforceable in law, for a planned 'lockdown' period intended to last for at least three weeks, which was further extended to cover all of May with a partial relaxation being considered for June. The government directed people to stay at home throughout this period except for essential purchases, essential work travel (if remote work is not possible), medical needs, one exercise per-day (alone or with members of their household) and providing care for others. Many other non-essential activities, including all public gatherings and social events, except for funerals, are also prohibited, with many categories of retail businesses ordered to be closed.

Clearly the epidemic and the ‘lockdown’ have significant implications for the Council’s services and considerable financial implications.

To enhance governance and accountability and to facilitate control of COVID-19 spending, particularly in the context of the available grant, the finance teams will carry out a comprehensive expenditure tracking exercise which will identify and record all COVID-19 related spend. An analysis of the relevant spend will be produced for senior officers on a fortnightly basis and reported to Cabinet each month in the Overall Financial Position Report.

Our medium-term financial position, as set out in the Medium-Term Financial Plan which formed part of the 2020/21 Budget presentation, is shown below.

MEDIUM TERM FINANCIAL POSITION 2019/20 TO 2023/24

ESTIMATED RESOURCES	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Core Funding					
Revenue Support Grant	0.000	35.361	0.000	0.000	0.000
Top-Up Grant	83.421	72.526	71.221	66.221	66.221
Business Rates	75.309	44.040	76.106	80.557	85.120
Total Core Funding	**158.730**	**151.927**	**147.327**	**146.778**	**151.341**
Council Tax Income	82.299	87.746	92.923	98.362	104.089
Public Health Grant	32.320	33.240	32.440	31.640	30.840
One off S31 grants	15.087	8.618	3.874	3.874	3.874
One-off Council tax & Collection Fund surplus (p/year)	2.543	3.118	0.000	0.000	0.000
New Homes Bonus	8.395	7.551	2.000	2.000	2.000
Better care Fund/Improved Better Care Fund	20.453	20.453	19.300	19.300	19.300
Other Funding	0.225	0.225	0.225	0.225	0.225
TOTAL RESOURCES	**320.052**	**312.878**	**298.089**	**302.179**	**311.669**
ESTIMATED SPENDING	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Cash Limits after Savings & Growth	271.522	267.878	268.523	270.926	273.626
Capital Charges, Depreciation & Superannuation	17.608	18.108	19.608	19.608	19.608
RCCO, Levies & Pay Award	12.200	16.580	22.530	28.980	35.430
Corporate Items including one-off S31 Grant	18.722	10.312	0.571	1.371	2.171
TOTAL SPENDING	**320.052**	**312.878**	**311.232**	**320.885**	**330.835**
BUDGET GAP	**0.000**	**0.000**	**13.143**	**18.706**	**19.167**

So, even before the impact of coronavirus on our funding position is considered, we were looking at a budget gap of £19m over the planning period. The financial position is further considered below.

Emergency and Other Funding Announced by the Government

The Government announced an Emergency Fund of £1.6bn to help local authorities address funding pressures across all the services they deliver arising out of Covid-19. The Government expected that this grant would cover all costs incurred in the first phase of the response but would keep this under review. Hackney's share of this Fund was £10.092m. The grant is not ring fenced but the Government has indicated where it expects us to spend the grant funding but it does list activities that it believes the funding should enable us to carry out - these are listed below.

(i) **Increased demand for adult social care and the need to provide additional support to social care providers**. This is likely to be the primary spending area.

(ii) **Extra demand and higher business-as-usual costs of providing children's social care**, including as a result of school closures and the need for increased accommodation to address the need for isolation, including for unaccompanied asylum-seeking children.

(iii) **The need to provide additional support for the homeless and rough sleepers**, including where self-isolation is needed. This is on top of the £3.2m emergency fund announced on 17 March (Hackney's allocation was approximately £10,000) to help rough sleepers, or those at risk of rough sleeping, to self-isolate.

(iv) **The provision of support to those at higher risk of severe illness from COVID-19,** who will soon be asked to self-isolate in their homes for the duration of the pandemic. We have a critical role in supporting those within the most clinically high-risk cohort who also have no reliable social network (I.e. who are both at high risk clinically and socially).

As part of its ongoing review noted above and under significant pressure from local government representative bodies and individual councils, on 18th April the Government announced a further pot of funding for local government, the total of which again is £1.6bn.Since 20th April, the individual authority allocations under the second £1.6bn allocation were announced and Hackney received £7.74m. This compares to £10.09m under the original allocation, leaving our tranche 2 funding £2.3m less than tranche 1. The reduction reflects the use of a different allocation method by the Government. Tranche 1 was allocated primarily on the basis of Adult Social Care Relative Needs Assessments (87.5%), with the balance being allocated out on the basis of shares of total Settlement Funding Assessment. The method used for tranche 2 is a simple per capita allocation (£28 per head). In county areas, 65% is apportioned to the county council and 35% to the district council. The result of this change in methodology is a greater proportion of funds going to non-urban areas, particularly the shire districts which only received £10m in total out of the first £1.6bn tranche. The MHCLG website stated that the split of funding between county and district councils also reflects the financial pressure being felt by councils as a result of residents doing the right thing and staying at home, rather than using services including car parks and leisure facilities. This is clearly an admission by the Government that it recognises that councils will lose income as a result of Covid-19 and it has chosen to respond by compensating district councils for this. We hope that at some stage boroughs will be similarly compensated.
On 13th May, the Prime Minister pledged an extra £600m for infection control in care homes to fight COVID-19. Our role in this will primarily be one of passporting the funding

and so the allocation we receive cannot be viewed as further assistance to mitigate the financial pressures we are under. Hackney was allocated £509k. In line with a guidance note issued by ADASS and the LGA, Adults Services has worked with social care providers in the borough to understand the financial pressures they are under as a result of COVID-19. We are now in the process of agreeing a temporary flat-rate uplift with providers in order to mitigate these additional costs and assist with sustainability.

Since April 22nd, further government guidance has been published on the Emergency Fund and related assistance. There has been some further clarity on how local early years providers can combine central government business support measures with early years funding provided by the Council. It has been confirmed that it is possible to part-furlough staff who work on services funded by the public sector, when those staff also work on services not funded by public funding. A recent letter from the Secretary of State for Education also noted that young people who have left, or are about to leave, care, whether that's foster families or residential care, may be especially vulnerable right now. The letter stated that no young person should have to leave care during this period, and this cost is to be funded from the Emergency Fund. Locally we are extending some placements in this respect and are carefully tracking the additional costs as attributable to Covid-19.

Hardship Fund

The Government also announced a £500m hardship fund to deliver relief to council taxpayers in local areas. The funding is for the 2020-21 financial year and Hackney's allocation is £4.6m. The expectation is that the majority of the hardship fund will be used to provide council tax relief, alongside existing local council tax support schemes. Under the hardship fund arrangements, relief will be provided to all working age CTRS claimants in 2020/21, who will qualify for a reduction of up to £150 in their Council Tax regardless of whether they have been impacted by COVID-19 or had any loss in income. This means that their outstanding liability after any CTRS reductions will decrease by £150. Councils will be required to automatically assess who is eligible for support and automatically rebill those Council taxpayers. No one will have to make an application or show good cause – it must just be awarded. The reductions are to be administered using the discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992, outside of any existing Council Tax Reduction Scheme. The underlying Council Tax Reduction Schemes will remain unchanged.

While Hackney has an existing discretionary policy for considering applications under section 13A for the relief and reduction of Council Tax - it was not drafted to cover the situation where all working age Council Tax Reduction Scheme (CTRS) applications would receive an automatic award regardless of hardship. Such an action is outside the scope of the existing policy. The policy has therefore had to be amended to introduce a new category to recognise the unique circumstances caused by COVID-19 - and enable the Council to automatically award this relief to all working age CTRS claimants. This has been discounted as the figure of £150 is the sum that has been recommended by the government, and Hackney is acting in line with Government guidance.
Where families are still in hardship with their Council Tax after the award of the £150 relief there are other mechanisms to help, including our Council Tax Discretionary Hardship Scheme which is being expanded to meet additional demand. In addition, the Council has also taken further steps to help families who are struggling, including stopping any Council Tax debt collection or enforcement action at this time.

The enhanced policy now allows us to cover any shortfall between claimants' CTRS and their full Council Tax liability. We will now be able to consider a wide range of individuals not getting full CTRS due to non-dependent deductions, or those who may be struggling in low paid work, and those large families who reside in larger properties. So, it will allow a larger percentage of claims to be paid. Entitlement to CTRS is still required and claimants will still have to show financial hardship. We have also made it clear that it is budget dependent so we do not commit ourselves to claims we cannot pay. We will not pay from the fund if someone has significant savings, except if they need it to maintain their accommodation. So, if they did have £6,000 in the bank, but had lost all their income, and were able to show they needed those savings to maintain their mortgage or rent for the next 3 months - that would be allowable.

We have also noted in the scheme that those who are going to lose out because they are going onto Universal Credit (UC) (as we now assess CTRS claims using the maximum UC amounts, not the Housing Benefit amounts) can qualify, as there will be some large families, who lose out if they move onto UC under our CTRS scheme and we can cover that. We have already had some enquiries from the Orthodox Jewish community, because with the schools and businesses closed they are being hit hard, and because where people live in band F, G and H properties the shortfalls tend to be significantly above the £150 that they will get - so we can cover the difference from here.

Turning to the financial implications, as of 2nd of March 2020 the London Borough of Hackney had 21,282 working age households in receipt of CTRS who would qualify. The Council estimates that most of our existing caseload will be entitled to the full £150 at an approximate cost of £3.1 million. However, as individuals lose income as the Coronavirus pandemic continues there is likely to be a significant increase in new claims for a Council Tax Reduction. There is no way to accurately estimate how many new claimants will apply for Council Tax Reduction in 2020/21 during the next few months, and how much extra demand the Council will face, but increased extra demand is likely to be significant. As of 26th of March almost half a million new people had already registered for Universal Credit since the crisis developed, many of which will feed through into additional claims for CTRS and would be entitled to the additional relief. We do not know how many of these claims are in Hackney. It follows that there is a risk that the scheme could cost in excess of the £4.6 million allocated from Central Government, meaning that any shortfall will have to be met from other Council budgets or one-off funding. Once the impact of the enhanced scheme comes through, we will review the scheme for 2021/22.

Regarding implementation, the latest software release from our supplier is currently being tested by the Council's Revenues and Benefits service. As reported previously, we have also invested an additional £500,000 in the Council's Discretionary Crisis Support Scheme, which residents can apply for urgent financial support with emergency needs and a further £120,000 has been invested to support Discretionary Housing Payments for those needing support with rent.

Support for Businesses

To support businesses affected by COVID-19, the Budget increased the existing Business Rates retail discount to 50% and this was subsequently increased further to 100% for 2020/21. It was also announced that the retail relief scheme would be expanded to the leisure and hospitality sectors. The scope for businesses covered by this provision was subsequently expanded to include Estate agents, lettings agencies and bingo halls.

Further support for business was given in the Budget with the increase in the Business Rates discount for pubs (with a RV below £100,000) from £1,000 to £5,000 for one year from 1 April 2020. A discount for nursery schools was also introduced. Nurseries will now be eligible for a business rates holiday for one year and receive 100% relief, although there remain issues where business rates are paid by sub-tenants as part of their rent

It was announced that £3,000 grants for businesses claiming Small Business Rate Relief (SBRR) or Rural Rate Relief (RV below £15k) would be made available. This was extended to £10,000 on 17th March and at the same time, a £25,000 cash grant will be made available to businesses in retail, leisure and hospitality with a RV greater than £15k and less than £51k, and a £10,000 cash grant made available to businesses in retail, leisure and hospitality with a RV up to £15k (but not already receiving a grant under the SBRR scheme).

On March 17th, the Government announced a twelve-month business rates 'holiday' for all shops, pubs, theatres, music venues, restaurants and any other hospitality or leisure business regardless of RV. Qualifying properties will pay no business rates in 2020/21. The separate pub relief will now be deleted as pubs will qualify for relief under the enhanced retail relief, which will mean that they will also pay no business rates.

On 27th April, the Government responded to criticisms of its business grants system by introducing a new fast-track finance scheme which will provide loans with a 100% government-backed guarantee for lenders. Small businesses will be able to borrow for a loan of up to 25% of turnover subject to a maximum of £50,000. According to the Government, businesses will be able to access the cash within days. Loans will be interest free for the first 12 months, and businesses can apply for the grants online by completing a form. No repayments will be due during the first 12 months.

On the business grants system, we are administering on behalf of the central government, we received £64.6m in grant funding to allocate to qualifying local businesses as one-off grants. As at 15 May 28 grant payments totalling £54.75m (84% of the total) have been made to 3,708 ratepayers:

Scheme 1 (Small Business Rate Relief Cases RV up to £15k), 2,297 businesses paid with a total payment of £22.97m

Scheme 2a (Retail Relief Cases RV up to £15k), 233 businesses paid with a total payment of £2.33m
Scheme 2b (Retail Relief Cases RV over £15k up to £51k), 1,178 businesses paid with a total payment of £29.45m.

On business rates relief, the government has implemented a range of additional business rates reliefs over and above those already granted and included in our 2020/21 NNDR 1 return, for various groups of businesses. An additional £46.3m of retail relief has been granted to 2,280 retail, hospitality, and leisure ratepayers. The Government has confirmed that the EU has agreed to suspend State Aid rules in relation to these reliefs. We have also identified £745k of relief to be awarded under the new Nursery relief scheme, and these have started to be awarded. We will be compensated for these business initiatives through S31 grant.

Impact on Services

As noted above, the pandemic will create increased demand for adult social care and the need to provide additional support to social care providers and extra demand for children's social care. There will also be a need to provide additional support for the homeless and rough sleepers, including where self-isolation is needed and to provide support to those at higher risk of severe illness from COVID-19, who are being asked to self-isolate in their homes for the duration of the pandemic. We have a critical role in supporting those within the most clinically high-risk cohort who also have no reliable social network (i.e. who are both at high risk clinically and socially).

There is also a need to meet significant pressures across other services, as a result of reduced income, rising costs, or increased demand. These include;

- Waste
- Property Rental Income
- Reduced Council tax and business rates income
- Reduced income from parking and fees and charges
- Unavoidable contract extensions
- Potential loss of 2020/21 savings
- Capital programme (reprofiling and grants loss) and
- Market delivery impediments forcing up costs.

There is an immediate and significant impact for procurement. The Government has recently issued two procurement policies (PPN 01/20 and PPN 02/20). One relates to procurement of goods, services, and works and the other referred to payment of suppliers during COVID-19.

Both policies have far reaching implications for the Council, particularly the latter which stipulates that contracting authorities should continue to pay suppliers even if they are not delivering services during COVID-19.

Procurement Policy Note (PPN) 01/20 mainly brings together information on how the Council can continue to procure goods, works and services during COVID-19 and when we may do so without the need to go through a competition process with more than one supplier particularly in extreme cases of emergency and urgency where a competitive process is not possible.
Procurement Policy Note 02/20:Supplier Relief during COVID-19 has greater and extensive implications for service areas across the Council and it places greater demands on the Council, including a requirement to continue to pay our suppliers during COVID-19 even where they have not delivered services to the Council. The Policy implementation is immediate and is expected to be in effect until at least the end of June 2020.

While managing the significant pressure on services caused by the national response to the COVID-19 pandemic, Council officers have also demonstrated impressive creativity and agility in the delivery of their services. This offers possibilities for ways that the Council might approach its longer-term response to the extended impact. Examples include:

- Impressive cross-functional working, such as the arrangements for emergency accommodation needed for accelerated discharge from hospital and moving rough sleepers off the street into safe space.

- Effective partnership working with statutory and voluntary sector partners to deliver a coherent borough-wide response. This includes work between adults' social care and health, and also partnership between Council teams and Police to keep parks and other public spaces open while ensuring that residents observe social distancing requirements.

- Integration of customer contact and rapid move to working from home, sustaining a consistent level of service for residents, tenants, and leaseholders.

- Moving c 3000 of the Council's staff to home-based working. This included significant changes in the delivery of support and guidance to staff, building on the Council's developments in this regard over previous years.

- Rapid creation of entirely new services, such as the arrangements to ensure that vulnerable people unable to leave their home are provided with food (outlined in more detail below).

- Redeployment of staff to areas of work that are quite different to their usual roles so that critical services can be delivered.

- Effective governance and strategic leadership, working in a truly cross-functional way to direct the Council's response.

The Council's Response

Across the Council, our services are formulating plans and strategies to deal with the increased demand for our services arising from COVID-19, which will necessitate reshaping in certain areas and re-targeting of resources in others.

On the Council's website we have put up a coronavirus information section which contains regular updates and invites residents to subscribe to newsletter updates.
There is also a section on advice and support covering:

- Benefits
- Support for Business
- Community support
- Coronavirus help and support
- Contact details for other organisations providing online support
- Council service updates
- Key worker exemptions (i.e. parking)
- Advice on scams
- Schools updates

In addition to the progress we are making in awarding business rates reliefs, where we have identified recipients of the relief who pay their rates bill by direct debit, the direct debit has been cancelled so that a payment is not taken before the reliefs are applied.

We are genuinely concerned about the risks for different groups arising from the way COVID-19 will impact on our everyday lives and the knock-on economic and social impacts. There is the extremely vulnerable 'shielded' group, who are being asked to stay at home for 12 weeks as well as a wider group of residents who are self-isolating for health reasons, including older people. One of our biggest concerns is that those in poverty will become more vulnerable including those who are laid off, made redundant or lose business. We know things are going to get worse over a long period of time, so we want to ensure that our response is sustainable and future proofed as the situation evolves. We have been building a picture of the types of residents who might be vulnerable and their likely support needs so we can get the right humanitarian assistance support to them, working with the many voluntary and community sector groups, faith groups and mutual aid groups in the borough.

Teams from across the Council's services have been working around the clock to make sure that vulnerable people who are housebound and unable to get food through other means are supported. This includes filling gaps in the provision that the Government is making for people who are 'shielding' from COVID-19. The effort that's gone into this has been a hugely impressive example of 'one council' working, involving dozens of people from a wide range of services, including the BECC / Civil Protection, Adults Social Care, Children's & Families Services, Customer Services, Facilities Management, Housing, ICT, Public Realm and Strategy, Policy & Economic Development.

In a matter of only a few weeks we have:

- Established ways for residents to ask for help online and by phone if they are shielding/socially isolating and potentially cut off from help and started delivering 350 parcels a day from a dedicated warehouse to those who contact us and need urgent help with food. We have also set up arrangements to assess needs and guide people towards other support they might need (including social care support). This support is also available for those who are 'shielded' but whose needs are not met through the government provision (for example because of dietary requirements).

- Set up a volunteering hub and are deploying volunteers to provide additional urgent support with food, help with prescriptions and social support (including over the Easter weekend). Through Volunteer Centre Hackney, a key partner in the Volunteering Hub, we are working with Mutual Aid groups so that we can support and connect with this grassroots activity and help them build partnerships with local community organisations.

- Made arrangements for delivery of hot food to people who are unable to cook their own food or have been placed in emergency accommodation.

- Accelerated work to set up the Hackney food justice alliance brings together key organisations working to tackle food poverty so that their work is better coordinated and supported.

- Built connections with Hackney's faith communities to make sure that we are able to support their needs and worked with the Orthodox Jewish community to establish culturally specific support.

- Launched our Find support service map that makes it easy to find organisations that are open but providing an online or phone alternative to their usual activities in response to Coronavirus (COVID-19).

- Flexed our Employment and Skills service to advise people who have been laid off or made redundant.

- Developed our understanding of the impact on communities, by developing a cumulative impact assessment which can inform our emergency response and inform our plans around recovery.

An exercise has been completed to understand exposure to our existing capital contract commitments and understand other issues that might impinge on delivery of capital schemes. We are seeing a mixed picture in terms of contractors' approach to the Coronavirus. Some (e.g. Countryside) have taken the decision to close their sites, whilst many others remain open and working while UK Government guidance allows this.

On procurement, Procurement Officers are well aware of the provisions of (PPN) 01/20 noted above and as set out in the public contract regulations, and are able to apply them wherever necessary using the Single Tender Action (STA) provisions in the Council's Contract Standing Orders.

To facilitate the successful implementation of this policy across the Council, Directors and Heads of Service, working with their Procurement Category Leads and Heads of Finance, have been asked to:

(a) Urgently review their contract portfolio and inform suppliers who they believe are at risk that they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended) until at least the end of June 2020

(b) Confirm with their at-risk suppliers that they will continue to pay until at least the end of June, to ensure business and service continuity.

(c) Put in place the most appropriate payment measures to support supplier cash flow; this might include a range of approaches such as forward ordering, payment in advance/prepayment interim payments and payment on order (not receipt).

(d) To qualify, suppliers should agree to act on an open book basis and make cost data available to us during this period. They should continue to pay employees and flow down of funding to their subcontractors.

(e) Ensure invoices submitted by suppliers are paid immediately on receipt (reconciliation can take place in slower time) in order to maintain cash flow in the supply chain and protect jobs.

As part of the implementation of this policy, contracted suppliers will be required to ensure that business continuity is maintained wherever possible and that business continuity plans are robust and are enacted, agree to act on an open book basis, work collaboratively with the Council to ensure there is transparency and strictly adhere to the Council's invoicing protocols.

From a governance perspective, all decisions made in respect of the changes to contractual and payment arrangements and supplier relief payments will be recorded at Directorate level with the support of the Heads of Finance and their teams. The recorded information should include the rationale for making the changes and relief payments. To assist Council officers to carry out these new responsibilities, Procurement has designed a letter template which will be sent to all suppliers. It sets out what we are offering and what their responsibilities are.

Cost Pressures and Income Reduction Arising out of Covid-19

On May 15th, we submitted the second Covid-19 survey return to MHCLG. On the basis of the information submitted in the survey we have estimated the full year financial impact of the pandemic on our expenditure and income. This is shown below

Covid-19 Additional Expenditure Pressures - General Fund (GF)

Service area	Estimated Full Financial Year 2020-21 Impact £m
Adult Social Care – additional demand	**0.750**
Adult Social Care – supporting the market	**4.400**
Adult Social Care – workforce pressures	**0.750**
Adult Social Care - Personal protective equipment (PPE)	**0.437**
Adult social care total	**6.337**
Children’s Social Care – workforce pressures	**0.640**
Children's Social Care - residential care	**0.690**
Children's Social Care - care leavers	**0.315**
Children’s Services - other	**0.090**
Children's Social Care total	**1.735**
Education - SEND	0.045
Education - other	0.917
Education total	**0.962**
Housing - homelessness services	**0.772**
Housing - rough sleeping - accommodating and supporting those brought into alternative accommodation	**0.832**
Housing total excluding HRA	**1.604**
Cultural & related - Sports, leisure, and community facilities	**3.400**
Cultural & related total	**3.400**
Environment & regulatory - waste management	**2.400**
Environment & regulatory - total	**2.400**
Finance & corporate - ICT & remote working	**0.278**
Finance & corporate - Revenue & benefits expansion	**0.690**
Finance & corporate - other	**0.588**
Finance & corporate - total	**1.556**
Other - Shielding	**1.000**
Other - PPE (non-Adult Social Care and HRA)	**1.968**
Other - unachieved savings/delayed projects	**2.925**
Other - excluding service areas listed above	**0.938**
Other total (includes Shielding)	**6.831**
TOTAL SPENDING PRESSURE (General fund)	**24.825**

Covid-19 Additional Expenditure Pressures - Housing Revenue Account (HRA)

Service area	Estimated Full Financial Year 2020-21 Impact £m
HRA - supplies and materials including PPE	**0.100**
HRA other	**2.100**
TOTAL SPENDING PRESSURE (HRA)	**2.200**

Overall, the total full year spending pressure (GF and HRA) is £27m.

Turning to income, a summary of the estimated reductions for the full year is shown below.

Covid-19 Reduced Income - General Fund

Income Source	Estimated Full Financial Year 2020-21 Impact £m
Business Rates cash receipt losses	**8.280**
Council Tax receipt losses	**9.360**
Total Council Tax & Business Rates	**17.640**
Highways and Transport Sales Fees & Charges (SFC) losses	**9.500**
Cultural & Related SFC losses	**0.250**
Planning & Development SFC losses	**0.500**
Other SFC income losses	**3.816**
Sales, Fees & Charges (SFC) income losses total	**14.066**
Commercial Income losses	**3.552**
Other income losses	**1.831**
Other Income Losses	**5.383**
TOTAL INCOME LOSS	**37.089**

Covid-19 Reduced Income - HRA

Income Source	Estimated Full Financial Year 2020-21 Impact £m
HRA – residential rent arrears	**5.200**
HRA – commercial rent arrears	**0.110**
HRA – losses from voids	**0.120**
HRA – other	**1.200**
TOTAL INCOME LOSS	**6.630**

Overall, the total estimated full year income reduction (GF and HRA) is £44m on the basis of our estimates.

The analysis shows that the total full year estimated financial pressure (expenditure and income) on the General Fund and HRA arising out of Covid-19 is £71m. The pressure on the General Fund is £62m and that on the HRA is £9m. The Government has still not announced any financial support for councils' HRAs but it is now gathering information on the HRA in the latest survey which hopefully means it may provide funding at some stage.

As noted above, we have received a £10.1m Emergency Fund Grant from the first tranche and £7.7m from the second tranche. to set against these pressures and we have £15m of unallocated General Fund balances but we are legally required to maintain these offset for example, the effect of uneven cash flows or to be held as a contingency to cushion the impact of unexpected events. It is therefore clear that we will not have sufficient resources to meet the service requirements and income losses arising out of the Covid-19 epidemic in the medium term, unless further Government funding is forthcoming.

It follows that the Council may need to consider the extent to which it stops expenditure on non-essential work across both the revenue and capital budgets and what resources can be reallocated to fund the Council's response to the Covid-19 crisis as part of the Medium Term FInancial Planning process. In addition, steps may need to be taken to support the Council's financial stability. Options include delaying some capital projects and new revenue-based initiatives; and looking at the service investments made as part of the 2020/21 budget setting process to see which investments can be paused or cancelled to free up money to fund our response to the Covid-19 crisis.

The Group Director of Finance and Corporate Resources is currently examining the following areas in order to generate options to support the Council's financial stability:

- Reviewing the Council's reserves to develop options for re-appropriating reserve funds to help support the Council's response to Covid-19 as part of the closure of accounts process. This may mean delaying some projects or activities initially expected to be funded from reserves.

- Looking at the investments made in services as part of the 2020/21 budget setting process to see which investments can be paused or cancelled to free up money to fund the Council's response to the Covid-19 crisis.

- Refining and developing a governance process to ensure expenditure is signed off by appropriate officers to keep expenditure focused on the Covid-19 response.

- Closely monitoring the Council's income streams and debt levels to see what effect the Covid-19 crisis is having on the Council's income.

- Looking at the cost of all non-essential services to assess what costs could be saved in the event it is necessary for the Council to enter into a period of financial 'lockdown'.

- Working with HMT and service Directors to identify aspects of the Council's impressive response to Covid-19 which might help to identify opportunities to change service delivery / ways of working in ways that might mitigate some of the impact on services presented by significant financial threats outlined in this report. This is an opportunity to ensure that the ambition, innovation and imagination shown in the Council's response is not lost but embedded in future operating models.

The Group Director of Finance and Corporate Resources will also be undertaking further analysis of the structural impact of additional spending and loss of income to distinguish between genuinely short term, one off impacts and the more medium and longer term impacts.

The actual level of additional spending and income loss will of course depend primarily on the length of time emergency Covid-19 measures remain in place and the extent to which society recovers and gets back to normal in the coming months. Also, policy decisions will impact on income such as the extent to which fees, charges and rent are waived or delayed will impact on the overall income loss. Officers will continue to assess the expected spending increases and income losses as new information becomes available and report this back through the OFP.

Finally, it must be noted that some residents and businesses may well experience a longer-term impact and this will, in turn, impact on the Council's services. As with the current period of 'lockdown', the Council's role supporting Hackney will remain crucial. As more information becomes available on the duration and impact of the pandemic and hence potential medium and long-term effects, we will reflect this in our financial analysis.

Longer Term Risks

As noted above, MHCLG has issued two surveys to collect information on what local authorities are planning to spend which will hopefully inform its decision on future funding support for councils. However, there are a number of longer-term pressures that the surveys do not collect information on. It is difficult to predict the extent of these as they will depend on the duration of prolonged social distancing and self-isolation of vulnerable people and how long it takes to develop a vaccine. We are already finding indications, for example, that care markets are changing with an underlying increase in costs.

Growth in council tax and NNDR taxbases has been and will continue to be constrained which will impact on income later on this year and in future years. There will also be an increase in capital costs resulting from delays to projects and there is the potential for significant stagnation in local economies which will impact on local authority traded and other income going forward. We also anticipate significant price increases in the future as many suppliers look to recoup lost earnings.

MHCLG must ensure that proper allowance is made for these pressures as well as the others noted in section 6 below as it designs and implements its strategy for addressing the full financial consequences of Covid-19. Failure to do this will increase the likelihood of many councils issuing Section 114 notices, which in private sector terms is equivalent to declaring bankruptcy. The section 114 powers of the chief finance officer (CFO) under the Local Government Finance Act 1988 require the CFO, in consultation with the council's monitoring officer, to report to all the authority's members if there is, or is likely to be, an unbalanced budget. The issue of the notice would trigger emergency spending controls and brings into effect an emergency budget.

A further major risk concerns the impact of Covid-19 on the economy. It is by no means clear what the longer-term financial impact on local government will be as a result of Covid-19 but this week we saw some dire warnings on the outlook for the economy. On Wednesday 13th May, the Chancellor warned that the UK faces a "significant recession, after figures showed the economy shrank by 2% in the first three months of the year. The figures are the first official look at the lockdown's financial effects and show a contraction of 5.8% in March GDP (gross domestic product) alone - the biggest monthly fall on record. As we know the UK went into lockdown near the end of the quarter and so the quarterly GDP figure is only a partial representation of the lockdown's financial impact. Chancellor Rishi Sunak told reporters that "Technically a recession is defined as two quarters of negative GDP, we've now had one...so yes, it is now very likely that the UK is facing a significant recession at the moment and this year." On 19th May, the Chancellor stated that the UK will experience a recession 'the likes of which the nation has never seen before' and pointed to estimates that the joblessness could surge to at least 10%

Prior to this announcement, the Bank of England warned that the UK economy is heading towards its sharpest recession on record. The coronavirus impact, it stated, would see the economy shrink 14% this year, based on the lockdown being relaxed in June. Bank governor Andrew Bailey went on record as saying that there would be no quick return to normality and he described the downturn as "unprecedented" and said consumers would remain cautious even when lockdown restrictions are lifted. Mr Bailey also said: "Not all of the economic activity comes back. There is quite a sharp recovery. But we have also factored that people will be cautious of their own choice. "They don't re-engage fully, and so it's really only until next summer that activity comes fully back."

On a related matter, the press reported on Wednesday 13th May, that a Treasury document estimated the UK's deficit could reach £337 billion this year because of the pandemic, compared to the forecast £55 billion in March's Budget. The assessment, drawn up for the Chancellor and dated May 5, reportedly warned that to fill such a gap in the public finances through tax revenue rises would be "very challenging without breaking the tax lock". The paper said measures including income tax hikes, a two-year public sector pay freeze and the end of the triple lock on pensions may be required to fund the debt. It suggests either raising taxes or reforming tax reliefs to fill the gap in public finances. In the worst-case scenario, the assessment reportedly warns that the deficit could increase to £516 billion in the current financial year. The Treasury declined to comment on the report, but it is understood that the document is one of many put together by different teams to discuss ideas about future policy.

Clearly, if we do experience a recession of the nature described above there must be a risk to the funding that we receive from central government and a substantial risk to the income that we derive from business rates, council tax and fees and charges.

Treasury Management

2019/20 has seen a continuation of Government policy to limit Government borrowing through a strong focus on reducing levels of public expenditure on services and external funding, and on welfare benefits. This has been compounded by historically low levels of interest rates and on-going instability in the financial markets around the world and I have looked to ensure that the Council has taken this into regard in relation to our Treasury Management position.

The Council undertook long term borrowing from PWLB during the first six months of 2019/20 to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration. This new borrowing was entered into in order to take advantage of the low rates that were then available from PWLB, thereby providing some certainty over financing costs for the future. In October, PWLB increased the margin applied to loan rates by 100 basis points and as a result the new margin above gilts was 180 basis points for certainty rate loans. This shift in policy was implemented by HM Treasury.

Reserves, Liabilities, Capital Expenditure and Borrowing

Overall, the Council has maintained its general level of reserves on the General Fund and Housing Revenue Account. Both are in line with the levels anticipated throughout the financial year and within the Council's Medium-Term Planning Forecasts.

In accordance with the CIPFA IFRS Code of Practice on Local Authority Accounting, the Council includes a liability within the net assets on its Balance Sheet in respect of the Hackney and LPFA Pension Funds. This shows a decrease in the liability of £184.809 million to a net total of £654.064 million. The associated costs have been included within the Comprehensive Income and Expenditure Statement. The effect of this has been mitigated by a net transfer from the associated Pensions Reserve.

This is the tenth year that the Council, along with all other local authorities in the United Kingdom, has been required to produce the Statement of Accounts under the International Financial Reporting Standard Regime. The accounting policies are reviewed annually to ensure that they are in accordance with revised Standards. As part of the annual budget setting process, the Council reviews its level of borrowing and future requirements ensuring that it sets limits required by the Prudential Framework that are both affordable and sustainable in the longer term. These limits take full account of the Council's future investment proposals and its capital financing requirement. The Council stayed well within both its external debt authorised limit (£687 million) and the operational boundary (£657 million) throughout 2019/20.

Summary

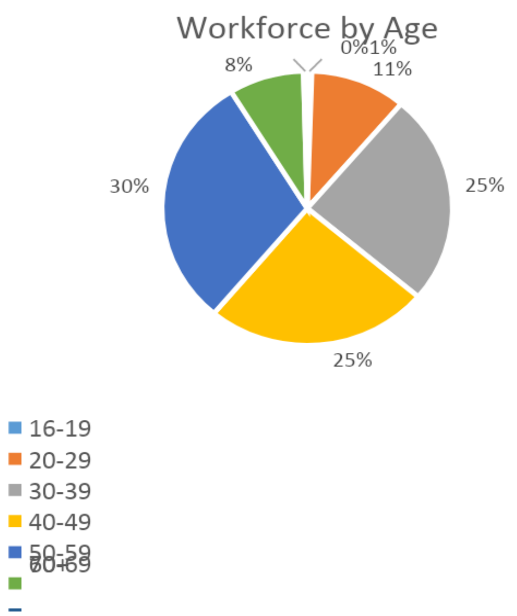
The 2019/20 Statement of Accounts presents in a financial context the continued delivery of public services against the particularly challenging financial outlook described above – Hackney has suffered some of the most severe funding cuts of any local authority since 2010. I would like to place on record my thanks and gratitude for the support and cooperation I have received from the Mayor, Cabinet Members, colleagues on the Hackney Management Team and officers within my own Directorate throughout the year. This Statement of Accounts evidences that the Council continues to operate on a sound financial basis, with no material cuts to frontline services being necessary to maintain its financial standing and also points out the significant financial impact and risks associated with Covid-19.

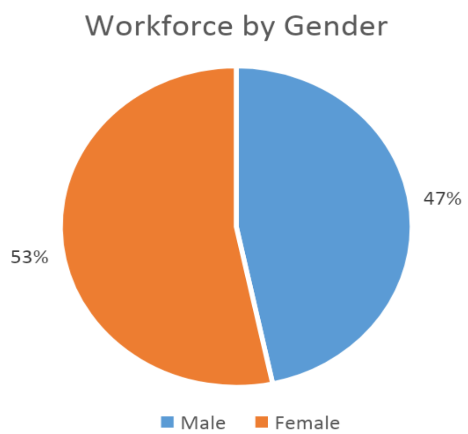
The accounts are a clear demonstration of the Council continuing to deliver against the Mayor's priorities and further evidence of the continued effective management of the Council's finances, something that it will need to rely upon as the funding challenges continue to increase and need to be carefully navigated.

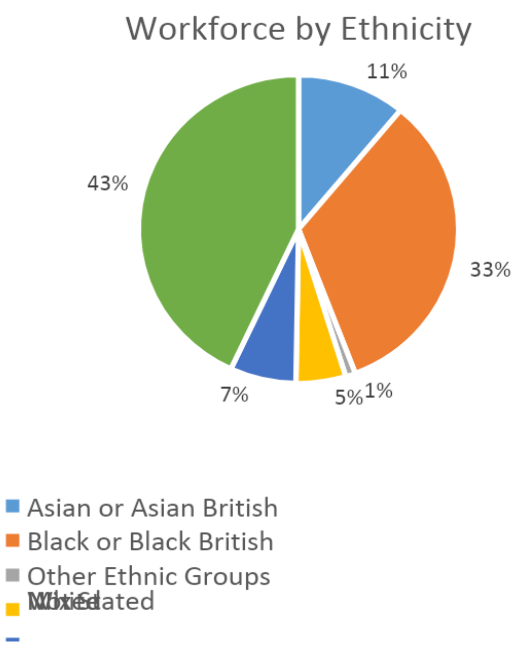
The 2019/20 Statement of Accounts is available on the Council's website (www.hackney.gov.uk) and further information can be obtained from the Group Director of Finance and Corporate Resources, Mr Ian Williams, by contacting his office at the Hackney Town Hall, Mare Street, London E8 1EA (ian.williams@hackney.gov.uk).

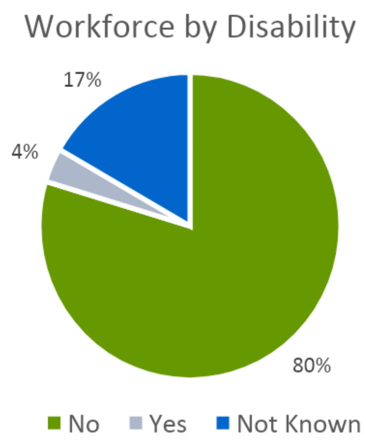
Council Staff

We are committed to supporting and harnessing a diverse and modern workforce for the benefit of service users. There are a wide range of initiatives to support a modern and diverse workforce and bring in young people, for example, apprenticeships. We aim to recruit and retain a diverse workforce that is representative of the communities we serve across all grades. Our annual workforce profile (detailed in charts below) provides an overview of the organisation's employment profile for 2019/20.






Workforce by Ethnicity
11%
33%
1%
5%
7%
43%
Asian or Asian British
Black or Black British
Other Ethnic Groups


Workforce by Disability
17%
4%
80%
No
Yes
Not Known

Executive Summary

Hackney Council is committed to improving the lives of all residents, creating opportunity and prosperity for local people and business, a community that is open, cohesive, safer, supportive and environmentally sustainable. This commitment is set out in the Council's Corporate Plan and describes how the Council will meet the challenges ahead and make the most of opportunities.

To be successful the Council must have a solid foundation of good governance and sound financial management. Hackney's Local Code of Corporate Governance ensures that we are doing the right things, in the right way, in line with our values. The Local Code is supported by an assurance framework that sets out how and what the Council will seek to obtain assurance on. A copy of Hackney's Local Code of Corporate Governance can be found on the Council's website at:

http://mginternet.hackney.gov.uk/documents/s64917/Code%20of%20Governance.pdf

Each year the Council is required to produce an Annual Governance Statement which describes how its corporate governance arrangements, set out in the Local Code, have been working. This statement provides assurances on compliance for the year ending 31 March 2020, up to the date of approval of the statement of accounts.

During 2019/20 the review of governance identified areas for improvement, an action plan has been developed which sets out how we will manage the four most significant issues. Details of the issues identified in 2019/20 and how the 2018/19 issues were addressed are provided at Appendix 1.

We are satisfied that the steps set out above have addressed the need for improvements that were identified in the review of effectiveness. We will continue to monitor their implementation and operation as part of our next annual review.

We recognise the importance of having a solid foundation of good governance and sound financial management and are committed to addressing the matters highlighted in this statement, and to further enhance our governance arrangements. We confirm we have been advised of the implications of the review by senior management, Internal Audit and the Audit Committee and are satisfied that the steps outlined in this document will address the areas for improvement.

The COVID-19 pandemic that hit the whole country in early 2020 is having a huge impact on the Council, its workforce, residents, partners and other stakeholders. It is yet to be seen how the future will look when we emerge from these unprecedented times, however, we are confident that good governance, democratic accountability and transparency continues in Hackney even during this crisis.

Scope of Responsibility

Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has in place a local Code of Governance which sets out its commitment to good governance and is consistent with the principles of governance set out in the governance guidance produced by CIPFA/SOLACE, Delivering Good Governance in Local Government (2016). The Code sets out the arrangements the Council has in place which demonstrate that the principles of good governance are embedded within the way the Council conducts its business.

The Council's governance arrangements are under continuous review for appropriateness and effectiveness. The Council is committed to the ongoing strengthening of its governance arrangements and will consider other new initiatives that will impact on its governance arrangements in future reviews.

Review of the Effectiveness of Hackney's Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

Throughout the year, the Council regularly reviews the effectiveness of its governance framework to streamline and improve our processes to ensure these arrangements remain effective, now and into the future. This is informed by individual service leadership and management, corporate oversight functions (including statutory officers), internal audit, external auditors and other review agencies. Similar and proportionate oversight and governance arrangements should also be put in place in respect of services outsourced to external suppliers, trading partnerships, shared service arrangements and arm's length bodies.

The system of internal control is a significant part of the framework and is designed to manage risks to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically. It cannot eliminate all risks and can therefore only provide reasonable and not absolute assurance of effectiveness.

ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement incorporates the continuous review of the effectiveness of our governance arrangements throughout 2019/20. It identifies those areas where we can and will do more to ensure that we have effective governance arrangements that enable the organisation to deliver on its commitment to improving lives of all residents and creating opportunity and prosperity for local people and businesses.

This statement is an honest appraisal of our governance framework and shows that Hackney has adequate arrangements in place that generally comply with the Council's Local Code of Corporate Governance, and shows that we have met our legal and statutory obligations to our residents. The external auditor has continued to be positive about our arrangements to secure value for money and provided an unqualified opinion on the Council's Statement of Accounts for 2018/19. The 2019/20 opinion is pending and this statement will be updated once received. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore, can only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at Hackney Council for the year ended 31 March 2020 and up to the date of approval of the annual report and statement of accounts.

Adequate assurance can be given that the system, process or activity should achieve its objectives. The Council is currently aware of issues that could affect its financial position such as, but not limited to, ongoing cost pressures associated with the delivery of Children's and Adult Social Care services, the Ofsted and Quality Care Commision inspections that identified failings in some areas and the recent COVID-19 pandemic which has affected the whole country and is expected to have a significant impact on the Council in the coming year.

Directorate reviews of governance arrangements

Each directorate management team completed an assurance matrix in order to demonstrate that they have in place the key elements of a robust controls and governance framework. These matrices were considered by each management team and on the basis of this review, each Group Director has signed an Assurance Statement to accompany the assurance matrix. Internal Audit reviewed the returns from each directorate and assessed these alongside other sources of assurance.

Audit Committee role in governance arrangements

The Audit Committee receives reports throughout the year that support its oversight of governance within the Council including: -

- Corporate and directorate risk registers
- Performance of the Council and Audit & Anti Fraud Service
- Review of the final accounts
- Review of the Annual Governance Statement
- Reports on Treasury Management
- Reports on Performance Management
- Deep-dive reviews of SEND funding, Agency Spend and Insourcing

The Committee undertakes an annual self-assessment and this is reported to the full Council. An ongoing development programme is provided to committee members to support them in executing their responsibilities and to ensure that the committee continues to be effective.

Review and update of the Constitution

The Constitution is regularly reviewed and updated, this was last revised in June 2019.

Report by the Standards Committee on its activities

During the year the Standards Committee considered reports on: -

- Annual Report on Compliance with Guidance on Members' Use of ICT
- Review of the Register of Members' and Co-optees Declaration of interests
- Safety arrangements for Member surgeries
- Review of the Member complaints process and form/toolkit
- Review of the number of complaints about Members
- Update on the outcome of the Committee of Standards in Public Life Consultation

Overview and Scrutiny

The Scrutiny Panel is in place to review and inform decisions that are made by the Mayor and Cabinet. There are four Overview and Scrutiny Commissions that report through the Panel with the following remits: -

- Children and Young People
- Health in Hackney
- Living in Hackney
- Skills, Economy & Growth

Two significant scrutiny reviews took place during 2019/20: -

- Living in Hackney Commissions' scrutiny review examined the practices and approaches of different housing associations operating in the borough and the relationship and partnership arrangements between housing associations and the Council
- Health in Hackney Commissions scrutiny review explored digital-first primary care and implications for GP practices.

Whilst a number of assurances have been obtained to support this conclusion, it is important that the following specific assurance of the Interim Head of Internal Audit & Corporate Risk Management are considered to support this statement.

Opinion of the Interim Head of Internal Audit & Corporate Risk Management

In accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Auditing Standards (PSIAS), the Interim Head of Internal Audit & Corporate Risk Management, who is the Council's chief audit executive, is required to provide independent assurance and opinion on the adequacy and effectiveness of the Councils' risk management and control framework, and through the Audit & Anti Fraud Service deliver an annual programme of risk based audit activity, including counter fraud and investigation activity and make recommendations for the improvement of the management of risk and control. The chief audit executive is satisfied that sufficient work has been undertaken during 2019/20 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's arrangements based on the work performed during 2019/20 and other sources of assurance

The chief audit executive, having reviewed the available evidence, is satisfied that the Council has good foundations in place and is of the opinion that adequate assurance can be taken that the Council's risk management, internal control and governance processes, in operation during the year to 31 March 2020, generally conform with best practice and are fundamentally sound and fit for purpose, however there are areas where improvements to enhance the Council's governance framework were identified, these have been recognised and improvement plans are in place.

Although an adequate assurance opinion has been provided, there have been significant changes across the authority as a result of the outbreak of Covid-19 which has impacted on every aspect of our service provision, financial resilience, ways of working and of course the health and welfare of those living in the borough and especially the most vulnerable in our society. The restructuring of services had been planned following the voluntary redundancy scheme that took effect on 29 February 2020, but has been suspended due to the pandemic and this has impacted on the overall control environment and governance arrangements. Our governance arrangements have responded to the crisis, in line with the emergency provisions that were made in the Coronavirus Act 2020, and we have continued to carry out effective governance despite the huge disruption caused by Covid-19. There will, however, be a need to review the Council's governance framework as a result of the changes implemented in response to the pandemic including, but not limited to, the local Code of Governance, business continuity, risk management, financial and corporate resilience.

Full details of the assurance provided in this statement can be found within the Internal Audit Annual Report for 2019/20, submitted to the Audit Committee on 10 June 2020. Under the Accounts and Audit (England) Regulations 2015 and the PSIAS, the Council is required to undertake a review of the effectiveness of its Internal Audit function and to report the results in the Annual Governance Statement. As in previous years, it is considered that the Council has effective arrangements in place for the provision of its Internal Audit Service.

Rationale for ‘ Adequate’ Assurance Opinion

- Corporate Plan, - ‘A place for everyone’ and 10 Year Community Strategy setting out the priorities, values & strategic direction of the Council
- Local Development Plan which sets out the overall strategic direction for the borough up to ...
- Constitution covering the powers of committees, members and senior officers, statutory officers and decision making processes
- Member - officer protocol
- Codes of Conduct for members & staff setting out the high standards of conduct and behaviour expected in all aspects of the Council’s work, including working with partnerships
- Legal framework (constitution, policies & procedures) that effectively set out the rules & procedures to be followed by members and officers
- Values are embedded within policies & procedures & communicated
- Effectively records & publishes decisions made in the discharge of its functions
- Communication & Engagement strategy to engage with residents &

- The Council is committed to becoming carbon-neutral by 2040, work is ongoing to realise this commitment but may prove challenging to meet
- Standards Committee recruited two new members in January 2020, training & development needs will need to be considered.
- The Council has effective Risk Management arrangements in place. Further work is being done to ensure it is embedded across the council and in the decision making process
- The Council has effective sustainable procurement arrangements in place. Further work is being done to ensure it is embedded across the council to demonstrate good practice, compliance with legislation, realise value for money and public accountability.
- Housing with Care following inspection rating of ‘Inadequate’ by the Care Quality Commission (CQC) in 2018, a period of rapid improvement has now progressed to ‘Requires Improvement’

- The Covid19 pandemic will significantly impact on all aspects of the Council’s activities including, but not limited to, financial resilience, contracts, staffing, service delivery, reputation. The Council has put in place new working arrangements, payment methods, reviews of service delivery, etc to react to the immediate crisis. Senior management will be reviewing all aspects of its service delivery for the future to ensure it remains able to meet its statutory requirements and support the most vulnerable in our communities
- The Council has significant cost pressures within Children’s and Adult Social Care Services. These are being regularly monitored and reviewed
- Children’s Social Care Services rated as ‘requires Improvement’ by Ofsted Inspection November 2019. Hackney is determined to raise standards. An action plan with strong governance and oversight was developed to provide the best possible support to children and families within the

other stakeholders, supported by Citizens E-Panel.

- Scrutiny arrangements in place to ensure constructive challenge and debate on policies, performance and decision making
- A commitment to openness and transparency, publication of its annual accounts, performance data, value for money, spending, senior officer pay
- Published complaints handling procedures
- Effective arrangements in place to produce the Annual Governance Statement with a Local Code of Corporate Governance reviewed regularly
- Effective internal audit service delivered in line with the public sector internal auditing standards
- Audit Committee that provides a source of effective assurance
- Ethical framework based upon the Seven Principles of Public Life that sets out expected values and behaviour of its members, officers and those who work with the Council.

- Tenant Management Organisations (TMOs) have shown improvement over the last 3 years and the general trend continues to be positive. A control system is in place, work is ongoing with TMOs to improve their governance arrangements where necessary.
- New Inclusive Economy Strategy has been adopted, outlining the three priorities of supporting local neighbourhoods and town centres to thrive; supporting local business and social enterprises and delivering affordable workspace; and connecting residents to employment, skills and training opportunities.
- Tenancy and Leaseholder services are developing a new Resident Engagement Strategy, work is ongoing with with Tenants Liaison Group to inform this strategy.

borough. We will continue to evolve our approach in line with the feedback from Ofsted and explore new ways of further improving outcomes for children and families in Hackney.

- The Council is reviewing its contract management of housing maintenance providers to address any weaknesses in the procurement and contracting workflows and systems.

- Effective anti fraud and corruption arrangements including whistleblowing policies and procedures
- Effective financial management arrangements are embedded across the Council which supports short, medium & long term achievement of the Council's ambitions & service provision
- Effective asset management framework that ensures Council assets are compliant, sustainable, fit for purpose & support the delivery of the Council's strategic objectives
- Recognises & values the diversity of our communities & workforce
- Health & safety management framework which seeks to ensure compliance with legislation
- Effective business continuity and emergency planning processes in place to enable the Council to continue to provide key services and respond to an emergency or event
- Actively promotes safeguarding to prevent harm & reduce the risk of abuse or neglect

Improving Governance

Based on our review of the governance framework, the following significant issues will be addressed in 2020/21

Issues identified 2019/20	Planned Action
1. COVID-19 Pandemic The pandemic that hit the country at the start of 2020 has had a significant impact on how the Council provides services to its residents, businesses and other customers. It has also changed the way we work with our partners to deliver these services and support the borough. This has required the Council to introduce changes to its ways of working, adapting some controls and governance arrangements in order to ensure we are able to meet critical demands whilst protecting all parties' health and well being. The Council had conducted a voluntary redundancy scheme with most successful applicants leaving the Council's employ at the end of February 2020. Restructuring of services following the redundancies has been put on hold during the crisis and work is in progress to establish how these will be carried forward in the context of ongoing restrictions on activity due to Covid-19. The Council has incurred significant unplanned expenditure and loss of income, which will have a major impact on its budget and available resources in the future.	The Council was quick to identify critical services that needed to be supported and arrangements were made to reassign staff resources to help in these areas. ● Putting restructures and recruitment on hold was necessary to enable the Council to manage the critical services and conform with government restrictions and guidelines such as social distancing. Once restrictions are relaxed the Council needs to consider the current management structures to ensure its governance arrangements are not jeopardised as a result of ongoing vacancies, changes in working practices, the need to amend schemes of delegation and other key governance controls. ● Review the local Code of Governance to ensure it reflects new ways of working and changes to the governance framework. ● Reviewing the effect on 2020/21 budget and ability to realise projected savings. ● Reviewing the Council's reserves to develop options for re-appropriating reserve funds to help support the Council's response to COVID-19. This may mean delaying some projects or activities initially expected to be funded from reserves. ● Looking at the investments made in services as part of the 2020/21 budget setting process to see which investments can be paused or cancelled to free up money to fund response to the COVID-19 crisis. ● Refining and developing a governance process to ensure expenditure is signed off by appropriate officers to keep expenditure focused on the COVID-19 response. ● Closely monitoring the Council's income streams and debt levels to see what effect the COVID-19 crisis is having all the Council's income. ● Reviewing exposure to commercial property investments. ● Evaluating the effect on the valuation of asset base and pension fund asset valuations. ● Looking at the cost of all non-essential services to assess what costs could be

	saved in the event it is necessary for the Council to enter into a period of financial ‘lockdown’. ● Careful considerations of the equalities impacts arising from COVID-19 (which has had a disproportionate impact on vulnerable and already excluded groups) to ensure that the ongoing response addresses those impacts and continues our work to promote equality and inclusion in the borough. ● Working with HMT and service Directors to identify aspects of the Council’s impressive response to COVID-19 which might help to identify opportunities to change service delivery &/or ways of working in ways that might mitigate some of the impact on services presented by significant financial threats. This is an opportunity to ensure that the ambition, innovation and imagination shown in the Council’s response is not lost but embedded in future operating models. ● Understanding the legal impact on construction and other similar contracts. ● Risk to the Council’s reputation and loss of trust if response is perceived to be inadequate or biased.
2. Significant cost pressures within Children’s and Adult Social Care Services - ongoing since 2018/19 Robust budget monitoring processes are in place. These have highlighted significant cost pressures primarily in relation to packages of care in Adult Social Care, Looked after Children placements and staffing in Children and Families and SEND costs within the Hackney Learning Trust.	These high-level pressures are subject to ongoing challenge through budget review meetings and the monthly CACH Budget Board jointly chaired by the Group Director Finance and Corporate Resources and the Group Director of Children’s, Adults and Community Health Services. There are a number of measures to reduce spend in place including: Care packages - development of processes with the CCG on joint funding contributions,application of the care funding calculated (CFC) and promoting independence. LAC placements - in-house foster care recruitment campaign and edge of care projects such as the Family Learning Intervention Project (FLIP), edge of care workers and contextual safeguarding. SEND - efficiency plan in place.

3. Ofsted Inspection The last Ofsted inspection in November 2019 rated our Children's Social Care Services as 'requires improvement' overall, with the impact of leaders on social work practice with children and families and the experiences and progress of children who need help and protection judged as 'requires improvement', while the experiences and progress of children in care and care leavers judged as 'good'. This is a decline in our rating compared to the last inspection in the summer of 2016.	The service is developing an action plan to address areas of concern. Once this is agreed with the inspectors it will be subject to a robust monitoring process to ensure any issues or slippage are identified and addressed in a timely manner. The implementation and impact of the action plan is subject to robust oversight and governance by the Mayor, councillors and senior officers.
4. Housing Contract Management There are issues in contract management of our housing maintenance providers which may result in the council achieving poor value for money for our tenants and leaseholders. The Director of Housing is working with his management team and colleagues from across the Council to address any weaknesses in the procurement and contracting workflows and systems.	The control mechanisms on these contracts have continued to be developed in the past year: ● All commissions of new capital works are now identified annually via a cabinet report. ● A Clerk of Works team established in Planned Asset Management. Work has been developed recently to draft formal Clerk of Works procedures to ensure these are more closely embedded in new contracts. A proposal is being examined to permanently establish the Clerk of Works team, to ensure there is independent sign off and inspection of the quality of works. ● New inspection forms are being trialled which will improve record keeping, and facilitate monitoring of overall contractor performance. ● Escalation action has been taken against a number of contractors; this has been escalated in accordance with the relevant contract procedures, including via Early Warning Notices, and reallocation of works.

These issues will be supported by a detailed action plan, progress on which will be monitored during 2020/21 and reported to senior management.

Significant issues identified in 2018/19 that were addressed in 2019/20

Issues Identified for 2018/19	Planned Action	Outcomes
1. Challenge of ongoing cost pressures within Children and Adult Services	These high-level pressures are subject to ongoing challenge through budget	This remains an ongoing concern. See significant issues 2019/20.

Robust budget monitoring processes are in place. These have highlighted significant cost pressures primarily in Learning Disabilities in Adult Social Care, Looked after Children placements in Children and Families and SEND costs within the Hackney Learning Trust.	review meetings and the monthly CACH Budget Board which is jointly chaired by the Group Director Finance and Corporate Resources and the Group Director of Children's, Adults and Community Health Services.	
2. Integrated Commissioning A review of the effectiveness of the governance arrangements for Integrated Commissioning was undertaken by PWC in 2018/19.	An implementation plan to address the issues raised by the PWC review has been developed and will be monitored through the Integrated Commissioning Board.	The Integrated Commissioning Board was set up to implement PwC recommendations. A risk management Working Group was established to provide a forum for collective management of risks across all workstreams and enabler groups. The ICB is tasked with developing risk identification, monitoring and mitigation arrangements in line with the corporate approach. There are detailed schemes of delegation agreed between the separate bodies specifying individual and shared duties.
3. Commercialisation The Council is embarking on a new commercial venture through Housing Companies for providing private sector and Hackney Living Rent accommodation. These provide opportunities but could have significant risks for the authority.	A steering group has been formed and project plans have been developed. There is a separate risk register which will be reviewed and monitored regularly. Specialist guidance and advice is being bought in to assist in areas such as setting up the companies and the preparation of a management agreement. Senior officers and members will receive regular updates on the progress of this initiative. The Group Director of Finance & Corporate Resources has	Management companies have been set up, these are currently inactive. Regular reports are provided to senior officers.

	been given delegated authority to make decisions to expedite the creation of the companies.	
4. Housing with Care Inspection The Housing with Care Service was inspected in November/December 2018 by the Care Quality Commission (CQC) and subsequently was rated inadequate.	A detailed improvement plan has been developed and shared with the CQC this will be monitored on a regular basis to ensure any issues or slippage are identified and addressed in a timely manner.	Improvement plan was implemented. Re-inspection took place and the rating raised to ‘requires improvement’. Work is in progress to improve further.

Signed on behalf of Hackney Council:



Phillip Glanville
Mayor

Tim Shields
Chief Executive

Ian Williams
Group Director of Finance & Corporate Resources

31st May 2020

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 this Council that Chief Financial Officer is the Group Director of Finance and Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer 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 Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

Certification by Chief Financial Officer

I certify that the accounts give a true and fair view of the financial position of the Council at 31st March 2020 and its income and expenditure for the year then ended.

Group Director, Finance and Corporate Resources
18th June 2020

Chair of Approving Committee’s Certificate:

I certify that the accounts have been considered by the Council’s Audit Committee held on the 14th September 2020 and have been approved by a resolution of the Committee.

Councillor Nick Sharman
Chair of Audit Committee
14th September 2020

Movement in Reserves

The Movement in Reserves Statement shows the movement in year on reserve balances held by the Council.

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31/03/2019	(143,435)	(25,079)	(138,934)	0	(32,106)	(339,553)	(3,189,325)	(3,528,878)
Movement in reserves during 2019/20								
Total Comprehensive Income and Expenditure	135,345	48,970	0	0	0	184,315	(222,792)	(38,477)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(125,480)	(41,050)	33,789	0	(3,062)	(135,803)	120,118	(15,685)
(Increase) / Decrease in 2019/20	9,865	7,919	33,789	0	(3,062)	48,511	(102,674)	(54,162)
Balance as at 31/03/2020	(133,570)	(17,160)	(105,145)	0	(35,168)	(291,043)	(3,291,998)	(3,583,041)
Of which;								
Schools Balances	(13,195)	0	0	0	0	(13,195)	0	(13,195)
LB Hackney Revenue	(133,570)	(17,160)	0	0	0	(150,730)	656,620	505,889
LB Hackney Capital	0	0	(105,145)	0	(35,168)	(140,312)	(3,948,618)	(4,088,930)

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31/03/2018	(140,465)	(30,426)	(124,173)	0	(31,090)	(326,154)	(3,506,958)	(3,833,112)
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure	93,580	9,252	0	0	0	102,832	201,400	304,232
Adjustments between accounting basis and funding basis under regulations (Note 7)	(96,550)	(3,905)	(14,761)	0	(1,016)	(116,232)	116,232	0
(Increase) / Decrease in 2018/19	(2,970)	5,346	(14,761)	0	(1,016)	(13,400)	317,632	304,232
Balance as at 31/03/2019	(143,435)	(25,079)	(138,934)	0	(32,106)	(339,553)	(3,189,325)	(3,528,878)
Of which;								
Schools Balances	(14,955)	0	0	0	0	(14,955)	0	(14,955)
LB Hackney Revenue	(143,435)	(25,079)	0	0	0	(168,514)	836,034	667,520
LB Hackney Capital	0	0	(138,934)	0	(32,106)	(171,039)	(4,025,359)	(4,196,398)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	Notes	2019/20 Gross Expenditure £'000	2019/20 Gross Income £'000	2019/20 Net Expenditure £'000	2018/19 Gross Expenditure £'000	2018/19 Gross Income £'000	2018/19 Net Expenditure £'000
Children, Adults and Community Health							
Education & Schools		364,800	(247,418)	117,382	302,732	(244,354)	58,378
Children & Families		76,329	(9,394)	66,935	73,177	(10,216)	62,962
Adult Services		134,419	(50,373)	84,046	131,565	(44,543)	87,022
Public Health		34,524	(33,357)	1,167	34,830	(34,347)	483
Neighbourhoods and Housing							
Public Realm		124,141	(67,587)	56,553	127,326	(68,923)	58,403
Housing & Regeneration GF		5,008	(2,112)	2,895	3,407	(3,191)	216
Finance & Corporate Resources							
Revenues & Benefits		366,638	(345,901)	20,737	379,990	(364,008)	15,982
Finance and Resources Other		55,071	(15,326)	39,745	70,182	(15,000)	55,183
Chief Executives							
Chief Executive		15,332	(6,538)	8,794	12,083	(2,416)	9,668
Housing Revenue Account							
HRA		252,882	(144,451)	108,431	258,038	(141,722)	116,317
Cost of Services		**1,429,144**	**(922,458)**	**506,686**	**1,393,332**	**(928,718)**	**464,613**
Other operating expenditure	9	79,336	(116,491)	(37,155)	24,775	(109,814)	(85,039)
Financing and investment income and expenditure	10	63,256	(39,610)	23,646	59,387	(40,247)	19,140
Taxation and Non-Specific Grant Income	11	0	(308,862)	(308,862)	0	(295,882)	(295,882)
(Surplus) or Deficit on Provision of Services				**184,315**			**102,832**
(Surplus)/deficit on revaluation of Property, Plant and Equipment assets				(2,993)			70,922
(Surplus)/deficit on revaluation of financial assets (Fair Value through P&L)				70			418
Remeasurement of net defined benefit liabilty (asset)				(219,869)			130,060
Other Comprehensive Income and Expenditure				**(222,792)**			**201,400**
Total Comprehensive Income and Expenditure				**(38,477)**			**304,232**

Balance Sheet

	Notes	31st March 2020 £'000	31st March 2019 £'000
Property, Plant and Equipment	13	3,974,729	4,125,912
Heritage Assets	12	2,277	2,155
Investment Property	14	215,725	209,030
Intangible Assets	15	3,011	5,197
Assets Under Construction		89,287	144,769
Long Term Investments		18,330	21,662
Long Term Debtors		11,928	5,099
Long Term Assets		**4,315,287**	**4,513,823**
Assets Held for Sale	19	115,875	1,265
Short Term Investments		15,393	30,383
Inventories		769	786
Short Term Debtors (incl PIA)	17	147,955	127,744
Cash and Cash Equivalents	18	44,340	63,076
Current Assets		**324,332**	**232,635**
Short Term Borrowing		(45,400)	(80,554)
Short Term Creditors (incl RIA)	21	(154,463)	(164,429)
Revenue Grants Receipts in Advance	36	(1,261)	(249)
Capital Grants Receipts in Advance	36	(1,795)	(7,536)
Provisions	20	(33,039)	(31,337)
Current Liabilities		**(235,958)**	**(293,484)**
Long Term Creditors		(8,981)	(7,000)
Provisions	20	(15,929)	(11,975)
Long Term Borrowing		(80,605)	(2,287)
Other Long Term Liabilities	42,44	(665,708)	(851,457)
Revenue Grants Receipts in Advance	36	(277)	(663)
Capital Grants Receipts in Advance	36	(49,120)	(50,714)
Long Term Liabilities		**(820,620)**	**(924,095)**
Net Assets		**3,583,041**	**3,528,878**
Usable Reserves	22	(291,043)	(339,553)
Unusable Reserves	23	(3,291,998)	(3,189,325)
Total Reserves		**(3,583,041)**	**(3,528,878)**

Cash Flow Statement

	Note	31st March 2020 £'000	31st March 2019 £'000
Net (surplus) / deficit on the provision of services		184,315	102,832
Adjustments to net surplus or deficit on the provision of services for non-cash movements		(349,505)	(320,201)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		170,713	141,447
Net cash flows from Operating Activities	24	**5,523**	**(75,921)**
Investing Activities	25	72,597	93,792
Financing Activities	26	(59,384)	(43,792)
Net (increase) or decrease in cash and cash equivalents		**18,736**	**(25,921)**
Cash and cash equivalents at the beginning of the reporting period		63,076	37,155
Cash and cash equivalents at the end of the reporting period	18	**44,340**	**63,076**

1. Accounting Policies

(i) General principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at 31st March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

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

(ii) Accruals of expenditure and income

Sums due to or from the Council during the year are included in the accounts irrespective of whether the cash has actually been received or paid in the year, unless immaterial. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Council's Balance Sheet. Where it is doubtful that debts (Receivables) will be settled, the balance of debtors is written down by setting up a provision for bad debt and a charge made to revenue for the income that might not be collected.

Interest payable on borrowings and receivable on investments is accounted for on an accruals basis, in the year to which it relates. As transaction costs are deemed to be immaterial, a formal effective interest rate calculation has not been performed.

Employee costs earned but unpaid at the year-end will be accrued in accordance with this accounting policy.

Income and expenditure are credited and debited to the relevant service revenue account in the Comprehensive Income and Expenditure Statement, unless they properly represent capital receipts or capital expenditure. Where income is defined in statute as a capital receipt but does not arise from the disposal of an interest in a non-current asset (e.g. repayment of a grant awarded by the Council for the recipient to acquire a non-current asset) then it will be credited to the Comprehensive Income and Expenditure Statement.

(iii) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions which are repayable without penalty on notice. Duration of notice in CIPFA Code is "not more than 24 hours". Cash equivalents are investments with a maturity date of three months or less from acquisition date and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

(iv) Charges to revenue for non-current assets

Service revenue accounts, support services and trading accounts 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, impairment losses (fall in price specific to an asset) and revaluation losses (general fall in prices across the board) on tangible non current assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

Any revaluation losses relating to Investment Properties are charged directly to the Comprehensive Income and Expenditure Statement.

The depreciation charge is based upon the opening book value of assets as at 1st April, adjusted by any revaluation and enhancing expenditure that has taken place in the year. The Council's depreciation policy in regards to assets acquired within the year is that a full year's depreciation is charged in the year an asset is acquired, and no depreciation is charged in the year of its disposal.

The Council is required to make an annual provision from revenue (Minimum Revenue Provision - MRP) to contribute towards the reduction in its overall borrowing requirement. No provision is required in respect of supported borrowing for HRA related assets. For capital expenditure incurred before 1st April 2008, MRP will be determined by charging the expenditure over the average useful life of the relevant assets. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over a period which reflects the economic benefit to the council.

The costs of depreciation, revaluation losses, impairment losses or amortisation are not required to be met from Council Tax. These are therefore replaced by the MRP in the Movement in Reserves Statement by way of an adjusting transaction between the Capital Adjustment Account for the difference between the two.

(v) Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Council's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Council's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

(vi) Council Tax income

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). Since 1st April 2009 the amount to be included in the Comprehensive Income and Expenditure Statement is the accrued income for the year.

The amount included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. The difference between accrued income and income under regulation (authority's demand for the year plus/minus share of estimated surplus/deficit for previous year) is adjusted for via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable net of impairment of debts.

The collection of Council Tax is in substance an agency arrangement and the cash collected by the Council from Council Tax debtors belongs proportionately to the Council and its' major preceptor i.e. Greater London Authority (GLA). There is therefore a debtor / creditor position recognised on the Balance Sheet since the net cash paid to the GLA in the year will not be its share of cash collected from Council Taxpayers.

(vii) Employee benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within the 12 months following year-end. They include such benefits as salaries and wages, paid annual leave and paid sick leave, and are recognised as an expense for services in the year in which employees provide their service.

Under IAS19 an accrual is recognised for short term compensated absences (annual leave / flexi leave) that are rolled forward to the following financial year. No impact is made on general fund balances as an unusable employee benefit reserve is created on the Balance Sheet.

Termination Benefits

Disclosures in respect of employee exit packages following termination of contract are made in the year paid rather than date notified.

Post-Employment Benefits

The Council participates in two different Pension Schemes which are both classified as multi-employer, defined benefit schemes. Each scheme provides defined benefits (retirement lump sum and pensions) based on pay and length of service within the schemes. The basis of the pension costs charged in the accounts for each of these schemes is set out below.

Teachers' Pension Scheme: This is an unfunded pension scheme for teachers, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The arrangements for the Teachers' scheme mean that liabilities cannot be identified to the Council and it is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and service revenue accounts are charged with the employer's contributions payable to the teachers' pensions in the year.

Local Government Pension Scheme (LGPS): This is a funded pension scheme for other local government employees. Most of the Scheme members are in the Council's Pension Fund but former employees of the Greater London Authority, London Residuary Body and the Inner London Education Authority, who were transferred to the Borough on the abolition of these bodies, are members of the London Pension Fund Authority (LPFA) Pension Fund.

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

The liabilities of both the Council's and LPFA's 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 for the Council's scheme are discounted to their value at current prices using a discount rate of 2.3% actual (2.4% in 2018/19). As set out in IAS19, the discount rate used has been determined by reference to market yields on high quality corporate bonds at the reporting date. The currency and term of the bonds is consistent with the currency and term of the liabilities. The approach adopted by Hymans Robertson for both 2019/20 and 2018/19 is the construction of a corporate bond yield curve based on the constituents of the iBoxx £ AA corporate bond index.

The assets of both the Council's and the LPFA's pension fund attributable to the Council are included in the Balance Sheet at their fair value:

i. Quoted securities – bid or last traded price
ii. Unquoted securities – professional estimate

iii. Unitised securities –bid or the latest single market price
iv. Property – market value.

The change in the net pensions liability is analysed into four components:

i. Service cost – This is split between current service, past service and the effect of settlements. Current service recognises the increase in liabilities as a result of years of service earned this year and is allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked. Past service recognises the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years and is debited to the surplus / deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs

ii. Net Interest cost - this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement

iii. Cashflows - the cashflows into the Council's and LPFA's pension funds are made up of contributions paid by the Council on behalf of employees and contributions paid by employees themselves. Under IAS19, these are reversed out of the Comprehensive Income and Expenditure Statement and replaced by the service costs indicated above, to ensure that the cost of providing employee benefits is recognised in the period in which the benefits are earned.

iv. Remeasurements – these are changes in the net pensions liability that arise through changes in asset values, updates to actuarial assumptions or other experience not reflected in assumptions at the last actuarial valuation. Any increase in the net liability is debited to the Pensions Reserve (and vice versa).

Contributions to the LGPS scheme for pension strain (which arises from an employee retiring early, without the actuarial reduction of the pension) are fully charged in the year they are incurred.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension funds in the year. This means that appropriations to and from the Pensions Reserve are made in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

(viii) Events after the Balance Sheet date

Events after the Balance Sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types of post Balance Sheet event: adjusting and non-adjusting.

An adjusting event occurs where there is an event after the Balance Sheet date that provides evidence of conditions that actually existed at the Balance Sheet date. In such circumstances, the Statement of Accounts will be adjusted as if the event had actually occurred at the Balance Sheet date. Events that are not recognised in currently issued financial statements, but are rather accounted for in the next year financial statements, are called non-adjusting events.

(ix) Exceptional items, prior period adjustments, estimates and errors

The majority of prior period items arise from adjustments that are the natural result of estimates inherent in the accounting process and are accounted for in the year in which they are identified. Prior period adjustments are enacted when a prior year error is 'material'. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding year in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

In circumstances when a change of accounting practice is required, the change will be applied retrospectively (unless stated otherwise or not material) by adjusting the opening balances and comparative amounts for the prior period as if the policy had always been applied.

(x) Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

All of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and,
- short-term loans from other local authorities

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following three classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
  - bank current and deposit accounts with banks,
  - loans to other local authorities, and
  - loans to housing associations

- Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:
  - equity investments held for service purposes

- · Fair value through profit and loss (all other financial assets) comprising:
  - money market funds

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

When soft loans (loans to external organisations at less than market rates) are made, a loss i.e. difference between the fair value of the loan and the book value of the loan is charged to the Surplus or Deficit on the Provision of Services as grant expenditure. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the external organisation, with the difference serving to increase the amortised cost in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement. The net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account (FIAA) in the Movement in Reserves Statement.

When soft loans (loans at less than market value) are received by the Council, a grant receivable is recognised in the Comprehensive Income and Expenditure Statement for the differential between market rate and the actual interest rate charged. The market (amortised) value of the loan is calculated based on the net present value of the future cash payments discounted using the market rate of interest which would be charged on a similar loan. On recognition of the soft loan the fair value of the loan is written down by the same amount. Interest charged on the amortised value of the loan and is debited to the Comprehensive Income and Expenditure Statement at the higher market rate of interest over the life of the loan. The difference between the interest charged on the actual loan, which is debited to the Comprehensive Income and Expenditure Statement and the interest charged based on the amortised value of the loan is reversed out to the Financial Instruments Adjustment Account (FIAA) in the Movement in Reserves Statement. The value of the loan in the Balance Sheet is written up by this amount over the life of the loan, to the amount that it would have been if it had not been accounted for as a soft loan. During 2014/15 the Council took out a loan for £4.6million at less than market value from Amber Green LEEF 2 LLP, this has been recognised as a soft loan.

Where assets are identified as likely to be impaired in future because of a likelihood arising from past events that payments due under the contract will not be made, a loss allowance is calculated and set aside for expected credit losses

Any gains and losses that arise on derecognition of the asset are credited or debited to the Comprehensive Income and Expenditure Statement, as appropriate.

The London Borough of Hackney has adopted a two pooled approach following the self-financing settlement in March 2012. As and when new borrowing is required, new loans can then be allocated directly to each pool (HRA or General Fund) and interest apportioned accordingly.

Internal borrowing between the HRA and General Fund can be undertaken to optimise treasury management, where appropriate. In cases where internal borrowing is undertaken interest will be apportioned as though external borrowing has been undertaken. The interest rate applied will be based on an assessment of what the appropriate loan period and borrowing would have been.

(xi) Grants and Contributions

Under IAS 20 the Council is required to disclose the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited.

Whether paid on account, by instalments or in arrears, capital 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 Capital Grants Received In Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (as revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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 a grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where a grant is received and applied in-year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

(xii) Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received primarily without outstanding conditions and initially recognised on the balance sheet, after which it is then matched against relevant expenditure as and when appropriate. CIL receipts will largely be used to finance capital expenditure in line with the authority's regulation 123 list. A smaller proportion known as 'neighbourhood CIL' is required to be spent in accordance with the wishes of the local community or neighbourhood in which the development took place. The remaining CIL is required for set up and administration costs necessary to set, collect and monitor CIL.

(xiii) Heritage Assets

International Financial Reporting Standards contain no provision, standard or guidance relating to heritage assets and therefore the requirements of Financial Reporting Standard 102 (FRS 102) has been adhered to. FRS 102 is issued as part of UK Generally Accepted Accounting Practices. FRS 102 and the Code state that 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 can be both tangible and intangible. It is implicit that a heritage asset is intended to be preserved in trust for future generations. Whereas the Council holds its parks in trust for future generations and manages these assets accordingly, the Code precludes such community assets being classified as heritage assets because these are deemed by the Code to be primarily for "current use" irrespective of the Council's intent. Heritage assets therefore comprise assets such as civic regalia, works of art and museum collections. The Council does not actively pursue to acquire or dispose of any of its heritage assets.

FRS 102 permits any "reasonable" valuation method to be adopted for heritage assets. The assets are held in trust either in form or substance and cannot be sold. Therefore, they have no realisable value. The Council has therefore adopted an accounting policy of holding these assets on Balance Sheet at the insurance valuations, which are updated annually. The heritage assets are valued on an insurance basis supplemented with a specialist valuation of the collection of civic regalia, artworks and artefacts. Heritage assets are deemed to have infinite lives and are not subject to depreciation but the carrying amounts are reviewed where there is evidence of impairment such as physical damage. Any impairment is recognised and measured in accordance with the Council's general accounting policy on impairment. Heritage assets have indefinite lives.

(xiv) Insurance provision and reserve

The Council makes provision to cover certain losses on a self-insurance basis. Service revenue accounts are charged a premium during the year and these are used to meet claims and other expected liabilities. The Council has retained external insurance cover for property, liability and officers' indemnity claims above an agreed excess.

The Council has an Insurance Reserve to provide contingency cover for uninsured losses and potential future claims. It is reviewed annually to ensure it is maintained at the appropriate level.

(xv) Intangible assets

Intangible non-current assets are those that do not have physical substance but which are identifiable and controlled by the Council, with this control being secured by legal rights giving access to benefits for a fixed period. The Council capitalises purchased intangible assets in the form of software licences. The balance is amortised to the relevant service revenue account on a straight-line basis over an expected economic life in line with the usual contract length associated with the software purchase.

(xvi) Interest in companies and other entities

The London Borough of Hackney wholly owns five subsidiaries, each established by a single £1 share. There are two building management companies:

- Otto Management Company Limited and
- Makers Management Company Limited

and three Housing rental companies:

- Hackney Housing Company Limited (Holding company);

- Hackney PRS Housing Company Limited (Subsidiary); and
- Hackney LLR Housing Company Limited (Subsidiary)

Further commentary on these entities can be found within the Related Parties section.

(xvii) Inventories

Inventory is included in the balance sheet at cost and, where applicable, issued on a First In, First Out basis. This represents a departure from the Code but is considered immaterial, given the low level of inventory carried by the Council.

(xviii) Leases (operating)

All non-finance leases are accounted for as operating leases. Rentals payable for leases where the Council is lessee are charged to the relevant service revenue account as they become payable. This is a departure from the Code, which states that the rentals should be charged to revenue on a straight-line basis over the term of the lease. However, the impact of this departure from the Code is not material due to the low level of leasing costs incurred. This is clearly demonstrated within Note 41 to the core financial statements.

Where the Council is lessor, rentals receivable are credited to the relevant service revenue account as they become receivable. This is a departure from the Code, which states that the rentals should be credited to revenue on a straight-line basis over the term of the lease. However, the impact of this departure from the Code is not material due to the low level of leasing income received. This is clearly demonstrated within Note 40 to the core financial statements.

(xix) Leases (finance)

The Council accounts for its leases as finance leases where the substance of the transaction rather than the form of the contract means that substantially all the risks and rewards incidental to ownership of the asset have been transferred to the Council. All other leases and those which are not considered material are accounted for as operating leases as detailed in Note 40.

The Council also accounts for its leases in this way where it has entered into an arrangement, comprising a transaction or series of transactions, that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant or equipment) in return for a payment or series of payments.

Leases of land and buildings are classified as finance leases in the same way as leases of other assets. When land has an indefinite economic life, the land element is normally classified as an operating lease.

The Council as lessee:

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at 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 (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible non-current asset – the liability is written down as the rent becomes payable by the principal element of the rental charge), and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Non-current assets recognised under finance leases are accounted for using the policies applied generally to tangible non-current assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council as lessor:

The only finance leases which the Council has as lessor relate to properties. These properties have been written out of the Balance Sheet as disposals. At the commencement of the leases, the carrying amount of the assets 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. Again, an amount representing the Council's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a long term debtor in the Balance Sheet at the start of the lease, matched with the de-recognition of the asset – the long term debtor is written down as the rent becomes receivable by the principal element of the rental income), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes receivable).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium (amount received above the base rent/rental agreement) has been received under a finance lease, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The government has issued regulations and statutory guidance in relation to accounting for leases. These allow the Council to continue to treat income from leases in place as at 31st March 2010 in the same way as it treated income prior to introduction of the Code.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1st April 2021.

(xx) National Non-Domestic Rates (NNDR)

The Local Business Rates Retention Scheme came into effect from 2013/14 as part of the changes to Local Government funding in the Local Government Finance Act 2012. Under the Business Rates Retention Scheme Local Authorities share their business rates with their major preceptor, in Hackney's case: the Greater London Authority (GLA), and Central Government.

On 1st April 2018, London Authorities entered into a pooling arrangement for NNDR purposes.

Income credited to Comprehensive Income and Expenditure Statement is accrued income for the year. The difference between accrued income and income under regulation (authority's share of NNDR1 income for the year plus/minus share of estimated surplus/deficit for previous year) is adjusted for via the Movement in Reserves Statement. Revenue relating to NNDR shall be measured at the full amount receivable net of impairment of debts.

(xxi) Non-current assets

Non-Current assets are those that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Those shown in the Balance Sheet are:

- Property, Plant & Equipment Assets - used by the Council to provide services, e.g. council dwellings, offices and libraries, vehicles, plant and equipment, community assets such as parks, heritage assets such as civic regalia, assets under construction and former investment properties and surplus assets reclassified under the IFRS Code as corporate assets held for service delivery purposes, e.g. regeneration.

- Investment Properties - owned by the Council but not directly used to provide services, e.g. land held for future development. These assets are held to earn market rents or for capital appreciation. Refer to Policy xxix. Fair Value Measurement.

Recognition: expenditure on the acquisition, creation or enhancement of tangible non-current assets 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. Expenditure that simply secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Capital expenditure on non-current assets of less than £50k (except where justification can be identified) is treated as de minimis and written off to revenue. All capital expenditure over £50k is reviewed by programme managers to assess how much of the cost is an enhancement to the non-current asset, and the balance written off to revenue. All capital expenditure over £2.5 million is reviewed by qualified valuers to assess how much of the cost is an enhancement to the non-current asset and the balance written off to revenue.

Measurement: assets are initially valued in the Council's Balance Sheet at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use and which would increase the value of the asset by the equivalent amount of the capital expenditure. Such expenditure includes salaries which are attributable to capital schemes and which have therefore been capitalised on the basis of a percentage of estimated staff time, allocated between projects within the capital programme. Any capital expenditure on an asset, where it is assessed that no increase in the valuation has taken place, is written off to revenue as an impairment loss. Such write-offs are subsequently reversed via the Movement in Reserves Statement in order that no charge is made to Council Tax.

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

- Infrastructure, community assets and assets under construction (excluding investment property) – Depreciated Historic Cost
- Heritage assets – Sum Insured Valuation
- Assets that have short useful lives and / or low values such as vehicles, plant and equipment – Depreciated Historic Cost (used as a proxy for Current Value)
- Council dwellings – Existing Use Value for Social Housing
- Specialist property assets, e.g. schools - Depreciated Replacement Cost
- All other property assets shall be valued at Current Value (Existing Use)
- Investment Property - fair value
- Investment Property held on a lease - Market Value (Lease Interest)

Though infrastructure assets, community assets and assets under construction are not revalued, they still incur costs during the year as part of subsequent expenditure. Some of which might be enhancing and others not. Expect such amounts to be recognised as impairments rather than revaluation decreases as set out currently in note 13.

If there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, the estimate for Current Value may be depreciated replacement cost (DRC). The valuer will use his/her professional judgement to assess, where no market exists, a DRC value based on a Modern Equivalent Asset valuation.

Property assets included in the Balance Sheet at current value are revalued at least once every five years. Increases in valuations will be credited to the Comprehensive Income and Expenditure Statement where they reverse previous revaluation losses on the same assets charged to revenue, otherwise increases are credited to the Revaluation Reserve. The Revaluation Reserve contains revaluation gains recognised since 1st April 2007. Property assets which have been sold are subject to disclosure of any profit or loss on disposals within the Comprehensive Income and Expenditure Statement.

Impairment and revaluation losses/gains: all assets are considered at the end of each year for evidence of fluctuations in value. If an impairment loss (specific to an asset) or revaluation loss (general fall in prices across the board) is identified as part of the review, where there are accumulated revaluation gains attributable to the asset in the Revaluation Reserve, an amount up to the value of the accumulated gain is charged and any balance is charged to the Comprehensive Income and Expenditure Statement.

Revaluation gains are used to reverse any previous revaluation losses on the same assets charged to the Comprehensive Income and Expenditure Statement, and any remaining balance is then credited to the Revaluation Reserve.

Any gains or losses relating to investment properties are credited or charged directly to the Comprehensive Income and Expenditure Statement.

An analysis of the revaluations carried out during the last five financial years is set out in the Valuations of non-current assets statement in Note 13. The result of the latest revaluations and other changes to the Council's non-current assets during the year are also set out in this note.

Disposals: upon disposal, the net book value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement. Receipts from the disposal are also credited to the Comprehensive Income and Expenditure Statement. Revaluation of assets at point of disposal is no longer permitted. As a result, the calculated gain or loss on disposal is accounted for through the Movement in Reserves Statement. Any revaluation gains in the Revaluation Reserve attributable to the disposed asset are transferred to the Capital Adjustment Account. In order that the profit or loss on disposal of an asset does not become a charge against Council Tax or rents, appropriations equal to the profit or loss are made to/from the Capital Adjustment Account from the Movement in Reserves Statement. For HRA dwelling disposals, in addition to sales of dwellings, this also includes demolitions of defunct assets arising from the Estate Renewals capital programme.

Proceeds from the disposal of non-current assets are treated as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of reductions and allowances) is payable into a Government Pool. The balance is credited to the Usable Capital Receipts Reserve to be used for new capital investment or set-aside to reduce the Council's borrowing requirement.

Deferred capital receipts relates to the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties, non-current assets held for sale and community assets), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. The depreciation of operational non-current assets is calculated in the following way for each category of asset:

- Council Dwellings – the Council depreciates council dwellings on a straight line basis over the useful economic life of the property, estimated by the valuer. The range for useful life is 50-70 Years (excluding new builds)
- Other buildings - based on current valuations; lives of assets are individually assessed and depreciation calculated on a straight-line basis. In accordance with accounting standards, land is not depreciated. The range for useful life is 30-90 Years
- Vehicles, Plant and Equipment - based on acquisition costs, lives of assets are individually assessed and depreciation calculated on a straight-line basis.
- Infrastructure Assets - calculated on a straight-line basis over 25 years.
- Community Assets - depreciation is not required on land, such as parks and open spaces.
- Heritage Assets - the Council’s civic regalia and works of art have very long useful economic lives and depreciation would therefore be immaterial.

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 historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Any building assets with a value below £1 million are not considered material for recording separate components. Separate components will be considered in a building asset with a value greater than £1 million if the component has a value of greater than 25% of the asset and the life of the component is materially different from life of the host asset. All credit balances on the revaluation reserve relating to an asset are deemed to relate to the host asset and not to individual components.

(xxii) Non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Such an asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

(xxiii) Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2019/20 (SeRCOP). Elements of support costs remaining within core unit budgets at year-end are, where material, fully allocated to services on the same basis as those used throughout the year.

(xxiv) PFI schemes and similar contracts

PFI contracts are agreements to receive services, where the responsibility for making available the non current assets needed to provide the services passes to the PFI contractor. The Council has one PFI scheme for the Technology and Learning Centre (TLC). As the Council is deemed to control the services that are provided under its PFI scheme and as ownership of the TLC building will pass to the Council at the end of the contract for no additional charge, the Council carries the non current asset used under the contract on the Balance Sheet as part of Property, Plant and Equipment. This is in accordance with International Financial Reporting Interpretations Committee (IFRIC) Standard 12 on Service Concession Agreements contained in the government's Financial Reporting Manual (FReM).

The original recognition of the non current asset at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Technology and Learning Centre (TLC), there was no initial capital contribution.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 7.5% on the outstanding Balance Sheet liability, debited to 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)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

(xxv) Provisions

Where events have occurred that result in an obligation for the Council to make settlement by a transfer of economic benefits, but the timing or the amount of the transfer is uncertain, the Council sets aside specific provisions. These are charged directly to the appropriate service revenue account in the year in which the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When actual payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year, and if it becomes probable that a transfer of economic benefits will not be required, or a lower settlement than was anticipated is made, the related provision is reversed and credited back to the relevant service revenue account. Details of the provisions made in the Council's accounts are set out in Note 20. Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council undertakes a full analysis of debtors taking into account age, likelihood of settlement and other relevant factors to determine the expected credit losses (included with receivables (or financial assets). To perform this analysis the debt may be aggregated by category (e.g. credit worthiness, industry, geographical location).

(xxvi) Reserves

Reserves are set-aside for future policy purposes that are likely to result in future liabilities or commitments. They however fall outside the definition of a provision. Such reserves are shown in Note 8 and are created by appropriating amounts in the Movement in Reserves Statement on the General Fund Balance (or Housing Revenue Account Balance, as appropriate). When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement and scores against the net cost of services. The financing from the reserve is reflected through a credit to the Movement in Reserves Statement on the General Fund Balance so that there is no charge against Council Tax or rents for the year in respect of that expenditure.

Some reserves, such as the Revaluation Reserve, Capital Adjustment Account, Collection Fund Adjustment Account, Financial Instruments Adjustment Accounts, 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. These unusable reserves are shown in Note 23..

(xxvii) Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute, previously referred to as "deferred charges" represents expenditure that may be capitalised but does not result in the creation of tangible non current assets. Expenditure of this nature is written off to the relevant service revenue accounts in the year in which the expenditure is incurred. Examples include capital grants to voluntary groups and expenditure on assets that do not belong to the Council. Such expenditure is charged to the Comprehensive Income and Expenditure Statement and credited to the General Fund Balance.

(xxviii) Value Added Tax

Income and expenditure in the Statement of Accounts is net of VAT, where recoverable. Claims to HM Revenues and Customs for the net VAT incurred are made on a monthly basis.

(xxix) Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings 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 authority 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.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority 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.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements 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

2. Accounting Standards Issued, Not Adopted

The Code of Practice requires local authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

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

The impact of each of these items is deemed relatively minor and self-contained in relation to local government accounting.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There continues to be a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- Community and Voluntary Controlled schools are recognised on the Council's Balance Sheet as the Council manages these schools, employs the staff and sets the admissions policy. Only the land value for Academies are held on the balance sheet as the buildings are leased on a long lease. The Council does not include Foundation or Voluntary Aided schools within its asset register because the Governing Body is responsible for running the school and setting the admissions policy rather than the Council.

4. 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 the assumptions and estimates.

Assets and liabilities that are carried at fair value based on a recently observed market price are not included in this note. There are no items in the Council's Balance Sheet as at

31st March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year, except for the below.

The Business Rates retention scheme which came into existence on 1st April 2013 whereby Local Authorities became liable for their proportionate share of successful rateable value appeals. In 2019/20 Hackney retained 48% (64% in 2018/19) of the rates raised, the GLA 27% (36% in 18/19 and the Governments share was 25% (no share in 18/19). However the appeals are still being provided for within the Council's statement of accounts and have been reflected in the Provisions as at 31st March 2020. The provision estimate was provided by a firm of knowledgeable and professionally qualified business rates experts (FIRRV, IRRV, FRICS) and has been based on latest live available information including the Valuation Office's (VO) ratings list of outstanding appeals, an analysis of successful appeals to date including probable appeals not yet lodged; considers: type of hereditament, geographical factors, valuation histories and trends within similar or comparable assessments.

Uncertainties:

i) The estimation of the net liability to pay pensions depends on a number of complex assumptions used in the calculation of the liabilities. These include the discount rate used, the rate at which salaries are projected to increase, changes to retirement ages, mortality rates and expected returns on pension fund assets. Where the outcome is different to the assumptions this will impact on the pension liability. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

Covid-19 will have a significant financial impact on the Council's resources in the long-term, however at the point at which these accounts were published, it was not possible to quantify this precisely. The effects on the net pension liability of changes to individual assumptions can be measured as shown in the table below:

Change in Assumptions at 31 March 2020	Approximate % Increase to Defined Benefit Obligation	Approximate Monetary Amount (£000)
0.5% decrease in the Real Discount rate	9%	192,447
0.5% increase in the Salary Increase Rate	1%	12,449
0.5% increase in the Pension Increase rate (CPI)	9%	178,911

A 1 year increase in life expectancy would increase the Council's Defined Benefit Obligation by approximately 3-5%; however In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

ii) Revaluation of non-current assets is undertaken by professional values, as set out in the accounting policies. The outbreak of Covid-19 has impacted global markets and therefore our valuers have advised that potentially less weight can be applied to previous market evidence to inform opinions of value. Valuations have therefore been reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book

Global. Consequently, less certainty – and a higher degree of caution – should be attached to valuations of property, plant and equipment than would normally be the case.

5. Material Items of Income and Expense

All material items of income and expenditure are disclosed in their respective notes throughout the Statement of Accounts.

6. Events After the Balance Sheet Date

This version of the Statement of Accounts was authorised for issue by the Group Director of Finance and Corporate Resources on 31st May 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

<u>General Fund Balance</u>
The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not however available to be applied to funding HRA services.

<u>Housing Revenue Account Balance</u>
The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or, where in deficit, that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls the application of the resource arising from depreciation on HRA assets. The balance shows the resource that has yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Reserve Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Movement during 2019/20	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive I&E Statement						
- Charges for depreciation and impairment of non-current assets	(39,674)	(43,184)	0	0	0	82,858
- Revaluation losses on Property, Plant and Equipment	(76,179)	(104,326)	0	0	0	180,505
- Movement in the market value of Investment Properties	9,188	0	0	0	0	(9,188)
- Amortisation of intangible assets	(1,964)	(961)	0	0	0	2,925
- Other Amortisation & Adjustments	0	0	0	0	0	0
- Capital grants and contributions applied	24,193	4,247	0	0	5,028	(33,468)
- Revenue expenditure funded from capital under statute	(470)	(1,345)	0	0	0	1,815
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss	(45,711)	(15,731)	0	0	0	61,442
Insertion of items not debited or credited to the Comprehensive I&E Statement						
- Statutory provision for the financing of capital investment	2,709	0	0	0	0	(2,709)
- Capital expenditure charged against the General Fund and HRA balances	4,500	5,725	0	0	0	(10,225)
- Reversal of entries included in the surplus or deficit on the provision of services in	(1,065)	0	0	0	0	1,065
Adjustments primarily involving the Capital Grants Unapplied Account:						
- Capital grants and contributions unapplied credited to the Comprehensive I&E	1,195	8,854	0	0	(10,050)	1
- Application of grants to the capital financing transferred to the capital Adjustment	0	0	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
- Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the	(4,570)	9,875	15,125	0	0	(20,430)
Adjustments primarily involving the Capital Receipts Reserve:						
- Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(15,125)	0	0	15,125
- Transfer of non-current asset sale proceeds from revenue to the capital receipts	0	0	26,464	0	0	(26,464)
- Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the	63,873	58,475	(122,348)	0	0	0
- Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	104,655	0	0	(104,655)
	(63,975)	(78,371)	8,771	0	(5,022)	138,597

Movement during 2019/20	Usable Reserves					
	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
Carried forward from above table:	(63,975)	(78,371)	8,771	0	(5,022)	138,597
- Contribution from the Capital Receipts Reserve towards administration costs of	0	0	0	0	0	0
- Contributions from the Capital Receipts Reserve to finance the payments to the	(25,025)	0	25,025	0	0	0
Adjustments primarily involving the Major Repairs Reserve:						
- Reversal of Major Repairs Allowance credited to the HRA	0	43,185	0	(43,185)	0	0
- Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	43,185	0	(43,185)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
- Amount by which finance costs charged to the Comprehensive I&E Statement are	0	(32)	0	0	0	32
Adjustments primarily involving the Pensions Reserve:						
- Reversal of items relating to retirement benefits debited or credited to the	(29,288)	(5,772)	0	0	0	35,060
- Employers' pension contributions and direct payments to pensioners payable in the	0	0	0	0	0	0
Adjustments primarily involving the Collection Fund Adjustment Account:						
- Amount by which council tax income credited to the Comprehensive I&E Statement is	(5,043)	0	0	0	0	5,043
Adjustments primarily involving the Accumulated Absences Account:						
- Amount by which officer remuneration charged to the Comprehensive I&E Statement	(189)	(61)	0	0	0	250
Other adjustments	(1,960)	0	(7)	0	1,960	7
Total Adjustments	**(125,480)**	**(41,050)**	**33,789**	**0**	**(3,062)**	**135,803**

Movement during 2018/19	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive I&E Statement						
- Charges for depreciation and impairment of non-current assets	(30,464)	(43,677)	0	0	0	74,141
- Revaluation losses on Property, Plant and Equipment	(50,221)	(116,466)	0	0	0	166,687
- Movement in the market value of Investment Properties	235	17	0	0	0	(252)
- Amortisation of intangible assets	(5,103)	(266)	0	0	0	5,369
- Other Amortisation & Adjustments	0	0	0	0	0	0
- Capital grants and contributions applied	24,270	6,247	0	0	1,704	(32,221)
- Revenue expenditure funded from capital under statute	(1,286)	(1,188)	0	0	0	2,474
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on	(150)	(15,025)	0	0	0	15,175
Insertion of items not debited or credited to the Comprehensive I&E Statement						
- Statutory provision for the financing of capital investment	2,644	0	0	0	0	(2,644)
- Capital expenditure charged against the General Fund and HRA balances	6,014	5,582	0	0	0	(11,596)
Adjustments primarily involving the Capital Grants Unapplied Account:						
- Capital grants and contributions unapplied credited to the Comprehensive I&E	2,243	500	0	0	(2,743)	0
- Application of grants to the capital financing transferred to the capital Adjustment	0	0	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
- Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the	(63)	0	0	0	0	63
Adjustments primarily involving the Capital Receipts Reserve:						
- Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	0	0	0
- Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the	5,346	119,493	(124,839)	0	0	0
- Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	93,725	0	0	(93,725)
	(46,535)	(44,783)	(31,114)	0	(1,039)	123,471

Movement during 2018/19	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	£'000
Carried forward from above table:	(46,535)	(44,783)	(31,114)	0	(1,039)	123,471
- Contribution from the Capital Receipts Reserve towards administration costs of	0	0	0	0	0	0
- Contributions from the Capital Receipts Reserve to finance the payments to the	(16,411)	0	16,411	0	0	0
Adjustments primarily involving the Major Repairs Reserve:						
- Reversal of Major Repairs Allowance credited to the HRA	0	43,677	0	(43,677)	0	0
- Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	43,677	0	(43,677)
Adjustments primarily involving the Financial Instruments Adjustment Account:						0
- Amount by which finance costs charged to the Comprehensive I&E Statement are	0	(36)	0	0	0	36
Adjustments primarily involving the Pensions Reserve:						
- Reversal of items relating to retirement benefits debited or credited to the	(35,338)	(2,971)	0	0	0	38,309
- Employers' pension contributions and direct payments to pensioners payable in the	0	0	0	0	0	0
Adjustments primarily involving the Collection Fund Adjustment Account:						
- Amount by which council tax income credited to the Comprehensive I&E Statement is	1,718	0	0	0	0	(1,718)
Adjustments primarily involving the Accumulated Absences Account:						
- Amount by which officer remuneration charged to the Comprehensive I&E Statement on	14	208	0	0	0	(222)
Other adjustments	2	0	(58)	0	23	33
Total Adjustments	**(96,550)**	**(3,905)**	**(14,761)**	**0**	**(1,016)**	**116,232**

8. Transfers to / from Earmarked Reserves

	Balance at 31/03/18	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31/03/19	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31/03/20
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
General Fund:							
Balances held by schools under scheme of delegation	(11,057)	0	(3,896)	(14,953)	1,760	0	(13,194)
Replacement and development of financial systems	(1,888)	889	0	(999)	315	0	(684)
Rising Energy Costs	(2,000)	473	(80)	(1,607)	1,115	0	(492)
Future increases in NLWA levy	(500)	0	0	(500)	0	0	(500)
Unspent contingencies	(1,063)	298	0	(765)	0	0	(765)
Pensions Backfunding	(4,391)	4,391	0	(0)	0	0	(0)
Revenue contributions to capital programme	(11,929)	6,961	(5,025)	(9,993)	5,627	(1,139)	(5,505)
Review of BSF School Facilities Management arrangements	(501)	329	(250)	(422)	278	0	(143)
Children's Services Transformation	(1,376)	244	0	(1,132)	388	(856)	(1,600)
Homelessness	(2,000)	0	0	(2,000)	0	0	(2,000)
Revenue contribution to primary school building programme	(2,872)	154	0	(2,718)	1,395	0	(1,323)
General Legal Costs	(1,155)	59	0	(1,096)	28	0	(1,068)
Insurance	(4,800)	0	0	(4,800)	0	(350)	(5,150)
Fleet Replacement	(2,312)	0	(731)	(3,043)	1,630	(2,361)	(3,774)
CYP Commissioning Activity/Looked After Children	(3,000)	3,000	(2,300)	(2,300)	2,300	(3,269)	(3,269)
Family Learning Intervention Programme	(592)	551	0	(41)	554	(600)	(87)
Adult Social Care	(15,420)	4,934	0	(10,486)	3,309	0	(7,177)
PFI grant to be released over life of contract	(4,071)	0	0	(4,071)	0	0	(4,071)
Revenue contribution to Youth Service Accommodation Strategy	(700)	0	0	(700)	0	0	(700)
Impact of referrals of high profile cases in neighbourhood	(500)	272	(500)	(728)	728	0	(0)
Revs & Bens costs and loss of subsidy	(844)	0	(200)	(1,044)	1,044	0	(0)
Manifesto commitments and mitigation of government funding loss	(3,275)	3,997	(11,903)	(11,182)	11,985	(6,170)	(5,367)
Young Hackney Custodial Placement	(750)	420	0	(330)	322	(242)	(250)
Hackney Learning Trust	(3,116)	0	0	(3,116)	4,005	(1,214)	(324)
Whole Life Costings and repairs to civic estate	(4,316)	311	(400)	(4,405)	106	(400)	(4,699)
Leisure Centre Management	(1,937)	198	(177)	(1,916)	28	0	(1,888)
Carbon Trading	(240)	250	(250)	(240)	240	0	0
Revenue grants received in advance of expenditure incurred	(15,002)	2,130	(3,538)	(16,410)	4,507	(12,789)	(24,692)
General Fund Sub Total	**(101,607)**	**29,859**	**(29,250)**	**(100,998)**	**41,664**	**(29,390)**	**(88,724)**

	Balance at 31/03/18	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31/03/19	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31/03/20
General Fund b/f from above	**(101,607)**	**29,859**	**(29,250)**	**(100,998)**	**41,664**	**(29,390)**	**(88,724)**
Depot Upgrade	(1,172)	111	0	(1,061)	117	0	(944)
Community Wardens	(555)	297	(18)	(276)	78	(92)	(290)
Hardship Fund	(800)	400	(100)	(500)	84	0	(416)
Food Waste Recycling Programme	(289)	289	0	0	0	0	0
Children's services housing costs	(1,100)	740	(140)	(500)	75	0	(425)
Parks Equipment/London Fields Lido Works	(438)	39	0	(399)	0	0	(399)
Hackney Walk	(1,777)	113	(2,050)	(3,714)	0	(1,941)	(5,655)
Woodberry Down - MOU	(672)	78	0	(594)	0	0	(594)
CACH Transformation	(6,203)	0	(847)	(7,050)	3,001	(366)	(4,415)
Adult Social Care - DFG	0	0	0	0	481	(1,686)	(1,205)
Sleep In	(600)	0	0	(600)	78	0	(522)
Community Grants	(500)	0	0	(500)	119	0	(381)
Empty Corporate Properties	(534)	204	(943)	(1,273)	523	0	(750)
Day Services Transport	(480)	0	(160)	(640)	0	(160)	(800)
Private Sector Housing - Licensing income	0	0	(1,772)	(1,772)	0	0	(1,772)
Regeneration Night Time Economy	(272)	0	(344)	(616)	0	0	(616)
Delayed Budget Growth	0	0	0	0		(600)	(600)
Other miscellaneous reserves	(8,460)	3,490	(2,968)	(7,938)	2,223	(4,342)	(10,057)
Total GF Earmarked Reserves	**(125,459)**	**35,620**	**(38,592)**	**(128,431)**	**48,441**	**(38,576)**	**(118,567)**
GF Working Balance	**(15,007)**			**(15,007)**			**(15,007)**
Total GF Reserves per MiRS	**(140,208)**			**(171,859)**			**(133,574)**

	Balance at 31/03/18	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31/03/19	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31/03/20
HRA:	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Tenant Levy	(233)	0	(29)	**(262)**	0	(11)	**(273)**
Aerial Mast Income	(1,206)	0	(163)	**(1,369)**	0	(123)	**(1,492)**
HRA Rightsizing	(14,588)	10,078	0	**(4,508)**	3,675	0	**(833)**
Utilities	(3,600)	259	0	**(3,341)**	578	0	**(2,763)**
HRA Insurance	(600)	0	0	**(600)**	0	0	**(600)**
Total HRA Earmarked Reserves	**(20,226)**	**10,339**	**(192)**	**(10,079)**	**4,253**	**(134)**	**(5,961)**
HRA Working Balance	**(10,200)**			**(15,000)**			**(11,200)**
Total HRA Reserves per MiRS	**(30,426)**			**(25,079)**			**(17,161)**

9. Other Operating Expenditure

This note provides an analysis of Other Operating Expenditure disclosed in the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
	£'000	£'000
Levies	8,602	8,364
Payments to the Government Housing Capital Receipts Pool	25,025	16,411
(Gains) / Losses on the disposal of non-current assets	(70,781)	(109,814)
	(37,155)	**(85,039)**

10. Financing and Investment Income and Expenditure

This note provides an analysis of Financing and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
Interest payable and similar charges	9,903	7,565
Pensions interest cost and expected return on pensions	20,345	18,351
Interest receivable and similar income	(1,808)	(1,439)
Income and expenditure in relation to investment properties and changes in their fair value	(4,723)	(5,337)
Other Investment Income	**(71)**	**0**
	23,646	**19,140**

11. Taxation and Non-Specific Grant Income

This note provides an analysis of Taxation and Non-Specific Grant Income disclosed in the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
	£'000	£'000
Council tax income	(84,456)	(79,318)
Non domestic rates	(165,818)	(173,219)
Non-ringfenced government grants	(20,098)	(10,084)
Capital grants and contributions	(38,490)	(33,261)
	(308,862)	**(295,882)**

12. Heritage Assets

All of the Council's heritage assets are reported in the Balance Sheet at the insurance valuation which is based on market values. These insurance valuations are updated annually. The heritage assets valuation was conducted in February 2020 by an external surveyor; James Glennie from Art & Antiques Appraisals recommended by the authorities' independent broker's insurer. This valuation attempts to take into account that there are important parts of the collection that if lost, would be replaced where possible with similar objects; there are items that would be replaced with similar objects but not necessarily of the same fiscal value; there are those that would be replaced with different objects altogether and there are those that would not be replaced. Importantly whilst putting the insurance level of some areas at a lower figure than in the past, it continues to insure the collection responsibly, whilst providing a pragmatic solution in times of stringent budgeting and still providing the museum with sufficient funds, in the case of a major disaster, to both replace the objects and protect the fiscal asset. The heritage assets include Civic Regalia, Artworks and Artefacts (further details contained in Note 50). The following is a reconciliation of the carrying value of heritage assets held by the Council recorded on the Balance Sheet.

	Civic Regalia	Artwork	Artefacts	Total Assets
	£'000	£'000	£'000	**£'000**
Cost or Valuation				
Balance as at 1 April 2019	588	852	714	**2,155**
Additions	12	0	0	**12**
Revaluations	82	5	23	**110**
Balance as at 31 March 2020	**682**	**857**	**737**	**2,277**
Cost or Valuation				
Balance as at 1 April 2018	566	850	707	**2,123**
Revaluations	22	3	7	**32**
Balance as at 31 March 2019	**588**	**852**	**714**	**2,155**

13. Property, Plant and Equipment

The HRA dwelling is made up of around 22,000 residential dwellings ranging from seven bedroom houses to studio flats and hostels. The Beacon Approach has been adopted with each housing unit appropriately classified under a categorisation by house type, flats in low, medium, high and super high rise and location; and follows the application of RICS valuation for Social Housing (EUV_SH) to determine the asset value.

Land and buildings are valued using one of the above approaches listed or in some circumstances using a combination of two approaches.

Movements in 2019/20	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or Valuation								
At 1st April 2019	2,377,656	1,597,135	55,020	275,530	39,124	144,768	**4,489,233**	27,455
Adjustment:	0	(243)	(20,923)	0	0	0	**(21,166)**	0
Additions	44,236	36,056	6,916	13,203	1,352	109,468	**211,231**	2
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(25,354)	56,862	(224)	0	(1,313)	(196)	**29,775**	0
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(83,851)	(111,644)	(847)	(196)	(39)	(15,582)	**(212,159)**	(874)
Derecognition - disposals	(14,679)	0	0	0	0	0	**(14,679)**	0
Assets reclassified (to) / from Held for Sale	0	(47,183)	0	0	0	(114,403)	**(161,586)**	0
Other movements in cost or valuation	13,593	12,796	0	0	0	(34,768)	**(8,379)**	0
At 31st March 2020	**2,311,601**	**1,543,779**	**39,942**	**288,537**	**39,124**	**89,287**	**4,312,270**	**26,583**
Accumulated Depreciation and Impairment								
At 1st April 2019	(39,234)	(20,037)	(43,702)	(115,579)	0	0	**(218,552)**	(348)
Adjustment:	0	243	20,923	0	0	0	**21,166**	0
Depreciation charge	(39,030)	(27,448)	(4,848)	(11,532)	0	0	**(82,858)**	(345)
Depreciation written out to the Surplus/Deficit on the Provision of Services	10,534	20,292	953	0	0	0	**31,779**	349
Derecognition - disposals	212	0	0	0	0	0	**212**	0
Other movements in depreciation and impairment	(4)	4	0	0	0	0	**0**	0
At 31st March 2020	**(67,522)**	**(26,946)**	**(26,674)**	**(127,111)**	**0**	**0**	**(248,253)**	**(344)**
Net Book Value at 31st March 2020	**2,244,079**	**1,516,833**	**13,268**	**161,426**	**39,124**	**89,287**	**4,064,017**	**26,239**

Movements in 2018/19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or Valuation								
At 1st April 2018	2,392,388	1,727,559	52,643	264,455	38,828	87,732	**4,563,605**	27,209
Additions	86,466	58,306	3,048	12,029	995	101,104	**261,948**	60
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(19,820)	(48,915)	(260)	0	0	0	**(68,995)**	0
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision	(134,733)	(77,470)	(411)	(954)	(996)	(10,325)	**(224,889)**	186
Derecognition - disposals	(14,414)	(729)	0	0	(150)		**(15,293)**	0
Other movements in cost or valuation	67,769	(61,616)	0	0	447	(33,743)	**(27,143)**	0
At 31st March 2019	**2,377,656**	**1,597,135**	**55,020**	**275,530**	**39,124**	**144,768**	**4,489,233**	**27,455**
Accumulated Depreciation and Impairment								
At 1st April 2018	(38,845)	(19,242)	(39,136)	(104,557)	0	0	**(201,780)**	(339)
Depreciation charge	(39,453)	(19,139)	(4,527)	(11,022)	0	0	**(74,141)**	(350)
Depreciation written out to the Surplus/Deficit on the Provision of Services	38,960	18,004	286	0	0	0	**57,250**	341
Derecognition - disposals	108	11	0	0	0	0	**119**	0
Other movements in depreciation and impairment	(4)	329	(325)	0	0	0	**0**	0
At 31st March 2019	**(39,234)**	**(20,037)**	**(43,702)**	**(115,579)**	**0**	**0**	**(218,552)**	**(348)**
Net Book Value at 31st March 2019	**2,338,422**	**1,577,098**	**11,318**	**159,951**	**39,124**	**144,768**	**4,270,681**	**27,107**

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation.

- Council Dwellings – The lives of assets will vary depending on when the assets were built, material used in construction, level of wear and tear, quality of the maintenance programme etc. Generally these assets have a life of 50 years but a well-designed newly built house or apartment block could have an estimated life of 70 to 80 years. These assets are depreciated on a straight line basis.

- Other Land and Buildings – lives of assets and any material components are individually assessed (by valuers and engineers) and depreciated on a straight line basis
- Vehicles, Plant, Furniture and Equipment – lives of assets are individually assessed and depreciated on a straight line basis
- Infrastructure Assets – calculated on a straight line basis over 25 years.

Capital Commitments

At 31st March 2020 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment into 2019/20 and future years, budgeted to cost £145.182 million. Similar commitments as at 31st March 2019 were £111.134 million. The major commitments are as follows:

- Estate Regeneration of Tower Court, St Leonards, Frampton Park, Lyttleton House, and Mandeville Street House £51,843 million (£56.991 million as at 31st March 2019).
- Christopher Addison House Phase 2, £2.773 million (£0.00 million as at 31st March 2019)
- Hackney Planned Asset Management - Hackney HiP's and former Decent Homes Programme, £12.857 million (£12.219 million as at 31st March 2019)
- Tiger Way and Nile Street new build schools and mixed-use developments, £12,909 million (£35.105 million as at 31st March 2019)
- Britannia mixed-use developments (Education, Leisure and Housing), £64.799 million (£0.00 million as at 31st March 2019)

Effects of Changes in Estimates

In 2019/20 the Council made no material changes to its accounting estimates in respect of property, plant or equipment.

Revaluations

The Council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years with desktop exercise carried out in-between valuation years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are as follows:

- Properties classified as occupied by the Council for the purpose of its business have been valued on the basis of Existing Use Value, determined as the amount that would be paid for the asset in its existing use, assuming vacant possession of all parts occupied by the Council
- For School Buildings, these have been valued on the basis of depreciated replacement cost because of their specialist nature
- For Surplus Assets, these have been valued on the basis of current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- For all other assets within other land and buildings, these have been valued on the basis of Existing Use Value, determined as the amount that would be paid for the asset in its existing use
- Properties classified as surplus to requirements have been valued on the basis of Market Value
- In the case of specialised properties (where valuation methods such as market comparison or an income (profit) test cannot be applied reliably), we have used Depreciated Replacement Cost as a method of estimating Market Value
- For HRA dwellings, the valuation report provides valuations of the housing stock on the basis of Existing Use Value for Social Housing (EUV-SH) and the adjustment factor used for social housing is 25% of the EUV.
- For the 80% desktop exercises the relevant beacon valuations set out in the previous revaluation report and desktop index revaluation have been indexed to reflect an estimation of changes in values over the period 1st April 2019 to 31st March 2020. In assessing the levels of indexation, regard has been given to evidence from;

    - Right To Buy valuations undertaken in the borough during this period, data supplied by the Land Registry on house prices for completed sales within Hackney over the period
    - Data on house prices in Greater London published by building societies and banks
    - Non-dwellings, the indices and information from Independent Property Databank Limited.

Voluntary aided and faith schools are not included on the Council's Balance Sheet as they are not owned by the Council. Any capital expenditure incurred on these schools is treated as revenue expenditure funded from capital under statute.

14. Investment Properties

The fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
	£'000	£'000
Rental income from investment property	(6,681)	(5,340)
Direct operating expenses arising from investment property	264	255
Net (gain) / loss	**(6,417)**	**(5,085)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and proceeds of disposal. The Council has no mandatory obligations to purchase, construct or develop, maintain or enhance investment property.

The following table summarises the movements in fair value of investment properties over the year.

	2019/20	2018/19
	£'000	£'000
Balance at start of the year	209,030	182,578
Additions - Subsequent expenditure	9	322
Transfers (to)/from PPE	8,379	25,878
Net (gain)/losses from FV adjustments	(1,693)	252
Balance at the end of the year	**215,725**	**209,030**

Fair Value Measurement - Property Type

The authority measures the fair value of an investment property using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

The authority 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.

Inputs to the valuation techniques in respect of investment properties for which fair value is measured based on Level 2 inputs. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets of liabilities in markets that are not active
- inputs other than quoted prices that are observable for asset or liability, for example interest rates or credit spreads
- inputs that are derived principally form corroborated by observable market data by correlation or other means

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses as the Council has no internally generated software.

Subsequent expenditure where it meets the recognition criteria in the Code will be recognised in the carrying amount of the intangible asset or, if the subsequent expenditure does not relate to software, be written out to revenue as an impairment charge.

All software is given a finite useful life, based on assessment of the period that the software is expected to be of use to the Council. The useful life assigned to the major software suites used by the Council is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.296 million charged to revenue in 2019/20 is shown across various headings in the Net Expenditure of Services.

There are no changes in accounting estimates which have had an effect on the current period or are expected to have an effect in subsequent periods.

There are no assets assessed as having an indefinite useful life and no items of capitalised software that are individually material to the financial statements. The Council does not revalue its software assets as these are below the de minimis levels of £50,000 for individual assets. These are instead held at acquisition cost.

The movement on Intangible Asset balances during the year is as follows.

	2019/20	2018/19
	£'000	£'000
Balance at start of the year		
- Gross carrying amount	15,628	31,780
- Accumulated amortisation	(10,431)	(24,764)
Net carrying amount at start of the year	5,197	7,016
Additions - Purchases	1,210	4,134
Impairment losses, recognised in the Surplus/Deficit on the Provision of Services	(470)	(585)
Amortisation for the period	(2,926)	(5,368)
Net carrying amount at the end of year	**3,011**	**5,197**
Comprising:		
- Gross carrying amounts	16,368	35,329
- Accumulated amortisation	(13,357)	(30,132)
	3,011	**5,197**

16. Financial Instruments

(a) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, benefits and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- short-term loans from other local authorities,
- lease payables detailed in note 40,
- Private Finance Initiative contracts detailed in note 41

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following three classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising

- bank current and deposit accounts,
- loans to other local authorities,
- loans to housing associations,
- bonds issued by large companies,
- lease receivables detailed in note 40

- Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:
  - equity investment in Municipal Bond Agency and

- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds,

(b) Financial Instruments - Balances

The following categories of financial instrument are carried in the Balance Sheet.

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31.3.2020 £000s	31.3.2019 £000s	31.3.2020 £000s	31.3.2019 £000s
Loans at amortised cost:				
- Principal sum borrowed	(80,700)	(2,400)	(45,400)	(80,400)
- Accrued interest	(463)	0	(135)	(167)
Total Borrowing	**(81,163)**	**(2,400)**	**(45,535)**	**(80,567)**
Liabilities at amortised cost:				
- Finance leases	(240)	(373)	0	0
- PFI arrangements	(11,646)	(12,528)	0	0
Total Other Long-term Liabilities	**(11,886)**	**(12,901)**	**0**	**0**
Liabilities at amortised cost:				
- Finance leases	0	0	(133)	(169)
- PFI arrangements	0	0	(882)	(821)
Included in Creditors	**0**	**0**	**(1,015)**	**(990)**
Total Financial Liabilities	**(93,049)**	**(15,301)**	**(46,550)**	**(81,557)**

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31.3.2020 £000s	31.3.2019 £000s	31.3.2020 £000s	31.3.2019 £000s
At amortised cost:				
- Principal	13,500	21,500	15,394	30,296
- Accrued interest	33	133	8	88
- Loss allowance	(12)	(6)	(18)	(12)
At fair value through other comprehensive income:				
- Equity investments elected FVOCI	30	30	0	0
Total Investments	**13,551**	**21,657**	**15,384**	**30,372**
At amortised cost:				
- Principal	0	0	18,035	24,356
- Accrued interest	0	0	99	135
- Loss allowance	0	0	(10)	(4)
At fair value through profit & loss:				
- Fair value	0	0	32,180	30,923
Total Cash and Cash Equivalents	**0**	**0**	**50,304**	**55,410**
At amortised cost:				
- Lease receivables	631	20,632	88	266
Included in Debtors	**631**	**20,632**	**88**	**266**
Total Financial Assets	**14,182**	**42,289**	**65,776**	**86,048**

Equity instruments elected to fair value through other comprehensive income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

	Fair Value		Dividends	
	31.3.2020 £000s	31.03.19 £000s	31.3.2020 £000s	31.03.19 £000s
Municipal Bond Agency	30	30	0	0
Total	**30**	**30**	**0**	**0**

c) Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	Financial Liabilities		Financial Assets		2019/20	2018/19
	Amortised Cost £'000	Fair Value through Profit & Loss £'000	Amortised Cost £'000	Fair Value through Profit & Loss £'000	Total £'000	Total £'000
Interest expense	1,788	0	0	0	1,788	1,453
Interest payable and similar charges	**1,788**	**0**	**0**	**0**	**1,788**	**1,453**
Interest income	0	0	(882)	0	(882)	(981)
Dividend income	0	0	0	(396)	(396)	(264)
Interest and investment income	**0**	**0**	**(882)**	**(396)**	**(1,278)**	**(1,245)**
Net impact on surplus/deficit on provison of	1,788	0	(882)	(396)	510	208
Net Gain/(Loss) for the Year	**1,788**	**0**	**(882)**	**(396)**	**510**	**208**

(d) Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements). Leases are individually assessed, at which point the rates are determined. The discount rate ranges between 0.59-1.4% for finance leases and 6% for the PFI contracts.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair Value Level	Balance Sheet 31.3.2020 £000s	Fair Value 31.3.2020 £000s	Balance Sheet 31.3.2019 £000s	Fair Value 31.3.2019 £000s
Financial liabilities held at amortised cost:					
Other long-term loans	**2**	(81,163)	(82,528)	(2,400)	(2,872)
Lease payables and PFI liabilities	**2**	(12,902)	(12,756)	(13,891)	(13,734)
TOTAL		**(94,065)**	**(95,284)**	**(16,291)**	**(16,606)**
Liabilities for which fair value is not disclosed *		(45,535)		(80,567)	
TOTAL FINANCIAL LIABILITIES		**(139,600)**		**(96,858)**	
Recorded on balance sheet as:					
Short-term creditors		(1,017)		(990)	
Short-term borrowing		(45,535)		(80,567)	
Long-term borrowing		(81,163)		(2,400)	
Other long-term liabilities		(11,885)		(12,901)	
TOTAL FINANCIAL LIABILITIES		**(139,600)**		**(96,858)**	

	Fair Value Level	Balance Sheet 31.3.2020 £000s	Fair Value 31.3.2020 £000s	Balance Sheet 31.3.2019 £000s	Fair Value 31.3.2019 £000s
Financial assets held at fair value:					
Money market funds	**1**	32,181		30,935	
Corporate, covered and government bonds	**1**	0		0	
Shares in unlisted companies	**3**	30		30	
Financial assets held at amortised cost:					
Corporate, covered and government bonds	**1**	0	0	2,372	2,486
Long-term loans to local authorities	**2**	3,517	3,675	6,546	6,715
Long-term loans to companies	**2**	10,016	9,893	15,087	15,165
Lease receivables	**3**	719	711	20,898	20,662
TOTAL		**46,463**	**46,490**	**75,868**	**75,993**
Assets for which fair value is not disclosed *		33,536		52,491	
TOTAL FINANCIAL ASSETS		**79,999**		**128,359**	
Recorded on balance sheet as:					
Long-term debtors		631		20,632	
Long-term investments		13,563		21,663	
Short-term debtors		88		266	
Short-term investments		15,402		30,384	
Cash and cash equivalents		50,315		55,414	
TOTAL FINANCIAL ASSETS		**79,999**		**128,359**	

The maturity analysis of financial instruments is as follows:

Time to maturity (years)	31.3.2020 Liabilities £000s	31.3.2020 Assets £000s	31.3.2020 Net £000s	31.3.2019 Liabilities £000s	31.3.2019 Assets £000s	31.3.2019 Net £000s
Not over 1	(45,535)	65,717	20,182	(80,567)	85,798	5,231
Over 1 but not over 2	(800)	3,517	2,717	(800)	8,090	7,290
Over 2 but not over 5	(1,200)	10,016	8,816	(1,200)	13,543	12,343
Over 5 but not over 10	0	0	0	(400)	0	(400)
Over 10 but not over 20	(15,005)	0	(15,005)	0	0	0
Over 20 but not over 40	(64,158)	0	(64,158)	0	0	0
Uncertain date	0	30	30	0	30	30
Total	**(126,698)**	**79,280**	**(47,418)**	**(82,967)**	**107,461**	**24,494**

17. Debtors

The following is an analysis of the debtors balance carried on the Balance Sheet.

	2019/20	2018/19
	£000	£000
Trade receivables	55,756	34,968
Prepayments	3,212	2,923
Other receivable amounts	88,987	89,854
Total	**147,955**	**127,745**

18. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements.

	2019/20	2018/19
	£'000	£'000
Cash held by the Council	113	114
Bank current accounts	(5,987)	7,548
Short-term investments	50,214	55,414
Total	**44,340**	**63,076**

19. Assets Held for Sale

All assets held for sale are classed as current assets.

	2019/20	2018/19
	£000	£000
Balance at start of year	1,265	0
Assets declassified as held for sale:		
- Property, Plant and Equipment	161,586	1,265
Assets declassified as held for sale:		
- Assets sold	**(46,976)**	**0**
Balance at end of year	**115,875**	**1,265**

20. Provisions

Provisions are analysed on the face of the Balance Sheet as either short term or long term.

The following table details total provisions held.

	Insurance	Housing Benefit (Govt. Grants)	HRA Legal Disrepair	NNDR Appeals	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31st March 2019	(11,528)	(2,611)	(1,294)	(23,400)	(4,478)	(43,311)
Provisions made in 2019/20	(6,516)	0	(1,550)	(3,444)	(10,580)	(22,090)
Amounts used in 2019/20	6,899	136	1,204	0	2,211	10,450
Unused amounts reversed	232	0	91	5,006	654	5,983
Balance at 31st March 2020	**(10,913)**	**(2,475)**	**(1,549)**	**(21,838)**	**(12,193)**	**(48,968)**

Insurance Claims

The Council maintains an insurance provision as a risk management fund covering anticipated liabilities for employers' public liability, officers' indemnity, property damage and other risks. This provision is based on an annual review using actuarial methods. The provision as at 31st March 2020 was £7.92 million (£11.528 million as at 31st March 2019). Of this total, £2.169 million represents the provision made for the Housing Revenue Account.

The insurance risks are annually reviewed and any new or emerging risks are managed or insured, as appropriate. There is no unfunded material risk to the Council.

Government Grants

Provision has been made on a prudent basis for potential reductions in Housing Benefit grant income following audit of the related grant claims and resolution of outstanding issues.

HRA Legal Disrepair

The HRA legal disrepair provision is for potential payouts on claims received by the Council from tenants concerning HRA properties which have fallen into disrepair. The total provision has increased from £1.29 million to £1.55 million.

NNDR Appeals

The provision for NNDR appeals as at 31 March 2020 is £21.839 million (£23.4 million at 31st March 2019).

Other Provisions

In 2019/20 the council made provisions for voluntary redundancies within other provisions. The total as at 31st March 2020 was £3.146 million. The directorate breakdown is

Neighbourhoods and Housing £0.202 million, Hackney Learning Trust £0.863 million, Finance & Corporate Resources £1.9 million and Chief Executives £0.181 million.

Provision for dilapidations is also included within other provisions. The provision as at 31st March 2020 was £0.385m.

21. Creditors

The following is an analysis of the creditors balance carried on the Balance Sheet.

	2019/20	2018/19
	£'000	£'000
Trade receivables	(91,157)	(116,695)
Receipts In Advance	0	0
Other payable amounts	(63,306)	(47,734)
Total	**(154,463)**	**(164,429)**

22. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in Notes 7 and 8.

23. Unusable Reserves

	31/3/2020	31/3/2019
	£'000	£'000
Revaluation Reserve	(1,015,775)	(1,018,388)
Financial Instruments Revaluation Reserve	240	170
Capital Adjustment Account	(2,907,250)	(2,986,683)
Financial Instruments Adjustment Account	(95)	(127)
Deferred Capital Receipts	(25,593)	(20,288)
Pensions Reserve	654,064	838,873
Collection Fund Adjustment Account	(2,054)	(7,097)
Accumulated Absences Account	4,466	4,215
Total	**(3,291,998)**	**(3,189,325)**

Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

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

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April	**(1,018,388)**	**(1,107,175)**
Upward revaluation of assets	(161,620)	(101,889)
Downward revaluation of assets	142,949	172,812
Difference between fair value depreciation and historical cost depreciation	21,284	17,864
Balance as at 31st March	**(1,015,775)**	**(1,018,388)**
Amount written off to the Capital Adjustment Account	21,284	17,864

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from an increase in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April	**170**	**0**
Upward revaluation of investments		
Downward revaluation of investments	70	**0**
Accumulated gains or losses on assets sold and maturing assets written out to the General Fund Balances for financial assets designated to fair value through other comprehensive income	0	170
Balance as at 31st March	**240**	**170**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements 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 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.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Balance as at 1st April		**(2,986,683)**		**(3,048,548)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement				
- charges for depreciation and impairment of non-current assets	82,988		74,476	
- revaluation losses and reversals of losses on Property, Plant and Equipment	171,179		165,778	
- amortisation of intangible assets	2,925		5,368	
- expected credit losses	1,065		0	
- revenue expenditure funded from capital under statute	1,815		2,473	
- amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	61,442		15,175	
		321,414		263,270
Adjusting amounts written out of the Revaluation Reserve	(21,284)	(21,284)	(17,864)	(17,864)
Net written out amount of the cost of non-current assets consumed in the year		300,130		245,406
Capital financing applied in the year				
- use of the Capital Receipts Reserve to finance new capital expenditure	(104,655)		(93,725)	
- use of the Major Repairs Reserve to finance new capital expenditure	(43,184)		(43,677)	
- capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	(28,441)		(30,517)	
- capital grants and other contributions that have been applied to capital financing	(5,028)		(1,704)	
- capital expenditure charged against the General Fund and HRA balances	(10,225)		(11,597)	
- capital receipts applied to debt	(26,464)		0	
		(217,997)		(181,220)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,719)		(1,674)	
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	9		322	
Finance lease and PFI movements	(990)	(2,700)	(969)	(2,321)
Balance as at 31st March		**(2,907,250)**		**(2,986,683)**

Financial Instruments Adjustment Account

This 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 the premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund through the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund 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 various loans when they were redeemed.

The Council used the Financial Instrument Adjustment Account to account for a soft loan received on 29th September 2014 at lower than market interest rate from Amber Green LEEF 2 LLP. The account has been credited with the realisation of the benefit of obtaining this loan at below market interest rate which has already been credited to the Comprehensive Income and Expenditure Statement. The account is debited each year of the 12 year loan with the excess of interest at the market rate over the actual interest charged on the loan.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Balance as at 1st April		**(127)**		**(162)**
Amounts by which finance costs charged to CI&ES are different from finance costs chargeable in year in accordance with statutory requirements		32		35
Balance as at 31st March		**(95)**		**(127)**

Deferred Capital Receipts Reserve

This reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April	**(20,288)**	**(20,385)**
Long term operating leases reclassified as finance leases	59	63
Write Off Long Term Debtor	4,511	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25,000)	0
Transfer to the Capital Receipts Reserve upon receipt of cash	15,125	34
Balance as at 31st March	**(25,593)**	**(20,288)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements accounting for post-employment benefits and 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. Statutory arrangements however require benefits earned to be financed as the Council makes employer's contributions to pension funds or when it eventually pays any pensions for which it is directly responsible. The debit balance to 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.

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April	**838,873**	**670,502**
Remeasurements of net defined liability / (asset)	(219,869)	130,060
Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on Provision of Services	99,506	100,130
Employer's pension contributions and direct payments to pensioners payable in the year	(64,446)	(61,819)
Balance as at 31st March	**654,064**	**838,873**

Collection Fund Adjustment Account

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

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April	**(7,097)**	**(5,379)**
Movement in year	5,043	(1,718)
Balance as at 31st March	**(2,054)**	**(7,097)**

Accumulated Absences Account

This account absorbs the timing differences that would otherwise arise on the General Fund and HRA balances 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 and HRA balances be neutralised by transfers to or from the Accumulated Absences Account.

	General Fund		HRA	
	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000
Balance as at 1st April	**3,833**	**3,941**	**383**	**496**
Settlement / cancellation of accrual made at the end of the preceding year	(3,833)	(3,941)	(383)	(496)
Amounts accrued at the end of the current year	4,022	3,833	444	383
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from charges in accordance with statutory requirements	189	(108)	61	(113)
Balance at 31st March	**4,022**	**3,833**	**444**	**383**

24. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items.

	2019/20	2018/19
	£'000	£'000
Interest Received	(1,594)	(1,574)
Interest Paid	5,205	2,842
Total	**3,611**	**1,268**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2019/20	2018/19
	£'000	£'000
Depreciation	(82,858)	(74,141)
Impairment and downward valuations	(180,505)	(166,687)
Amortisation	(4,741)	(7,842)
(Increase)/decrease in impairment for bad debts	(2,680)	(1,669)
(Increase)/decrease in creditors	(9,966)	(8,836)
Increase/(decrease) in debtors	20,211	(19,075)
Increase/(decrease) in inventories	16	(180)
Movement in pension liability	(35,060)	(38,309)
Carrying amount of non-current assets and non-current assets held for	(61,442)	(15,175)
Other non-cash movements charged to the surplus or deficit on	7,520	11,712
Total	**(349,505)**	**(320,201)**

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

	2019/20	2018/19
	£'000	£'000
Proceeds from the sale of property, plant and equipment, investment	132,223	124,839
Any other items for which the cash effects are investing or financing	38,490	16,608
Total	**170,713**	**141,447**

25. Cash Flow Statement - Investing Activities

The cash flows for investing activities include the following items.

	2019/20	2018/19
	£'000	£'000
Balance as at 1st April		
Purchase of PPE, investment property and intangible assets	228,651	266,404
Purchase of investments	15,000	65,480
Proceeds from the sale of Non Current Assets	(105,423)	(124,839)
Proceeds from investments	(38,000)	(84,474)
Other receipts from investing activities	(27,631)	(28,779)
Balance as at 31st March	**72,597**	**93,792**

26. Cash Flow Statement - Financing Activities

The cash flows for financing activities include the following items.

	2019/20	2018/19
	£'000	**£'000**
Other receipts from financing activities	(159,074)	(95,000)
Cash Payments for the reduction of the outstanding liabilities relating to the finance leases and on Balance Sheet PFI contracts	990	969
Repayments of short and long term borrowing	98,700	45,400
Other payments for financing activities	0	4,839
Net Cash flows from financing activities	**(59,384)**	**(43,792)**

27. Reconciliation of Liabilities arising from financing activities

	2019/20 1st April	Financing cash flows	Non-cash changes		2019/20 31st March
			Acquisition	Other non-cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	(2,400)	(78,700)			(81,100)
Short-term borrowings	(80,400)	35,000			(45,400)
- Lease liabilities	(544)	169			(375)
- On balance sheet PFI liabilities	(13,348)	821			(12,527)
Total liabilities from financing activities	**(96,692)**	**(42,710)**	**0**	**0**	**(139,402)**

28. A. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2019/20			2018/19		
	Net Expenditure Chargeable to the GF & HRA	Adjustments between accounting basis and funding	Net Expenditure in CI&ES	Net Expenditure Chargeable to the GF & HRA	Adjustments between accounting basis and funding	Net Expenditure in CI&ES
	£'000	£'000	£'000	£'000	£'000	£'000
Children Adults and Community Health Services						
Education & Schools	36,948	80,434	117,382	30,372	28,006	58,378
Children & Families	58,897	8,038	66,935	61,216	1,745	62,962
Adult Services	76,117	7,929	84,046	82,498	4,524	87,022
Public Health	1,043	124	1,167	892	(409)	483
Neighbourhoods and Housing						
Public Realm	35,302	21,251	56,553	45,035	13,368	58,403
Housing & Regeneration GF	1,704	1,191	2,895	209	7	216
Finance & Corporate Resources						
Revenues & Benefits	8,765	11,972	20,737	14,111	1,872	15,982
Finance and Resources Other	93,251	(53,506)	39,745	38,543	16,640	55,183
Chief Executives						
Chief Executive	8,066	728	8,794	9,504	164	9,668
Housing Revenue Account						
HRA	67,381	41,050	108,431	112,411	3,905	116,317
Net Cost of Services	**387,473**	**119,212**	**506,685**	**394,790**	**69,823**	**464,613**
Other income and expenditure	(369,687)	47,317	(322,370)	(392,415)	30,634	(361,781)
(Surplus) / Deficit on Provision of Services	**17,785**	**166,530**	**184,315**	**2,375**	**100,457**	**102,832**
Opening GF & HRA Balance	(168,516)			(170,891)		
Less Deficit on GF & HRA Balance in Year	17,785			2,375		
Closing General Fund & HRA Balance at 31st March 2020	(150,730)			(168,516)		

Analysed between General Fund and HRA	2019/20 GF	2019/20 HRA	2019/20 Total	2018/19 GF	2018/19 HRA	2018/19 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Opening GF & HRA Balance 2019	(143,435)	(25,079)	(168,514)	(140,465)	(30,426)	(170,891)
Less Deficit on GF & HRA Balance in Year	9,865	7,919	17,784	(2,970)	5,346	2,376
Closing General Fund & HRA Balance at 31st March 2020	**(133,570)**	**(17,160)**	**(150,730)**	**(143,435)**	**(25,080)**	**(168,515)**

28. B. Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2019/20 Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Children Adults and Community Health Services				
Education & Schools	74,819	5,416	199	80,434
Children & Families	6,437	965	636	8,038
Adult Services	5,838	800	1,291	7,929
Public Health	29	105	(11)	123
Neighbourhoods and Housing				0
Public Realm	19,421	1,829	1	21,251
Housing and Regeneration GF	1,084	105	3	1,192
Finance & Corporate Resources				0
Revenues & Benefits	11,328	607	37	11,972
Finance and Resources Other	(55,539)	2,035	(1)	(53,505)
Chief Executives				0
Chief Executives	556	180	(8)	728
Housing Revenue Account				0
Local authority housing (HRA)	35,187	5,772	92	41,051
Net Cost of Services	**99,161**	**17,812**	**2,241**	**119,214**
Other income and expenditure from the	25,025	17,248	5,043	47,316
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**124,186**	**35,060**	**7,284**	**166,530**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	2018/19 Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Children Adults and Community Health Services				
Education & Schools	26,980	1,343	(316)	28,006
Children & Families	1,398	250	97	1,745
Adult Services	4,295	198	31	4,524
Public Health	12	31	(452)	(409)
Neighbourhoods and Housing				0
Public Realm	12,263	454	651	13,368
Housing and Regeneration GF	(8)	21	(6)	7
Finance & Corporate Resources				0
Revenues & Benefits	1,785	139	(53)	1,872
Finance and Resources Other	(291)	16,917	14	16,640
Chief Executives				0
Chief Executives	100	43	21	164
Housing Revenue Account				0
Local authority housing (HRA)	1,141	2,971	(207)	3,905
Net Cost of Services	**47,676**	**22,368**	**(221)**	**69,823**
Other income and expenditure from the	16,411	15,941	(1,718)	30,634
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**64,087**	**38,309**	**(1,939)**	**100,457**

28. C. Expenditure and Income Analysed by Nature

	2019/20	2018/19
	£000's	**£000's**
Expenditure:		
Employee expenses	249,759	246,785
Other service expenses	950,625	875,294
Support services recharges	70,356	71,254
Capital related	259,798	235,989
Interest and investment expenditure	7,571	60,439
Precepts and levies	8,602	8,364
Payments to Housing Capital Receipts Pool	25,025	16,411
Total expenditure	**1,571,736**	**1,514,536**
Income:		
Fees, charges and other service income	(455,121)	(438,434)
Interest and investment income	(8,356)	(45,404)
Income from council tax, non domestic rates	(155,686)	(168,261)
Government grants and contributions	(768,258)	(759,605)
Total income	**(1,387,421)**	**(1,411,704)**
Surplus or Deficit on the Provision of Services	**184,315**	**102,832**

29. Agency Services

The Council carries out income collection services on behalf of Thames Water and Thistle Insurance whereby it collects (from tenants) water standing charges and contents insurance premiums respectively. The amount of water rates collected by the Council for Thames Water was £8.795 million in 2019/20 (£8.395 million in 2018/19). Insurance premiums collected on behalf of Jardine Lloyd Thompson amounted to £0.185 million in 2019/20 (£0.145 million in 2018/19).

There was no cost to the Council in providing either of these services. The commission received for the Thames Water arrangement for 2019/20 was £0.720 million (£0.688 million in 2018/19). Income received from the Jardine Lloyd Thompson arrangement was £0.039 million for 2019/20 (£0.039 million in 2018/19).

30. Members' Allowances

The council paid £1.312 million in allowances to members of the council during 2019/20 (£1.285 million in 2018/19).

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 auditors.

	2019/20	2018/19
	£'000	£'000
Fees payable to External Audit with regard to external audit services carried out by the appointed auditor for the year	176	174
Fees payable to External Audit for the certification of grant claims and returns for the year	22	22
Fees payable to External Audit with regard to external audit services carried out on the London Borough of Hackney Pension Fund	16	16
Total	**214**	**212**

32. Pooled Budgets

The Council is involved in a number of pooled budget arrangements with both the NHS City and Hackney Clinical Commissioning Group (CCG) and the East London Foundation Trust.

The Council works collaboratively with the CCG to address specific local health issues. The CCG, as the host Authority, held the revenue element whilst the Council held the capital element of the pooled budget.

The Council works with the East London Foundation Trust for the provision of mental health services for residents of the borough. Any under or over spend on these arrangements in respect of social care is held by the Council and the partner body keeps the health element of any under or over spend.

The Better Care Fund was introduced nationally in 2015-16 to ensure a transformation in integrated health and social care, operating within existing legislation.

	Mental Health		Learning Difficulties		Hackney Better Care Fund *	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Funding provided to the pooled budget						
- provided by the Council	(6,527)	(6,405)	(17,903)	(16,688)	(17,673)	(13,152)
- provided by other Partners	(10,977)	(10,720)	(8,654)	(7,520)	(20,784)	(19,419)
Expenditure met from the pooled budget						
- met by the Council	7,768	6,431	22,795	21,694	27,754	22,625
- met by other Partners	11,133	10,734	8,654	7,520	10,703	9,946
Net deficit arising on the pooled budget during the year	1,397	40	4,892	5,007	0	0
Council's share of the net (surplus) / deficit arising on the pooled budget	**1,241**	**26**	**4,892**	**5,007**	**0**	**0**

* The expenditure met from the pooled budget by the Council includes elements funded by partners and therefore does not result in a deficit to the Council.

33. Officers' Remuneration

The following table sets out the remuneration disclosures for senior officers whose salary is £150,000 or more per annum

Post Holder Details	Note	Salary, Fees and Allowances		Compensation for Loss of Office		Remuneration (excluding employer pension contribution)		Employer Pension Contribution		Total Remuneration	
		2019/20	2018/19	2019/20	2018/19	**2019/20**	**2018/19**	2019/20	2018/19	**2019/20**	**2018/19**
		£	£	£	£	£	£	£	£	£	£
Chief Executive - T Shields	i	181,486	181,486	0	0	**181,486**	**181,486**	28,312	28,312	**209,798**	**209,798**
Group Director Children, Adults & Community Health - A Canning	ii	159,197	156,075	0	0	**159,197**	**156,075**	24,835	24,348	**184,032**	**180,423**
Group Director Finance & Corporate Resources - I Williams	iii	159,197	156,075	0	0	**159,197**	**156,075**	24,835	24,348	**184,032**	**180,423**

Notes
(i) Annualised salary was £181,486 for 2019/20 and £181,486 for 2018/19
(ii) Annualised salary was £159,197 for 2019/20 and £156,075 for 2018/19
(iii) Annualised salary was £159,197 for 2019/20 and £156,075 for 2018/19
**No Bonuses or expenses allowances awarded in 2019/20 and 2018/19

The following are senior officers whose salary is less than £150,000 but equal to or more than £50,000 per annum.

Post Holder Details	Note	Salary, Fees and Allowances		Compensation for Loss of Office		Remuneration (excluding employer pension contribution)		Employer Pension Contribution		Total Remuneration	
		2019/20	2018/19	2019/20	2018/19	**2019/20**	**2018/19**	2019/20	2018/19	**2019/20**	**2018/19**
		£	£	£	£	**£**	**£**	£	£	**£**	**£**
Director of Communications, Culture & Engagement	i	118,755	110,293	0	0	**118,755**	**110,293**	18,526	17,206	**137,281**	**127,499**
Director of Legal & Governance	ii	120,239	130,063	0	0	**120,239**	**130,063**	18,757	20,290	**138,996**	**150,353**
Director of Policy, Strategy & Economic Development	iii	118,867	110,293	0	0	**118,867**	**110,293**	18,543	17,206	**137,410**	**127,499**
Head of Human Resources & Electoral Services	iv	114,297	116,536	0	0	**114,297**	**116,536**	17,830	18,180	**132,127**	**134,716**
Group Director Neighbourhoods & Housing	v	78,549	156,075	0	0	**78,549**	**156,075**	12,254	24,348	**90,803**	**180,423**
Group Director Neighbourhoods & Housing	vi	67,545	0	0	0	**67,545**	0	10,537	0	**78,082**	0

Notes
(i) Annualised salary was £118,755 for 2019/20 and £110,293 for 2018/19
(ii) Annualised salary was £120,239 for 2019/20 and £130,063 for 2018/19, new Director started this position from 1st March 2020. Employed prior as Head of Legal & Governance
(iii) Annualised salary was £118,867 for 2019/20 and £110,293 for 2018/19
(iv) Annualised salary was £114,297 for 2019/20 and £116,536 for 2018/19
(v) Annualised salary was £146,094 for 2019/20 and £156,075 for 2018/19, new Group Directior started this postion from 13th October 2019. Employed prior as Director of Housing
**No Bonuses or expenses allowances awarded in 2019/20 and 2018/19

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the below table.

Exit Package Cost Band (including special payments)	Number of compulsory redundancies				Number of other agreed departures				Total number of exit packages by cost band				Total cost of exit packages in each band			
	2019/20		2018/19		2019/20		2018/19		2019/20		2018/19		**2019/20**		**2018/19**	
	Council	Schools	Council	Schools	Council	Schools	Council	Schools	Council	Schools	Council	Schools	Council	Schools	Council	Schools
													£		**£**	
£0 - £20,000	19	12	26	10	78	42	49	40	97	54	75	50	766,485	503,350	585,446	305,577
£20,001 - £40,000	3	2	13	3	53	6	12	5	56	8	25	8	1,528,12	199,151	688,337	207,253
£40,001 - £60,000	1	1	3	1	23	2	4	0	24	3	7	1	1,216,65	123,251	348,661	40,504
£60,001 - £80,000	1	0	1	0	8	0	3	0	9	0	4	0	620,344	0	285,358	0
£80,001 - £100,000	0	0	2	0	7	0	0	0	7	0	2	0	640,269	0	170,996	0
£100,001 - £150,000	0	0	0	0	2	0	0	0	2	0	0	0	228,616	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
£200,001 - £250,000	0	0	1	0	0	0	0	0	0	0	1	0	234,037	0	239,486	0
	24	**15**	**46**	**14**	**171**	**50**	**68**	**45**	**195**	**65**	**114**	**59**	**5,234,53**	**825,752**	**2,318,28**	**553,334**

The number of employees including senior officers whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown below.

	2019/20		**2018/19**	
	No. of employees		No. of employees	
	Council	Schools	Council	Schools
£50,000 - £54,999	186	148	177	119
£55,000 - £59,999	156	83	108	54
£60,000 - £64,999	69	42	73	29
£65,000 - £69,999	46	26	28	22
£70,000 - £74,999	23	15	19	13
£75,000 - £79,999	19	18	17	8
£80,000 - £84,999	16	9	11	8
£85,000 - £89,999	13	7	4	10
£90,000 - £94,999	7	4	12	5
£95,000 - £99,999	9	3	4	1
£100,000 - £104,999	5	3	4	0
£105,000 - £109,999	7	4	0	1
£110,000 - £114,999	3	1	3	1
£115,000 - £119,999	7	1	6	2
£120,000 - £124,999	1	2	3	1
£125,000 - £129,999	1	0	0	0
£130,000 - £134,999	4	0	4	1
£135,000 - £139,999	0	0	0	1
£140,000 - £144,999	0	0	0	0
£145,000 - £149,999	0	0	0	0
£150,000 - £154,999	1	0	0	0
£155,000 - £159,999	2	0	3	0
£160,000 - £164,999	0	0	0	0
£165,000 - £169,999	0	0	0	0
£170,000 - £174,999	0	0	0	0
£175,000 - £179,999	0	0	0	0
£180,000 - £184,999	1	0	1	0
£210,000 - £299,999	0	0	0	0
Total	**576**	**366**	**477**	**276**

34. Termination Benefits

The Council terminated the contracts of 260 employees in 2019/20, incurring liabilities of £6.060 million (£2.872 million in 2018/19) in the form of compensation for loss of office and Payment in Lieu of Notice. Officers were made redundant on a voluntary basis as part of the Council's cost cutting and service rationalisation measures. These disclosures rely on information obtained from payroll providers and other third parties.

35. Dedicated Schools Grant

The Council expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's 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 and Early Years (England) Regulations 2018. The expenditure detailed below meets the grant conditions required in the DSG determination letter. The Schools Budget includes elements for a range of education services supporting schools and for the delegated Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2019/20 are as follows.

	Central	ISB	Total
	£'000	£'000	**£'000**
Final DSG for 2019/20 before academy recoupment			**282.067**
Academy figure recouped for 2019/20			**(72.103)**
Total DSG after academy recoupment for 2019/20			**209.964**
Plus Brought forward from 18/19			**0.000**
Less Carry forward to 2020/21 agreed in advance			**0.000**
Agreed initial budget distribution in 2019/20	43.159	166.805	**209.964**
In year adjustments	0.000	0.000	**0.000**
Final budgeted distribution for 2019/20	**43.159**	**166.805**	**209.964**
Less Actual central expenditure	(47.833)		**(47.833)**
Less Actual ISB deployed to schools 2019/20		(167.159)	**(167.159)**
Plus Local authority contribution for 2019/20	0.000	0.000	**0.000**
Deficit - funded by reserve	**(4.674)**	**(0.354)**	**(5.028)**

All local authorities have legal duties regarding support for children and young people (CYP) in their authority who are deemed to have special educational needs (SEN). A significant majority of the cost of these legal duties is expected to be met by the High Needs Block (HNB) of the Dedicated Schools Grant (DSG). There are some SEN costs, such as the costs of home to school transport for CYP with SEN, that are expected to be funded from non-DSG Council funding.

The DSG earmarked negative reserve represents costs incurred by the Council for the Council's SEN activities, which are expected to be funded by the DSG, but which exceed the value of the DSG awarded to the Council in 2019/20. These pressures are experienced by many authorities across the UK and are widely reported through the press and also through discussions at many public sector meetings. The source of the pressure is mainly demand – significant increases in CYP requiring additional support. There was a circa 40% increase in Education, Health and Care Plans (EHCP's) between 2014 (just under 1,400 plans) and 2019 (just over 1,900 plans).

The basis for identifying this balance separately from general reserves is in accordance with the requirements of the Schools and Early Years Finance (England) Regulations 2020, and latest CIPFA guidance.

This balance is expected to be recovered through future DSG funding from the DFE, however an equal and opposite reserve has been created for the £5m deficit, whilst a firm DFE commitment to the deficit is awaited.

36. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2018/19. No donations were received during the year.

	2019/20	2018/19
	£'000	£'000
Credited To Taxation and Non-Specific Income		
PFI Grant	(1,387)	(1,387)
New Homes Bonus	(8,395)	(8,578)
COVID 19 Grant	(10,093)	0
Other Grants	(223)	(119)
HRA Capital Grant	(13,102)	(6,747)
Other Grants Credited to Taxation and Non Specific Grant Income	(25,388)	(26,513)
Total	**(58,588)**	**(43,344)**
Credited to Services		
Department for Work and Pensions	(276,278)	(303,625)
Department for Education	(235,764)	(234,925)
Communities and Local Government	(25,736)	(20,789)
Department of Health	(39,271)	(39,299)
Other grants	(11,264)	(6,963)
Contribution from Health Authorities	(4,188)	(3,018)
Contribution from other partners	(14,081)	(13,786)
Other contributions	(8,857)	(8,300)
Total	**(615,439)**	**(630,705)**

The Council has received a number of capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the money or property to be returned. The balances at the year-end are as follows.

Current liabilities

The balances held in respect of capital grants received in advance at the year-end are as follows.

	2019/20	2018/19
	£'000	£'000
Capital Grants Receipt in Advance		
Department for Education	(1,718)	(5,523)
Other Grants	(77)	(2,013)
Total	**(1,795)**	**(7,536)**

The balances held in respect of revenue grants received in advance at the year-end are as follows.

	2019/20	2018/19
	£'000	£'000
Revenue Grants Receipt in Advance		
Department for Work and Pensions	0	(4)
Communities and Local Government	(674)	(151)
Greater London Authority	(366)	0
Department for Education	(96)	(59)
Other Grants	(125)	(35)
Total	**(1,261)**	**(249)**

Long term liabilities

The balances held in respect of capital grants received in advance at the year-end are as follows.

	2019/20	2018/19
	£'000	£'000
Capital Grants Receipt in Advance		
Other Grants	0	(7,501)
Section 106 Grants	(49,120)	(43,213)
Total	**(49,120)**	**(50,714)**

The balances held in respect of revenue grants received in advance at the year-end are as follows.

	2019/20	2018/19
	£'000	£'000
Revenue Grants Receipt in Advance		
Department for Education	(277)	(663)
Total	**(277)**	**(663)**

Following the annual review of grant conditions in 2019/20, it has been determined that the majority of unspent grant income (capital and revenue) satisfied the criteria to be recognised in the Comprehensive Income and Expenditure Statement.

37. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have a 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 capacity to limit another party's ability to act freely due to a relationship with the Council.

The following financial disclosures are mostly made on a cash rather than accruals basis.

Central Government

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, it provides the majority of its funding in the form of grants and prescribes the terms of many transactions that the Council has with the other parties.

During the financial year, service specific grants of £588 million (£606 million in 2018/19), were recorded in the Comprehensive Income & Expenditure account. In addition to this amount other grants were received for capital purposes from government departments such as the Department for Education or the Department of Health. Both Revenue and Capital Grants are disclosed in detail in Note 36.

Members

Members of the Council, which includes the Mayor, have direct control over the Council's financial and operating policies and procedures. By virtue of their office, through their residence in the Borough and/or as active members of the community, Members of the Council participate and hold membership in a variety of other organisations. Details of these interests are recorded in the Register of Members' Interests which is open to public inspection and available on the Hackney Council website. The transactions that occurred with those organisations in 2019/20 are summarised in the paragraphs below.

The Council made payments totalling £3.599 million (£1.435 million in 2018/19) to thirty four voluntary organisations in which there are forty two declared interests by Members. Payments of £5.270 million (£1.980 million in 2018/19) were made to eight Housing Associations and Tenant Management Organisations in which nine controlling interests were declared by Members. In addition, payments of £2.326 million (£2.252 million in

2018/19) were made to ten public-related organisations in which there are fifteen declared interests by Members.

The Mayor of the Council, Philip Glanville, is Non-Executive Director of London Legacy Development Corporation, Board Member of Shoreditch Trust and Member of London Councils.

Officers

The Chief Executive of the Council, Tim Shields, is Chair of Hackney Crime and Disorder Partnership.

The Group Director of Finance and Corporate Resources, Ian Williams, is a member of the London Pension Collective Investment Advisory Committee, Director of Hackney Schools for the Future 1 & 2 and joint chair for the North London Waste Authority (NLWA) Partnership Board.

Entities Controlled or Significantly Influenced by the Council

Hackney Schools for the Future Limited

Hackney Schools for the Future Limited (HSFL) and Hackney Schools for the Future 2 Limited (HSF2L) were both set up by the Local Education Partnership (LEP) for Hackney. HSF2L was created primarily to deliver the Nile Street and Tiger Way mixed-use development schemes with LBH owning the majority of the shares. HSFL was created primarily to deliver newly constructed secondary schools via the Building Schools for the Future initiative in Hackney and followed on to deliver some elements of Asset Management for Hackney Schools.

The Board has 2 Council appointees. The private sector ownership is with to Kier Educational Services. In addition to the construction of the Secondary schools, Thomas Fairchild Primary School, and the construction of the mixed-use development at Nile Street and Tiger Way, HSFL delivered the FM and ICT managed services for the phased schools (ICT managed service delivery to phases 1 & 2 schools only) and the Asset Management Services to the LA Schools. The FM programme delivery ceased on the 17th of January 2020.

The Authority set up 2 property management companies, the Otto Management Company Limited and the Makers Management Company to deliver the facility management services at the recently completed Nightingale School (Tiger Way) and New Regent's College (Nile Street) respectively. The management companies are wholly owned by the Authority, each with a total number of ordinary shares of 1 and aggregate nominal value of £1. The total amount spent for the year 2019/20 as at 31st of March 2020 on HSFL and HSF2L related capital schemes was £39.971 million of which £36.517 million is attributable to HSF2, £3.085 million to HSFL, £0.192 million to Otto and £0.177 million to Makers . The total client fees paid for the year 2019/20 as at 31st March 2020 is £0.223 million. The Facilities Managed Services charged by the LEP and paid by the Authority as at 31st March 2020 was £4.444 million of which £0.740 is attributable to Makers and £0.121, million attributable to Otto. In addition, the Authority paid £0.626 million ICT managed service fees.

Other

The Health and Wellbeing Board is a statutory requirement from 1st April 2013 under the Health and Social Care Act 2012. The purpose of this board is to bring together senior leaders from Hackney Council, the NHS, Healthwatch and Voluntary and Community sector partners to improve the health and wellbeing of people in Hackney. During 2018/19, two Members and two Chief Officers were on the Health and Wellbeing Board. The Chief Executive of Homerton University Hospital NHS Foundation Trust and the Chief Executive of East London Foundation Trust are Co-opted members of the Health and Wellbeing Board.

The City and Hackney Safeguarding Children Board (CHSCB) is a dual board covering the City of London and the London of Hackney. In accordance with Working Together (2015), the Board's partners include the LBH, The City of London and partners from the Metropolitan and City Police, Health Commissioners and providers, as well as Cafcass and Probation. The partners contributed the stated amount to the funding of the Board's activities.

Staff in Hackney Council's CHCSP team work for the CHCSP and plays an important role in ensuring safeguarding arrangements meets its statutory functions, through the co-ordination of activities, including the development of multi-agency policies, procedures and guidance, commissioning and delivering multi-agency training, managing safeguarding reviews and facilitation engagement with local communities.

The Pension Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £59.51 million to the Fund in 2019/20 (2018/19: £53.85 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.38 million in 2019/20 (£0.35 million in 2018/19) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury

As part of the North London Waste Authority (NLWA), Hackney is one of seven constituent boroughs where the Council has two elected Members who were on the board. NLWA is a two-tier authority and Hackney is a waste collection authority and under direction from NLWA regarding disposal of residual municipal waste. This is a levy arrangement where the Council contributed £6.998 million (£6.765 million in 2018/19). The council also incurred charges of £1.880 million (£1.774 million in 2018/19) towards non-household waste and £0.537 million (£0.506 million in 2018/19) towards household chargeable waste.

The Hackney Community Strategy Partnership Board is a local strategic partnership convened by the Council. The Board membership includes leaders from the Council, leaders from key local public services including the NHS, the Police and Education and leaders from the local voluntary and community sector and local business. Its core purpose is to provide leadership and strategic direction so that all partners are working towards a coherent, shared vision for the local area, as articulated in the Community Strategy. The Board was established in February 2018 and there are currently 17 Board Members including four Chief Officers.

The council was the seed investor in the Municipal Bond Agency during 2014/15, investing a total of £0.100 million worth of equity. Subsequently, the council has invested an additional £0.100 million during the 2014/15 financial year. As a shareholder, the council has influence over the direction of the organisation. Although no influence has been used to date. No further investments were made during 2019/20.

The London CIV is a collective investment vehicle established by London Councils on behalf of the London Boroughs and the City of London Corporation. It consists of an ACS (Authorised Contractual Scheme) Operator, which is a limited company wholly owned by the 32 participating authorities, and the ACS fund itself. The Council is therefore a shareholder in the operating company. During 2015/16, the Pension Fund made an investment of £150k in the CIV to provide it with sufficient regulatory capital

Entities Controlled or Significantly Influenced by the Council - wholly owned subsidiaries

The London Borough of Hackney has, in the last 18 months, established five wholly owned subsidiaries, limited by shares, to facilitate and enable its interests in the borough. Set out below are details of the 5 companies, and details of the associated related party transactions within the financial statements are detailed in two building management companies:

- Otto Management Company Limited and
- Makers Management Company Limited

and three housing rental companies

- Hackney Housing Company Limited (Holding company);
- Hackney PRS Housing Company Limited (Subsidiary); and
- Hackney LLR Housing Company Limited (Subsidiary)

Otto and Makers provide building management services to the private dwellings and schools at the Tiger Way and Nile Street mixed-use developments respectively, and are funded via service charges recouped from residents and the school at each site. 2019/20 is the first full year of financial activity for both companies. Neither company forms part of London Borough of Hackney's group accounts on the basis of falling well below materiality.

The housing companies (Hackney Housing Company Limited and two subsidiaries) are established to deliver and manage Private Rented Sector and London Living Rent properties within the borough. Only Hackney Housing Company and Hackney PRS company were financially active as at 31 March 2020.

During 2019/20 London Borough of Hackney provided a loan of £11.2m and capital contribution of £4.8m, the latter via Hackney Housing Company, to Hackney PRS to acquire 25 properties, which are rented at market rates.

Directors for all of the five subsidiaries consist solely of London Borough of Hackney officers and there are no staff employed directly by the entities.

38. Impairment Losses

During 2019/20 the Council has recognised a net impairment/revaluation gain reversal (relating to losses recognised in prior years) of £198,710 million (£229.218 million in loss 2018/19) in relation to Property, Plant and Equipment and Investment Assets. Of this total net impairment/revaluation gain reversal, the following amounts were charged/credited to the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
	£'000	£'000
Children, Adults and Community Health Services		
Education & Schools	57,990	30,139
Children & Families	14	0
Adult Services	381	4,154
Public Health	0	0
Neighbourhoods and Housing		
Public Realm	859	9,334
Housing & Regeneration GF	112	0
Finance & Corporate Resources		
Revenues & Benefits/Housing Needs	0	9
Finance and Resources Other	7,582	48,339
Chief Executives		
Chief Executive	0	0
Housing Revenue Account		
HRA	107,304	137,244
Total	**174,242**	**229,218**

39. Capital Expenditure and Capital Financing

The total amount of 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 that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Opening Capital Financing Requirement		**483,870**		**398,856**
Adjutment to opening CFR*		(616)		0
Capital investment				
- Property, Plant and Equipment	211,231		261,948	
- Investment properties	9		322	
- Intangible Assets	1,211		4,134	
- Revenue Expenditure Funded from Capital under Statute	1,815		2,473	
- Loans and Investments	16,200	230,466	0	268,878
Sources of finance				
- Capital receipts	(104,656)		(93,725)	
- Government grants and other contributions	(33,468)		(32,221)	
- Direct revenue contributions	(12,934)		(14,240)	
- Repayment of debt	(26,464)		0	
- Major Repairs Allowance	(43,184)	(220,706)	(43,677)	(183,863)
Closing Capital Financing Requirement		**493,014**		**483,870**
Explanation of movements in year				
Increase in underlying need to borrow (unsupported by government		38,933		87,658
MRP		(2,709)		(2,644)
Additional repayment of debt		(26,464)		0
Increase / (decrease) in Capital Financing Requirement		**9,760**		**85,015**

40. Leases

Authority as Lessee

Finance Leases

Leases are classified as finance leases where the terms of the agreement transfer substantially all the risks and rewards of ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, present value of the minimum lease payments in relation to the asset's fair value and whether the Council obtains ownership of the asset at the end of the lease term.

	2019/20	2018/19
	£'000	**£'000**
Other Land and Buildings	20,723	12,243
Vehicles, Plant, Furniture and Equipment	181	394
Total	**20,904**	**12,637**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts.

	2019/20	2018/19
	£'000	**£'000**
Finance lease liabilities (net present value of minimum lease payments)		
- current	133	169
- non-current	240	373
Finance costs payable in future years	15	34
Minimum lease payments	**388**	**576**

These minimum lease payments will be payable over the following periods.

	Minimum Lease Payments		Finance Lease Liabilities	
	2019/20 £'000	**2018/19 £'000**	**2019/20 £'000**	**2018/19 £'000**
Not later than one year	144	189	133	169
Later than one year and not later than five years	222	364	218	351
Later than five years	22	23	22	22
Total	**388**	**576**	**373**	**542**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. No contingent rents are payable on either of the leased properties and the rents for vehicles, plant and equipment have not changed from the original agreements. There were no subleases in relation to these finance leases at the Balance Sheet date.

Operating Leases

The Council has acquired its fleet of sweeper vehicles by entering into operating leases, with lease lives of 5 years. The Council has excluded leases where the cost to purchase the asset outright was less than £10,000.

The future minimum lease payments due under non-cancellable leases in future years are as follows.

	2019/20	2018/19
	£'000	£'000
Not later than one year	23,346	23,472
Later than one year and not later than five years	44,834	66,639
Later than five years	15,395	17,173
Total	**83,576**	**107,284**

The expenditure on the minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was made under the following cost of services lines.

	2019/20	2018/19
	£'000	**£'000**
Children, Adults and Community Health Services		
Education & Schools	148	205
Neighbourhoods and Housing		
Public Realm	20	0
Finance & Corporate Resources		
Finance and Resources Other	1	1
	169	**206**

Authority as Lessor

Finance Leases

The Council has leased out a number of its commercial properties where the building element has been reclassified as a finance lease following the introduction of the Code. The most significant leases in terms of their remaining term include the following: 18/20 Ashwin Street with a remaining term of 81 years and 242 Old Street with a remaining term of 43 years.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the properties when the lease comes to an end. The Council's policy is that capital assets have zero residual values. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding.

The gross investment is made up of the following amounts.

	2019/20	2018/19
	£'000	£'000
Finance lease debtor (net present value of minimum lease payments)		
- current	61	62
- non-current	531	5,100
Unearned finance income	127	15,736
Unguaranteed residual value of property	0	0
Gross investment in the lease	**719**	**20,898**

The gross investment in the lease and the minimum lease payments will be received over the following periods.

	Minimum Lease Payments		Gross Investment in the Lease	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Not later than one year	61	62	88	266
Later than one year and not later than five years	155	202	213	965
Later than five years	375	4897	418	19667
Total	**591**	**5,161**	**719**	**20,898**

The Council regularly reviews the need for additional provision for uncollectible debts and the impact of the current financial climate on the ability of debtors to meet their lease obligations will be subject to review on an annual basis. There is no material allowance for uncollectible minimum lease payments receivable.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes.

- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are as follows.

	2019/20	2018/19
	£'000	£'000
Not later than one year	2,869	3,228
Later than one year and not later than five years	9,670	10,298
Later than five years	12,982	17,689
Total	**25,522**	**31,215**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

41. PFI and Similar Contracts

The Council has one PFI scheme for the Technology and Learning Centre (TLC). 2019/20 was the nineteenth year of a thirty-one year PFI contract for the design, build and financing of the TLC, which Hackney Learning Trust (formerly The Learning Trust), Hackney Library and Hackney Museum occupy. The PFI contract is with Investors in the Community (Hackney) Limited. Under the terms of the contract the Council determines what services must be provided and the standards expected for those services. The Council monitors these standards and the contract allows for deductions to be made from the fees payable should performance be below standard or if the facilities are unavailable.

The Council has leased the land which forms the site of the TLC to Investors in the Community (Hackney) Limited for an annual rent of £0.222 million.

The TLC continues to be included on the Council's Balance Sheet as the Council is deemed to control and regulate the services provided under the PFI scheme and ownership of the TLC building will pass to the Council at the end of the contract for no additional charge. Movements in the value of the TLC building are detailed in the analysis in Note 13.

Lifecycle costs have not been included in the model used to determine the principal and interest elements of the unitary payments made. There have been no changes to the scheme or refinancing in 2019/20.

Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, otherwise it is fixed. Payments remaining to be made under the PFI contract for the TLC as at 31st March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows.

	Payment for Services	Reimbursement of Capital Exp	Interest	**Total**
	£'000	£'000	£'000	**£'000**
Payable in 2020/21	1,680	882	939	**3,501**
Payable within 2 to 5 years	7,620	4,244	3,040	**14,904**
Payable within 6 to 10 years	11,717	7,366	1,741	**20,824**
Payable within 11 to 15 years	9,041	36	0	**9,077**
Total	**30,058**	**12,528**	**5,720**	**48,306**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the contractor for capital expenditure incurred is as follows.

	2019/20	2018/19
	£'000	£'000
Balance at start of year	**(13,349)**	**(14,112)**
Payments during the year	821	763
Balance at end of year	**(12,528)**	**(13,349)**

42. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, it is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. It is therefore accounted for on the same basis as a defined contribution scheme for the purposes of these financial statements.

In 2019/20 the Council paid £12.664 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% from 01/04/2019 – 31/08/2019 and 23.68% from 01/09/2019 – 31/03/2020 of pensionable pay. The figures for 2018/19 were £9.815 million and 16.48%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are detailed in Note 43.

43. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes.

- London Pension Fund Authority (LPFA) – for those employees who, in previous years, were transferred to the Council on the abolition of the Greater London Council, the London Residuary Body and the Inner London Education Authority.
- London Borough of Hackney (LBH) Pension Fund, where the Council is the Administering Authority – the Council is the largest employer in the Fund and makes contributions to fund the pension benefits of Council staff including school

support staff, along with employees also paying contributions at rates determined by statute.

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 required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment 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 during the year.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Cost of Services				
- current service cost (incl.admin)	78,658	62,540	230	173
- Past Service cost incl settlement and curtailments	273	19,066	0	0
Total	78,931	81,606	230	173
Financing and Investment Income and Expenditure				
- Net interest cost	20,291	18,284	54	67
Total	20,291	18,284	54	67
Re-measurements of net defined benefit liability				
- Return on plan assets	107,247	(43,645)	2,438	(3,428)
- changes in demographic assumptions	(72,536)	0	869	(1,636)
- changes in financial assumptions	(215,545)	173,967	(3,410)	2,226
Other	(39,010)	(20)	78	2,596
Total	(219,844)	130,302	(25)	(242)

The following transactions have been made in the Comprehensive Income and Expenditure Statement and General Fund / HRA balances via the Movement in Reserves Statements during the year.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Reversal of net charges made to the Surplus/Deficit for the Provision of Services in accordance with the Code	(99,222)	(99,890)	(284)	(240)
Actual amount charged for pensions in the year	64,134	60,443	312	340

Assets and Liabilities in Relation to Post-employment Benefits

The Council is responsible for the cost of unfunded pension payments relating to compensatory added years benefits to former employees who were in the LPFA scheme. In 2019/20 this amounted to £0.261 million (£0.266 million in 2018/19).

In addition, the Council is responsible for the ongoing cost of unfunded pension payments relating to compensatory added years benefits paid to former employees who left the Council's service prior to April 1999. Since April 1999, the Council's accounting policy requires service revenue accounts to bear the capitalised cost of any new compensatory benefit decisions by payment of a lump sum into the Pension Fund in the year of account or by instalments within five years of the employment termination date. From 2001/02, the Council no longer awarded added years compensatory benefits. The total cost borne in the 2019/20 accounts in respect of the above commitments was £5.066 million (£5.173 million in 2018/19).

The following is a reconciliation of fair value of employer assets.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Balance as at 1st April	**1,518,207**	**1,419,877**	**52,318**	**52,861**
Interest Income	36,528	38,527	1,231	1,289
Remeasurement gain/loss				
- Return on assets	(107,247)	43,645	(2,438)	3,428
- Other Actuarial gains/losses	0	0	(1,517)	(2,596)
Employer contributions	60,456	57,705	312	340
Contributions by scheme participants	12,607	11,738	17	18
Unfunded benefit contributions	3,678	3,776	260	285
Unfunded benefit payments	(3,678)	(3,776)	(260)	(285)
Benefits paid	(71,778)	(53,283)	(3,132)	(2,953)
Other		(2)	(71)	(69)
Balance as at 31st March	**1,448,773**	**1,518,207**	**46,720**	**52,318**

The following is a reconciliation of present value of the scheme liabilities.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Balance as at 1st April	**(2,354,575)**	**(2,087,532)**	**(54,823)**	**(55,708)**
Current service cost	(78,658)	(62,540)	(159)	(104)
Interest cost	(56,819)	(56,811)	(1,225)	(1,356)
Contributions by scheme participants	(12,607)	(11,738)	(17)	(18)
Remeasurement (gains) and losses				
- Actuarial (gains) and losses arising in changes in demographic assumptions	72,536	0	(869)	1,636
- Actuarial (gains) and losses arising on changes in financial assumptions	215,545	(173,967)	3,410	(2,226)
- Other	39,010	20	1,379	0
Past service cost (including Curtailments)	(273)	(19,066)	0	0
Benefits paid	75,456	57,059	3,132	2,953
Balance as at 31st March	**(2,100,385)**	**(2,354,575)**	**(49,172)**	**(54,823)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

	2019/20	2018/19
	£'000	£'000
Present value of liabilities		
- LBH	(2,100,385)	(2,354,575)
- LPFA	(49,172)	(54,823)
Fair value of assets		
- LBH	1,448,773	1,518,207
- LPFA	46,720	52,318
Surplus / (deficit)		
- LBH	**(651,612)**	**(836,368)**
- LPFA	**(2,452)**	**(2,505)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £2.149,457 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £654,064 million. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over a prudent financial timeframe as assessed by the scheme actuary. Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution expected to be made to the London Borough of Hackney Pension Scheme by the Council in the year to 31st March 2020 is £59.476 million. Expected contributions for the London Pension Fund Authority scheme in the year to 31st March 2020 are £0.056 million.

Scheme assets consist of the following categories, by proportion of the total assets held.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Cash and cash equivalents:	**5,732**	**7,102**	**2,589**	**1,922**
Equity instruments				
- Consumer	0	0	0	0
- Manufacturing	0	0	0	0
- Energy and Utilities	0	0	0	0
- Financial institutions	0	0	0	0
- Health and care	0	0	0	0
- Information technology	0	0	0	0
- Other	0	0	0	0
	0	**0**	**0**	**0**
Debt Securities:				
- Corporate Bonds	82,075	85,718	0	0
- Government Bonds	113,451	136,839	0	0
- Other	41,237	9,050	0	0
	236,763	**231,607**	**0**	**0**
Property:				
- UK Property	134,965	175,054	0	0
	134,965	**175,054**	**0**	**0**
Other investment funds and Unit				
- Equities	838,139	916,049	26,401	29,875
- Bonds	84,416	17,008	0	0
- Commodities	0	0	0	0
- Infrastructure	0	0	3,421	3,309
- Property	0	0	4,452	5,164
- Other	148,392	171,604	0	0
	1,070,947	**1,104,661**	**34,274**	**38,348**
Derivatives:				
- Foreign Exchange	366	(217)	0	0
Other				
- LDI/Cashflow matching	0	0	0	0
Target Return Portfolio	0	0	11,881	14,644
	366	**(217)**	**11,881**	**14,644**
Balance as at 31st March	**1,448,773**	**1,518,207**	**48,744**	**54,914**

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. Liabilities of the LBH fund have been assessed by Hymans Robertson LLP and those of the LPFA fund by Barnett Waddingham, both being independent firms of actuaries.

The significant assumptions used by the actuary have been as follows.

	LBH		LPFA	
	2019/20	2018/19	2019/20	2018/19
Mortality assumptions				
Longevitiy at 65 for current pensioners (years)				
- male	21.2	22.2	20.6	19.8
- female	23.4	24.2	23.4	22.6
Longevitiy at 65 for future pensioners (years)				
- male	22.4	23.6	22	21.7
- female	25.1	25.7	0.25	24.6
Financial assumptions				
- Retail Price Index increase	3.7%	3.5%	2.9%	3.5%
- Consumer Price Index increase	2.8%	2.5%	2.0%	2.5%
- Rate of increase in salaries	2.2%	3.6%	3.0%	4.0%
- Rate of increase in pensions	1.9%	2.5%	2.0%	2.5%
- Rate for discounting scheme liabilities	2.3%	2.4%	2.3%	2.3%

The LPFA Scheme assumes 50% take-up of commutation of pension for cash at retirement whilst the LBH Scheme assumes 50% of the maximum tax-free cash up to HMRC limits for pre-April 2008 service and 75% for post-April 2008 service.

The following table sets out the impact of a small change in the discount rates on the LPFA pension obligation and projected service cost as well as a +/- 1 year age rating adjustment to the mortality assumptions.

	£'000	£'000	£'000
Adjustment to discount rate	0.10%	0.00%	-0.10%
- PV of total obligation	48,572	49,172	49,779
- Projected service cost	91	93	95
Adjustment to long term salary increase			
- PV of total obligation	49,185	49,172	49,158
- Projected service cost	93	93	93
Adjustment to pension increases and deferred revaluation			
- PV of total obligation	49,767	49,172	48,583
- Projected service cost	95	93	91
Adjustment to mortality age			
- PV of total obligation	50813	49172	47,583
- Projected service cost	96	93	90

The sensitivities regarding the principal assumptions used to measure the LBH Scheme liabilities are set out below.

	% Increase	£'000
0.5% decrease in Real Discount Rate	9%	192,447
0.5% increase in the Salary Increase Rate	1%	12,449
0.5% increase in the Pension Increase Rate	9%	178,911

Investment Strategy

The Pensions Committee of the London Borough of Hackney has reviewed the Fund's investment strategy and does not believe that it is appropriate at this time to adopt an asset and liability matching strategy (ALM). The Committee considers on an ongoing basis the risk profile of the fund to ensure that its asset allocation strategy remains appropriate in terms of risk and return. As required by the Local Government (Investment and Management of Funds) Regulations 2016, the Pension Fund maintains a policy statement (Investment Strategy Statement) which sets out how assets will be managed and the Fund's approach to risk management. The suitability of various types of investment have been considered along with the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (52.7%) and bonds (22.2%). The proportion in equities has decreased slightly over the year (previously 55.8%) whilst bonds have increased from 20.7%. The Fund also invests in property, multi-asset and private debt funds as a part of the diversification of its investments.

Impact on the Authority’s Cash Flows

One of the objectives of the Fund is to keep employers’ contributions stable. The London Borough of Hackney has agreed a strategy with the Fund’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on a quarterly basis and reported to the Pensions Committee. The last triennial valuation took place as at 31st March 2019, with the next due in 2022. The Council paid a contribution of 33% of payroll during the year, a slight decrease from the previous year (33.9%)

44. Contingent Liabilities

At 31st March 2020, the Council had no material contingent liabilities.

Future service restructures are planned throughout the Council. Such restructures may involve incurring redundancy costs. The value of these cannot be determined until the individual reviews are completed. However, the Council factors these potential costs into its financial planning.

45. Contingent Assets

The Council does not have any contingent assets or gains to disclose.

46. Nature and Extent of Risks Arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government / Scottish Government / Welsh Government / Department for Communities Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk - Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.
A limit of £22m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a limit of £40m applies. The Council also sets limits on investments in certain sectors. No more than £90m in total can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	31.3.2020 Long-term £000s	31.3.2020 Short-term £000s	31.3.2019 Long-term £000s	31.3.2019 Short-term £000s
AAA	0	32,181	0	27,934
A+	0	5,093	0	2,372
A	0	15,344	0	15,304
A-	10,016	5,062	0	0
Unrated local authorities	3,517	8,037	6,546	17,052
Unrated other	0	0	0	3,000
Unrated housing associations	0	0	15,087	20,136
Total	**13,533**	**65,717**	**21,633**	**85,798**
Credit risk not applicable	30	0	30	0
Total Investments	**13,563**	**65,717**	**21,663**	**85,798**

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 365% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by [three] or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a “D” credit rating or equivalent. At 31st March 2020, £40k of loss allowances related to treasury investments.

Credit Risk: Trade and Lease Receivables and Contract Assets

The Council’s credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Council’s trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

	31.3.2020 Trade receivables	31.3.2020 Lease receivables	31.3.2019 Trade receivables	31.3.2019 Lease receivables
Neither past due nor impaired	0	719	0	20,898
Total Receivables	**0**	**719**	**0**	**20,898**

Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates.

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 authority. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement.

At 31 March 2020, £121.1m (2019: £82.9m) of principal borrowed was exposed to fixed rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	31.3.2020 £000s	31.3.2019 £000s
Increase in interest receivable on variable rate investments	(248)	(263)
Impact on Surplus or Deficit on the Provision of Services	**(248)**	**(263)**
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure	**(248)**	**(263)**
Decrease in fair value of loans and investments at	281	368
Decrease in fair value of fixed rate borrowing	(175)	(311)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Market Risks - Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

47. Heritage Assets – Five Year Summary

	2019/20	2018/19	2017/18	2016/17	2015/16
	£000	£000	£000	£000	£000
Cost of acquisitions of heritage assets					
Civic Regalia	682	588	566	520	485
Artefacts	500	490	484	450	415
Total cost of purchases	**1,182**	**1,078**	**1,050**	**970**	**900**
Value of heritage assets acquired by donation					
Artworks	857	853	850	848	845
Artefacts	238	224	223	192	172
Total donations	**1,095**	**1,077**	**1,073**	**1,040**	**1,017**
Carrying value of heritage assets					
Total	**2,277**	**2,155**	**2,123**	**2,010**	**1,916**

48. Heritage Assets – Further Information

Civic Regalia

The items of civic regalia owned by the Council are held in secure storage within Hackney Town Hall and consist of items relating to the two former separate boroughs of Stoke Newington and Shoreditch, as well as Hackney. The civic regalia items owned are listed below:

Speaker’s Gold Chain & Gold Badge
Speaker's Escort's Gold Badge
Deputy Speaker's Silver Chain & Silver Badge
Deputy Speaker's Escort's Gold Badge
Speaker & Deputy Speaker's Robes, Hat, Gloves, Wrist & Neck Ruffles
Shoreditch Gold Chain & Gold Badge
Stoke Newington Chain & Badge
Speaker’s Mace
Gilt wood & Mother of Pearl Mace
Silver Gilt Mace
Hackney Badges

Artworks

The collection consists of the Chalmer’s bequest collection of artworks including paintings, sculptures and decorative art objects. It was donated to the Borough of Stoke Newington by Alexander Chalmers in 1927 along with a sum of money, the interest of which was intended for the continued expansion of the collection. Until 1986 the Chalmers Bequest was housed in the Stoke Newington Library, at which point it was moved to the newly instituted Hackney Museum in order to increase access and to provide better security and supervision for the collection. As the artworks are held in trust, they cannot be sold or otherwise disposed of by the Council. The bequeathed artworks valued, for insurance purposes, in excess of £50k are listed below:

A Storm off the coast with Men O War
Interior of St Peters with Papal Process
Numerous Animal & Orpheus
Fishing boats & Man O War at river mouth
An Italian Market Scene

The majority of the collection is on display in the Hackney Museum where it can be viewed by the public. The remaining paintings, sketches and sculptures are held in secure storage in the Hackney Archives.

Artefacts

The Council owns one piece of sculpture, a javelin figure sculpted by Constance Freedman, which is situated outside the Britannia Sports Centre and an Anglo-Saxon long boat (unearthed in Springfield Park) and a nineteenth century hand-pumped fire engine which are on display in the Hackney Museum.

Preservation and Management

The artworks collection is managed by the Head of Museum and Culture who reports to the Director of Health and Community Services. The collection is managed in accordance with policies that are approved by the Authority.

2018/19	HRA Income & Expenditure Statement	2019/20	
£'000		£'000	£'000
	Expenditure		
44,785	Repairs and maintenance	43,896	
42,223	Supervision and management	48,489	
2,007	Rents, rates, taxes and other charges	1,527	
161,579	Depreciation and impairment of non-current assets	149,830	
106	Debt Management Costs	111	
1,483	Movement in the allowance for bad debts	1,844	
337	Sums directed by the Secretary of State that are expenditure in accordance with the Code	471	
252,520	**Total Expenditure**		**246,168**
	Income		
(110,416)	Dwelling rents	(112,266)	
(4,322)	Non-dwelling rents	(4,497)	
(15,748)	Charges for services and facilities	(15,759)	
(11,235)	Contributions towards expenditure	(11,929)	
(141,722)	**Total Income**		**(144,451)**
110,798	**Net Cost of HRA Services as included in the Comprehensive Income**		**101,717**
547	HRA service share of Corporate and Democratic Core		547
4,972	HRA share of other amounts included in the whole authority Cost of		6,167
116,317	**Net Income / (Cost) for HRA Services**		**108,431**
	HRA share of operating income and expenditure included in the Comprehensive I&E Statement		
(104,468)	(Gain) or loss on sale of HRA non-current assets		(52,618)
1,925	Interest payable and similar charges		3,419
(118)	Interest and investment income		(203)
2,343	Net Interest on the net defined benefit liability (asset)		3,043
(6,747)	Capital grants and contributions receivable		(13,102)
9,252	**(Surplus) or deficit for the year on HRA services**		**48,970**

2018/19	Movement on the HRA Statement	2019/20	
		£'000	£'000
(10,200)	**Balance on the HRA at the end of the previous year**		**(15,000)**
9,252	(Surplus) or deficit for the year on the HRA Income and Expenditure	48,970	
	Adjustments between accounting basis and funding basis under statute		
207	- Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory	(61)	
104,468	- Gain or (loss) on sale of HRA non-current assets	52,618	
(2,971)	- HRA share of contributions to or from the Pensions Reserve	(5,772)	
43,677	- Transfer to/(from) Major Repairs Reserve	43,184	
(153,414)	- Transfer to/(from) Capital Adjustment Account	(134,439)	
5,582	- Capital expenditure funded by the HRA	5,725	
(1,454)	- Sums directed by the Secretary of State to be debited or credited to the HRA that are not expenditure or income in accordance with the Code	(2,306)	
5,346	Net increase or (decrease) before transfers to or from reserves	7,919	
	Transfers to or (from) reserves		
(10,078)	- HRA Rightsizing reserve	(3,675)	
29	- Tenants Levy Reserve	11	
(259)	- Utilities Reserve	(578)	
0	- HRA Insurance Reserve	0	
163	- Aerial Mast income reserve	123	
(4,800)	Increase or (decrease) in year on the HRA		3,800
(15,000)	**Balance on the HRA at the end of the year**		**(11,200)**

1. Capital Expenditure

The following summarises HRA capital expenditure on land, houses and other property during the financial year and the sources of funding used.

	Dwellings		Other Property	
	2019/20	2018/19	2019/20	2018/19
		£'000		£'000
Expenditure	106,017	145,692	2,330	3,160
	106,017	**145,692**	**2,330**	**5,716**
Funded by				
Borrowing	0	10,139	0	0
Usable capital receipts	54,666	81,733	34	1,474
Grants and contributions	8,166	10,143	2,296	1,686
Major Repairs Reserve	43,184	43,677	0	0
	106,016	**145,692**	**2,330**	**5,716**

2. Capital Receipts

The following is a summary of capital receipts from disposals of land, dwellings and other property within the HRA during the financial year.

	2019/20	2018/19
	£'000	£'000
Dwellings	58,475	119,493
Other Property	0	0
	58,475	**119,493**

3. Land, Housing Stock and Other Property

	2019/20	2018/19
Number of dwellings	No.	No.
Hostels	59	59
Houses and bungalows	2,107	2,109
Flats and maisonettes	19,675	19,638
Stock at 31st March	**21,841**	**21,806**
Value of assets	£'000	£'000
Dwellings	2,353,658	2,377,655
Other Property	140,051	172,830
Investment Property	1,415	1,605
Values at 31st March	**2,495,124**	**2,552,090**

4. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at 31st March 2020 was £9,118 million (£9,429 million as at 31st March 2019). The difference of £6,821 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing council housing at less than open market rents, net of any impairment to the value of the Housing Stock.

5. Depreciation and Impairment Charges

The Item 8 Determination states that the Housing Revenue Account should be charged with depreciation; this has been calculated as follows.

	2019/20	2018/19
	£'000	£'000
Operational assets		
Dwellings	39,415	39,453
Other land and buildings	3,769	4,224
	43,184	**43,677**

There was £193.962 million debited to the HRA for the net impairment loss reversals of HRA fixed during 2019/20 (£116.466 million debited in 2018/19). This was due to a decrease in the balance sheet valuation of HRA assets in 2019/20.

6. Revenue Costs funded from Capital

There is an amount of £1.345 million (£1.188 million in 2018/19) in respect of the write down of revenue costs financed from capital resources included within the cost of capital charge, determined in accordance with proper practice, in respect of land, houses or any other property within the Council's Housing Revenue Account.

7. Pension Reserve

The pension reserve was reduced by £5.77 million in 2019/20 (£2.97 million in 2018/19). This is based on an actuarial valuation of the council's pension liability at year end.

8. Rent Arrears

During 2019/20 permanent tenants and licence arrears, as a proportion of gross income due is 6.6% (6.4% in 2018/19). The Arrears as at the 31 st March 2020 are set out below.

	2018/19	2017/18
	£'000	£'000
Type of tenancy		
Permanent (including licences)	6,680	6,298
Temporary	396	378
Total arrears	7,076	6,676
Less Provision for bad and doubtful debts	(5,935)	(5,603)
Net Arrears	**1,141**	**1,073**

The average rent for permanent tenants was £110.53 per week in 2019/20, a reduction of £0.95 (0.80%) from the 2018/19 average rent of £111.48 per week.

The total provision included in the Balance Sheet in respect of HRA uncollectible debts is £6.15 million (£6.19 million as at 31 st March 2019)

9. Exceptional Items and Prior Period Adjustments

There were no exceptional items or prior period adjustments in respect of the HRA during 2019/20.

COLLECTION FUND AND NOTES

2018/19		The Collection Fund	Note	2019/20	
CTAX	NNDR			CTAX	NNDR
£000				£000	
		Amounts required by statute to be credited to the Collection Fund			
(102,672)		Council Tax (net of discounts for prompt payment and transitional relief)	2	(111,986)	
		Transfers from General Fund			
0		- Council Tax benefits		0	
2		- Transitional relief		(1)	
	(120,802)	Non-domestic rates	1		(143,128)
	(17,361)	Transitional protection payments non-domestic rates			(9,904)
	(3,744)	Income collectable in respect of Business Rate Supplements (BRS)			(3,772)
		Contributions towards previous year's estimated Collection Fund deficit			
		Amounts required by statute to be debited to the Collection Fund			
		Precepts & demands from GLA & LBH and Shares of non-domestic rates			
76,868	79,309	- London Borough of Hackney	1	82,299	64,215
20,933	44,612	- Greater London Authority	1	23,254	36,121
	0	Payment in respect of central share of non-domestic rates to Central Gov	1		33,445
	0	Transitional protection payments non-domestic rates			0
	3,736	- Payments to levying authority's BRS Revenue Account			3,764
	8	- Administration costs			8
		Impairment of debts and appeals for council tax & non-domestic rates			
1,745	2,968	- Allowance for impairment	3	3,668	6,441
	547	Charge to General Fund for allowable collection costs for non-domestic rates			556
5,000	12,169	Contributions towards previous year's estimated Collection Fund surplus		3,236	11,337
1,876	**1,442**	**Movement on fund balance**		**470**	**(917)**
(5,862)	(2,515)	Opening fund Balance at 1st April		(3,986)	(1,073)
(3,986)	**(1,073)**	**Closing fund balance at 31st March**	4	**(3,516)**	**(1,990)**

1. National Non-Domestic Rates

NNDR is organised on a national basis. From 1st April 2013 the Business Rates Retention (BRR) Scheme came into force, replacing the previous system of business rates collected by the council being paid into the NNDR Pool administered by the Government; on 1st April 2018, all London Authorities entered into a pooling arrangement for NNDR purposes. For 2019/20 under the NNDR London Authorities Pooling arrangement: Hackney keeps 48% of its non-domestic rating income, Central Government get 25% and 27% goes to the Greater London Authority. Any benefits arising from NNDR pooling will be credited to the General Fund. Under the new BRR system, the rateable value on the rating list on 3rd January 2019 was £379.558 million (10th January 2018 was £362.773 million), this value is multiplied by small business non-domestic rating multiplier for 2019/20 of 49.1 pence (48.0 pence for 2018/19) to arrive at the council's gross rates of £186.363 million (£174.131 million in 2018/19) gross of mandatory and discretionary relief's, unoccupied property relief, and transitional arrangements/adjustments. After applying all relief's the net rates payable was £129.304 million (£112.955 million in 2018/19). After 2019/20 estimated losses and repayments/refunds (NNDR appeals) collectable rates (net rates) payable was £123.304 million (£106.955 million in 2018/19). After factoring in if any transitional protection payments, and cost of collection allowance the resulting 2019/20 non-domestic rating income for sharing between Hackney Council (48%), Central Government (25%) and the Greater London Authority (27%) was £133.782 million (£123.921 million in 2018/19).

In 2019/20 any NNDR (surplus)/deficit is shared between Hackney Council, Central Government and the Greater London Authority.

The aggregate rateable value on the rating list as at 25th March 2020 was £397.072 million (£382.610 million as at 27th March 2019). The small business non domestic rating multiplier for 2019/20 was 49.1 pence (48.0 pence in 2018/19). Net rates payable (before write-offs, allowance for non-collection, losses on appeal was £152,063 million (£139.278 million in 2018/19). Non-Domestic Rating Income for sharing inclusive of transitional protection payments was £146.036 million (£134.648 million 2018/19). The actual 2019/20 surplus for sharing was £1.990 million (£1.073 million surplus in 2018/19) and will be shared between Central Government (MHCLG), with Hackney Council and Greater London Authority (GLA); having to pay a contribution.

Revaluations are carried out every 5 years, the last one being in April 2017; in the current circumstances the next revaluation has been postponed.

Under the Business Rates Retention Scheme Hackney is also allowed to retain any business rates from enterprise zones, new development deals, and business rates applicable to renewable energy schemes. As Hackney's need under the Business Rates Retention Scheme is greater than its business rates income, it receives Top-up payments from the Government. Top-up payments received during 2019/20 totalled £83.421m (£72.766m in 2018/19) and have been credited to the General Fund.

2. Council Tax Base

Council Tax income was received from the following sources.

	2019/20	2018/19
	£'000	**£'000**
Gross bills	111,987	102,670
Less Council Tax Benefit	n/a	n/a
Add Transitional relief adjustment	(1)	2
Income from Council Tax	**111,986**	**102,672**

Council tax benefit and council tax benefits subsidy ended on 31st March 2013. From 1st April 2013 the new Council Tax Reduction Scheme (CTRS) came into force, with each Local Authority operating its own local scheme.

Council Tax income derives from charges raised according to the value of residential properties. These have been classified into eight valuation bands utilising estimated 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Greater London Authority and the Council for the forthcoming year and dividing this by the Council Tax Base (the total number of properties in each band, adjusted by a proportion to convert the number to a Band D equivalent, and adjusted for discounts and non-collection), which is 72,552 for 2019/20 (71,145 for 2018/19). This basic amount of Council Tax for Band D property, £1,454.86 for 2019/20 (£1,374.67 for 2018/19), is multiplied by the proportion specified for the particular band to give an individual amount due.

Band	Ranges from/to		Valuation List	After Discounts and Adjustments	Proportion	No.	
	£	£				2019/20	2018/19
A	up to	40,000	7,815	3,788	0.67	2,524	2,359
B	40,001	52,000	31,730	18,800	0.78	14,622	14,382
C	52,001	68,000	34,533	25,281	0.89	22,472	22,026
D	68,001	88,000	23,357	18,404	1.00	18,404	18,333
E	88,001	120,000	11,821	9,396	1.22	11,484	11,128
F	120,001	160,000	4,314	3,427	1.44	4,949	4,890
G	160,001	320,000	1,150	1,099	1.67	1,831	1,685
H	320,001	and above	46	42	2.00	84	86
			114,766	80,237		76,370	74,890

Estimated band D equivalent assumed changes		
Band D equivalent for Taxbase calculation	76,370	74,890
Collection rate assumed in the budget setting	95%	95%
Council Tax base	**72,552**	**71,145**

3.Bad Debts

Only the movements on the provision made or released are charged to the Collection Fund directly. For Council Tax and NNDR, this is shown as discrete amounts on the face of the Collection Fund.

	Council Tax	NNDR	Council Tax	NNDR
	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Provision brought forward at 1st April	(16,900)	(23,009)	(17,522)	(20,041)
Provision (made)/released	(3,668)	(6,441)	(1,745)	(2,968)
Write-offs /(write backs) charged directly to the bad debt provision	1,707	9	2,367	0
Provision carried forward at 31st March	**(18,861)**	**(29,441)**	**(16,900)**	**(23,009)**

4. Collection Fund (Surplus)/Deficit

Surplus on Council tax

The estimate of the surplus on the Collection Fund as at 31st March 2020, which was made on the 15th January 2020 for the purposes of the 2020/21 budget, was £3.999 million (£3.236 million at 31st March 2019). An element of this surplus amounting to £0.881 million will be paid to the Greater London Authority (GLA) in 2020/21.

The actual overall surplus on the Collection Fund at 31st March 2020 is £3.516 million (£3.986 million at 31st March 2019). The decrease in the actual surplus compared with the estimate made in January will be taken into account in the calculation of the surplus or deficit as at 31st March 2021 for the purposes of the 2021/22 budget. The amount of the decrease attributable to the GLA in 2021/22 is estimated at £0.106 million.

The total actual cumulative surplus to 31st March 2020 was £3.516 million, the amount which will therefore be paid to the GLA is estimated at £0.775 million. This amount has been included in the Council's Balance Sheet as a creditor (GLA). Hackney's share of £2.741 million at 31st March 2020 (£3.128 million at 31st March 2019) represents the estimated amount available to support the Council's budget in 2020/21 and 2021/22.

Surplus on NNDR

The estimate of the surplus on the Collection Fund as at 31st March 2020, which was made on the 31st January 2020 for the purposes of the 2020/21 budget, was £1.979 million (£11.337 million at 31st March 2019). This will be shared out and distributed in 2020/21 as follows: Central Government (MHCLG) £3.061 million, with Hackney and Grater London Authority (GLA) having to pay contributions of £0.692 and £0.389 million respectively.

The actual overall surplus on the Collection Fund at 31st March 2020 was £1.990 million (£1.073 million as at 31st March 2019). The increase in actual surplus compared with the estimate made in January will be taken into account in the calculation of the surplus or deficit as at 31st March 2021 for the purposes of the 2021/22 budget.

The total actual cumulative surplus to 31st March 2020 was £1.990 million (£1.073 million as at 31st March 2019) which will be distributed in part to Central Government £3.063m, with Greater London Authority needing to pay a contribution of £0.386 million for its deficit share. These amounts have been included in the Council's Balance Sheet as a debtor and creditor (MHCLG & GLA). Hackney's share of the closing fund balance is a deficit of £0.687 million as at 31st March 2020, and will need to pay a contribution to that effect (£3.969 million surplus as at 31st March 2019) represents the estimated amount that will negatively impact the Council's budget in 2020/21 and 2021/22.

1. Introduction

The CIPFA Code of Practice requires local authorities with interests in subsidiaries, associates and/or joint ventures to prepare group accounts in addition to their own single entity financial statements, unless their interest is not considered material. The London Borough of Hackney wholly owns five subsidiaries, each established by a single £1 share.

2. Subsidiary status for 2019/20 Consolidation

Of the five wholly owned subsidiaries that have been established, only Hackney PRS Housing Company Ltd has been consolidated into the group for 2019/20. The rationale for this is outlined in the table below.

Subsidiary	**Status for 2019/20 Group accounts**	**Comments**
Otto Management Company Limited	Not Consolidated	Immaterial - low turnover, consolidation unnecessary
Makers Management Company Limited	Not Consolidated	Immaterial - low turnover, consolidation unnecessary
Hackney Housing Company Limited (Holding company);	Consolidated	
Hackney PRS Housing Company Limited (Subsidiary);	Consolidated	
Hackney LLR Housing Company Limited (Subsidiary)	Not Consolidated	Dormant for 2019/20

Further commentary on activities undertaken by each of the subsidiaries can be found within the Related Parties section of this document at p110.

3. Group Accounts

The Group Accounts contain the core statements similar in presentation to the Council's single entity accounts but consolidating the figures of the Council with the Companies. The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement

There is no prior year comparator within the accounts presented because the year ended 31 March 2020 is the first set of financial accounts prepared for the active subsidiaries.

4. Commentary on material group activities in 2019/20

During 2019/20 London Borough of Hackney provided a loan of £11.2m and capital contribution of £4.8m, the latter via Hackney Housing Company, to Hackney PRS to acquire 25 properties, which are rented at market rates. The material Group item is an additional investment property of £15.656m. In the consolidating of group accounts, this is within two key adjustments - reduction of long term investments (reflecting LB Hackney funding of subsidiary) and increase in Investment Property (reflecting property acquisition), as follows.

	Single entity	Group Adjustments	Group presentation
	£'000	£'000	£'000
Investment Property	215,725	15,786	231,511
Long Term Investments	18,330	-16,000	2,330

Movement in Reserves

	Total Single Entity Usable Reserves	PRS Usable	**Total Group Usable Reserves**	Single entity Unusable	PRS Unusable	**Total Group Unusable Reserves**	**Total Group Reserves**
	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Balance as at 31/03/2019	(339,553)	0	**(339,553)**	(3,189,325)	0	**(3,189,325)**	**(3,528,878)**
Movement in reserves during 2019/20							
Total Comprehensive Income and Expenditure	184,315	355	**184,670**	(222,792)	0	**(222,792)**	**(38,122)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(135,803)	0	**(135,803)**	120,118	0	**120,118**	**(15,685)**
(Increase) / Decrease in 2019/20	48,512	355	**48,867**	(102,674)	0	**(102,674)**	**(53,807)**
Balance as at 31/03/2020	(291,041)	355	**(290,686)**	(3,291,999)	0	**(3,291,999)**	**(3,582,686)**
Of which;							
Schools Balances	(13,195)	0	**(13,195)**	0	0	**0**	**(13,195)**
LB Hackney Revenue	(291,041)	355	**(290,686)**	656,620	0	**656,620**	**365,932**
LB Hackney Capital	0	0	**0**	(3,948,618)	0	**(3,948,618)**	**(3,948,618)**

	Total Single Entity Usable Reserves	PRS Usable	**Total Group Usable Reserves**	Single entity Unusable	PRS Unusable	**Total Group Unusable Reserves**	**Total Group Reserves**
	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Balance as at 31/03/2018	(326,154)	0	**(326,154)**	(3,506,958)	0	**(3,506,958)**	**(3,833,112)**
Movement in reserves during 2018/19							
Total Comprehensive Income and Expenditure	102,832	0	**102,832**	201,400	0	**201,400**	**304,232**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(116,232)	0	**(116,232)**	116,232	0	**116,232**	**0**
(Increase) / Decrease in 2018/19	(13,400)	0	**(13,400)**	317,632	0	**317,632**	**304,232**
Balance as at 31/03/2019	(339,553)	0	**(339,553)**	(3,189,325)	0	**(3,189,325)**	**(3,528,878)**
Of which;							
Schools Balances	(14,955)	0	**(14,955)**	0	0	**0**	**(14,955)**
LB Hackney Revenue	(168,514)	0	**(168,514)**	836,034	0	**836,034**	**667,520**
LB Hackney Capital	(171,039)	0	**(171,039)**	(4,025,359)	0	**(4,025,359)**	**(4,196,398)**

Comprehensive Income and Expenditure

	Notes	2019/20 Gross Expenditure £'000	2019/20 Gross Income £'000	2019/20 Net Expenditure £'000	2018/19 Gross Expenditure £'000	2018/19 Gross Income £'000	2018/19 Net Expenditure £'000
Children, Adults and Community Health							
Education & Schools		364,800	(247,418)	117,382	302,732	(244,354)	58,378
Children & Families		76,329	(9,394)	66,935	73,177	(10,216)	62,962
Adult Services		134,419	(50,373)	84,046	131,565	(44,543)	87,022
Public Health		34,524	(33,357)	1,167	34,830	(34,347)	483
Neighbourhoods and Housing							
Public Realm		124,141	(67,587)	56,553	127,326	(68,923)	58,403
Housing & Regeneration GF		5,008	(2,112)	2,895	3,407	(3,191)	216
Finance & Corporate Resources							
Revenues & Benefits		366,638	(345,901)	20,737	379,990	(364,008)	15,982
Finance and Resources Other		55,071	(15,326)	39,745	70,182	(15,000)	55,183
Chief Executives							
Chief Executive		15,332	(6,538)	8,794	12,083	(2,416)	9,668
Housing Revenue Account							
HRA		252,882	(144,451)	108,431	258,038	(141,722)	116,317
Hackney PRS Housing Company							
PRS		180	(353)	(173)	0	0	0
Cost of Services		**1,429,324**	**(922,810)**	**506,514**	**1,393,332**	**(928,718)**	**464,613**
Other operating expenditure	9	79,336	(116,491)	(37,155)	24,775	(109,814)	(85,039)
Financing and investment income and expenditure	10	63,783	(39,610)	24,173	59,387	(40,247)	19,140
Taxation and Non-Specific Grant Income	11	0	(308,862)	(308,862)	0	(295,882)	(295,882)
(Surplus) or Deficit on Provision of Services				**184,670**			**102,832**
(Surplus)/deficit on revaluation of Property, Plant and Equipment assets				(2,993)			70,922
(Surplus)/deficit on revaluation of financial assets (Fair Value through P&L)				70			418
Remeasurement of net defined benefit liabilty (asset)				(219,869)			130,060
Other Comprehensive Income and Expenditure				**(222,792)**			**201,400**
Total Comprehensive Income and Expenditure				**(38,122)**			**304,232**

Balance Sheet

	Notes	31st March 2020	31st March 2019
		£'000	£'000
Property, Plant and Equipment	13	3,974,728	4,125,912
Heritage Assets	12	2,277	2,155
Investment Property	14	231,511	209,030
Intangible Assets	15	3,011	5,197
Assets Under Construction		89,287	144,769
Long Term Investments		2,330	21,662
Long Term Debtors		11,928	5,099
Long Term Assets		**4,315,072**	**4,513,823**
Assets Held for Sale	19	115,875	1,265
Short Term Investments		15,393	30,383
Inventories		769	786
Short Term Debtors (incl PIA)	17	147,465	127,744
Cash and Cash Equivalents	18	44,795	63,076
Current Assets		**324,297**	**232,635**
Short Term Borrowing		(45,400)	(80,554)
Short Term Creditors (incl RIA)	21	(154,568)	(164,429)
Revenue Grants Receipts in Advance	36	(1,261)	(249)
Capital Grants Receipts in Advance	36	(1,795)	(7,536)
Provisions	20	(33,039)	(31,337)
Current Liabilities		**(236,063)**	**(293,484)**
Long Term Creditors		(8,981)	(7,000)
Provisions	20	(15,929)	(11,975)
Long Term Borrowing		(80,605)	(2,287)
Other Long Term Liabilities	42,44	(665,708)	(851,457)
Revenue Grants Receipts in Advance	36	(277)	(663)
Capital Grants Receipts in Advance	36	(49,120)	(50,714)
Long Term Liabilities		**(820,620)**	**(924,095)**
Net Assets		**3,582,686**	**3,528,878**
Usable Reserves	22	(290,688)	(339,553)
Unusable Reserves	23	(3,291,998)	(3,189,325)
Total Reserves		**(3,582,686)**	**(3,528,878)**

Cash Flow Statement

	Note	31st March 2020	31st March 2019
		£'000	£'000
Net (surplus) / deficit on the provision of services		184,670	102,832
Adjustments to net surplus or deficit on the provision of services for non-cash movements		(350,132)	(320,201)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		170,713	141,447
Net cash flows from Operating Activities	24	**5,251**	**(75,921)**
Investing Activities	25	72,415	93,792
Financing Activities	26	(59,385)	(43,792)
Net (increase) or decrease in cash and cash equivalents		**18,281**	**(25,921)**
Cash and cash equivalents at the beginning of the reporting period		63,076	37,155
Cash and cash equivalents at the end of the reporting period	18	**44,795**	**63,076**

Fund Account

2018/19 £'000	Fund Account	Notes	2019/20 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(75,803)	Contributions	7	(78,777)
(8,841)	Transfers in from other pension funds	8	(5,301)
(84,644)			(84,078)
56,192	Benefits	9	65,429
4,418	Payments to and on account of leavers	10	8,035
60,610			73,464
(24,034)	**Net (additions)/withdrawals from dealings with members**		**(10,614)**
8,176	**Management Expenses**	11	**9,870**
	Returns on investments		
(12,316)	Investment income	12	(11,765)
(71,953)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	94,393
204	Taxes on Income		0
(84,065)	**Net returns on investments**		**82,628**
(99,923)	**Net (increase)/decrease in the Fund during the year**		**81,884**
1,475,309	**Opening net assets of the Scheme**		**1,575,232**
1,575,232	**Closing net assets of the Scheme**		**1,493,348**

Net Assets Statement

2018/19 £'000	Net Assets Statement	Notes	2019/20 £'000
1,522,217	Investment Assets	13a	1,471,235
150	Long-Term Investment		150
26,817	Cash Deposits	13a	12,328
1,549,184			**1,483,713**
(1,365)	Investment Liabilities	13a	**(3,594)**
1,547,819	**Net Value of Investment Assets**	13a	**1,480,119**
0	Long-term debtors	18a	25
33,366	Current Assets	18	18,886
(5,952)	Current Liabilities	19	(5,682)
27,413			**13,229**
1,575,232	**Net Assets of the Fund available to fund benefits at the period end**		**1,493,348**

1. DESCRIPTION OF THE FUND

The Hackney Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Hackney.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2019/20, the Pension Fund website https://hackneypension.co.uk/Home.aspx and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered 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) Regulation 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Hackney ("the Council") to provide pensions and other benefits for pensionable employees of the London Borough of Hackney and for the employees of admitted and scheduled bodies eligible to participate in the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pensions Committee with the Group Director of Finance and Corporate Resources being given delegated authority for the day to day operations of the Fund.

b) Membership

All local government employees (except casual employees, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered into the Scheme. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. As at 31st March 2020 there are 42 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2020	31 March 2019
Number of Employers with active members	42	37
Number of Employees in scheme		
Council	6,540	6,066
Scheduled bodies	478	581
Admitted bodies	106	81
Total	**7,124**	**6,728**
Number of pensioners		
Council	6,681	6,237
Scheduled bodies	43	37
Admitted bodies	21	27
Ceased Employers	546	741
Total	**7,291**	**7,042**
Deferred members		
Council	8,730	8,606
Scheduled bodies	725	629
Admitted bodies	85	74
Ceased Employers	976	1,043
Total	**10,516**	**10,352**
Grand Total	**24,931**	**24,122**

c) Funding

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 for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019 with the next valuation due to take place at 31 March 2022. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2019/20 or within the Actuarial valuation on the Pension Fund Website:- https://hackneypension.co.uk/

d) Benefits

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

April 2014, saw the implementation of LGPS 2014, a new Career Average Revalued Earnings (CARE) Scheme, based on a $1/49^{th}$ accrual rate with retirement ages now linked to an individual member's state pension age. On average, contribution rates for employees have remained at 6.5%, however the contribution bands have widened and are now 5.5% to 12.5% at the top end. The new Scheme has also introduced the option for flexibility over contributions, i.e. a lower contribution for lower benefits, referred to as the 50/50 Scheme. It has not been possible to quantify the impact of these changes, although they have been designed to bring the future service costs of the Scheme down.

Details of the schemes are summarised below:

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 Career Average Revalued Earnings Salary
	Automatic lump sum of 3 x pensionable salary.	No automatic lump sum.	No automatic lump sum.
Lump Sum	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.	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.	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.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the scheme guides which can be found at https://hackneypension.co.uk/.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS 19) basis, is disclosed in Note 17 of these accounts. The accounts have been prepared on a going concern basis

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contributions income

Normal contributions, both from members and employers, are accounted for on an accruals basis (at the percentage rate recommended by the Fund actuary) in the payroll period 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 scheme actuary or on receipt if earlier than the due date.

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in-year but unpaid will be classed as a current financial asset.

b) Transfers to and from 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 (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
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) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting year is disclosed in the
Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds (including property funds)
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments
- Changes in the net market value of investments are recognised as unrealised profits/losses during the year.
- Realised profit/losses are recognised upon the sale of investments during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include those known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) 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. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

The Council discloses its pension fund management expenses in accordance with the CIPFA guidance: *Accounting for Local Government Pension Scheme Management Expenses*

i) *Administrative expenses*
All administrative expenses are accounted for on an accruals basis. Relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) *Oversight and governance costs*
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) *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 decrease as the value of these investments change.

Where an investment manager's invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, estimated fees for the Fund's property mandates were provided by Columbia Threadneedle. During the year, the manager's external property valuer, CBRE, deployed a market uncertainty clause as a result of the Coronavirus pandemic. Threadneedle were therefore unable to provide an accurate valuation for the Fund's assets as at 31 March 2020, resulting in uncertainty over fees. An estimate has been provided based on the fees charged for 2018/19.

A similar procedure is used for custodian fees, and in 2019/20 there were no fees estimated (2018/19: no fees estimated).

The Fund requests that non-invoiced investment management fees (plus other associated costs such as transaction costs) are disclosed via the LGPS Transparency Code template. Where cost information is not readily available for the year ending 31st March 2020 (e.g. for pooled funds using different accounting dates), an estimate will be made using the most recent information available.

Net Assets Statement

g) 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 the 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 has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The Fund has contributed £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool. The investment is carried at cost as:

- the shares held in the LCIV do not constitute a joint venture or group arrangements due to lack of control
- the investment is not repayable on demand and does not meet FVOCI requirements and
- the fund is of the view that fair value at 31st March 2020 cannot reliably be measured.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) 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.

Derivative contract assets are measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts are included in any change in the market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash-in-hand and deposits payable on demand and includes amounts held by the Fund’s external managers.

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

k) 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 fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS19 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 only (Note 17).

m) Additional Voluntary Contributions (AVCs)

The Hackney Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC approved provider. AVCs are paid by members to the AVC provider and are used specifically 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 Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 3, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are as follows:

Pension fund liability

The Pension Fund carries out a funding valuation on a triennial basis, the assumptions underpinning the valuation are agreed with the actuary and are summarised in note 16.

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation; the assumptions used are summarised in Note 17.

Valuation of Financial instruments carried at fair value – Level 2 and Level 3

Financial instruments at Level 2 are those where quoted market investments 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 and where these techniques use inputs that are based significantly on observable market data.

Financial instruments at Level 3 are those where are at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted equity investments (such as private debt), which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Coronavirus pandemic has resulted in uncertainty over the valuation of the Fund's property assets; an estimate has been provided by the manager as the standard valuation approach, which uses observable inputs from the UK commercial property market, cannot be applied at this time. These assets have previously been classified as Level 2 but have been reclassified to Level 3 given the current uncertainty.

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 pension fund liability shown in Note 17 is calculated on an IAS19 basis, with economic assumptions updated annually. It is therefore subject to a significant risk of material adjustment in forthcoming financial years. The table below presents a sensitivity analysis, setting out the likely impact of changes to key economic assumptions on the carrying amount of the liability shown in Note 17.

Change in assumptions at 31 March 2020	Approximate % increase to Pension Fund Liability	Approximate monetary amount (£m)
0.5% decrease in 'real discount rate'	10%	204
0.5% increase in the 'salary increase rate'	1%	12
0.5% increase in the 'pension increase rate'	9%	195

- In order to quantify the impact of a change in the financial assumptions used, the Fund's actuary has calculated and compared the value of scheme liabilities as at 31 March 2020 on varying bases. The approach taken is consistent with that adopted for IAS19.
- The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, it has been estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%.
- In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2020 and up to the date when these accounts were authorised, which require any adjustments to these accounts. The Coronavirus pandemic has resulted in uncertainty over the valuation of the Fund's property assets; an estimate has been provided by the manager as the standard valuation approach cannot be applied at this time. No information has been received since the valuation date to suggest that this estimate should be revised.

7. CONTRIBUTIONS RECEIVABLE

By Category	2019/20	2018/19
	£'000	**£'000**
Employers' Contributions split by:		
Normal Funding	(31,986)	(29,246)
Deficit Funding	(33,177)	(33,907)
Members' Contributions	(13,614)	(12,650)
Total	**(78,777)**	**(75,803)**

By Employer	2019/20	2018/19
	£'000	**£'000**
London Borough of Hackney	(74,514)	(70,144)
Scheduled Bodies	(3,851)	(4,040)
Admitted Bodies	(412)	(1,619)
Total	**(78,777)**	**(75,803)**

8. TRANSFERS IN

	2019/20	2018/19
	£'000	**£'000**
Individual Transfers	(5,301)	(8,841)
Total	**(5,301)**	**(8,079)**

9. BENEFITS PAYABLE

By Category	2019/20	2018/19
	£'000	£'000
Pensions	49,109	44,773
Commutation and Lump Sum Retirement Benefits	15,580	10,024
Lump Sum Death Benefits	740	1,394
Total	**65,429**	**56,192**

By Employer	2019/20	2018/19
	£'000	£'000
London Borough of Hackney	61,114	52,108
Scheduled Bodies	2,884	2,768
Admitted Bodies	1,431	1,315
Total	**65,429**	**56,192**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019/20	2018/19
	£'000	£'000
Refunds to Members leaving service	181	194
Payments for Members joining state scheme	-	-
Group Transfers	-	-
Individual Transfers	7,854	4,223
Total	**8,035**	**4,418**

11. MANAGEMENT EXPENSES

	2019/20	2018/19
	£'000	£'000
Administrative Costs	842	776
Investment Management Expenses*	8,037	6,578
Oversight and Governance Costs	991	822
Total	**9,870**	**8,176**

The investment management expenses disclosed above include non-invoiced management, transaction and other costs paid/payable to the Fund's investment managers of £6.457m (£4.562m in 18/19). The disclosure of the non-invoiced costs is made to the Fund via the LGPS Cost Management Template. The introduction of the template is helping to ensure more accurate fee disclosures by managers, with greater detail provided with regards to transaction costs. Audit Fees of £16k (£16k in 2018/19) were incurred and are included in Oversight and Governance Costs in the above table.

Investment Management Expenses*	2019/20	2018/19
	£'000	£'000
Management Fees	6,942	5,449
Performance Related Fees	0	81
Custody and Banking Fees	47	247
Transaction Costs	1,048	801
Total	**8,037**	**6,578**

12. INVESTMENT INCOME

	2019/20	2018/19
	£'000	£'000
Fixed Interest Securities	(4,207)	(4,199)
Equity Dividends	(4,141)	(6,610)
Index Linked Securities	(392)	(392)
Pooled Investment Income	(549)	(209)
Interest on Cash Deposits	(176)	(108)
Other Income	(2,301)	(798)
Total	**(11,765)**	**(12,316)**

13. INVESTMENTS

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is below:

Investment type		Market value 31 March 2020	Market value 31 March 2019
		£’000	£’000
Investment Assets:			
Fixed Interest Securities	UK		
	Public Sector - quoted	59,608	53,357
	Corporate - quoted	31,739	32,444
	Overseas		
	Public Sector – quoted	9,121	6,822
	Corporate - quoted	68,998	58,090
		169,466	**150,713**
Index Linked Securities	UK		
	Public Sector - quoted	55,169	65,269
	Corporate - quoted	-	-
	Overseas		
	Public Sector – quoted	-	-
	Corporate - quoted	8,563	7,621
		63,733	**72,891**
Equities	UK - quoted	150	193
	Overseas - quoted	0	0
		150	**193**
Pooled Investments	Corporate Fixed Interest	95,094	94,665
	Diversified Growth Funds	154,246	164,757
	Property	153,689	162,676
	EM Equity - Active	65,784	79,063
	Global Equity - Active	198,469	207,750
	Global Equity -Passive	396,034	430,961
	UK Equity – Passive	120,145	147,657
	Private Debt	52,415	8,376
		1,235,875	**1,295,903**
	Derivative Contracts:		
	Forward Currency	711	0
Other Investments	Futures	603	319
	Cash deposits	12,328	26,817
	Other Investment balances	2,160	2,348
		15,802	**29,484**
Total investment assets		**1,485,026**	**1,549,184**
Investment Liabilities:			
Derivative Contracts: Forward Currency		(86)	(342)
Futures		(460)	(982)
Other investment balances		(4,362)	(42)
Total investment liabilities		**(4,908)**	**(1,366)**
Net Investment Assets		**1,480,119**	**1,547,819**

b. Investments analysed by fund managers

As at 31 March 2020 the Fund's investments are managed by nine principal Investment Managers according to defined benchmarks which are set out in the Investment Strategy Statement (ISS). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000	% of investment assets	Value £'000	% of investment assets
	2019/20	2019/20	2018/19	2018/19
BlackRock (UK Equity Index)	120,173	8.12%	147,685	9.5%
BlackRock (Global Equity Index)	396,034	26.76%	430,961	27.8%
BlackRock (Ultra Short Bond Fund)	78,390	5.30%	77,781	5.0%
LCIV/RBC (Global Active Equity)	198,469	13.41%	207,750	13.4%
RBC (Global Emerging Market Equities)	65,784	4.44%	79,063	5.1%
BMO (Fixed Interest)	249,903	16.88%	242,721	15.7%
Threadneedle (Property)	153,689	10.38%	162,676	10.5%
GMO (Global Real Return)	86,943	5.87%	98,748	6.4%
Invesco (Global Multi Asset)	67,304	4.55%	66,009	4.3%
Churchill (Private Debt)	38,248	2.58%	8,376	0.5%
Permira (Private Debt)	14,168	0.96%		
Other investments (including MMFs)	11,016	0.74%	26,050	1.7%
Total	**1,480,119**	**100%**	**1,547,819**	**100%**

c. Reconciliation of movements in investments and derivatives

For each asset class, the opening position is reconciled with closing position as set out in the tables below.

Investment type	Market Value 31/03/2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2020
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	150,714	94,991	(80,573)	4,335	169,466
Index Linked Securities	72,891	14,329	(26,087)	2,600	63,733
Equities	193	0	0	(43)	150
Pooled Investment Vehicles	1,295,903	47,034	(1,015)	(106,047)	1,235,874
Derivative Contracts					
Forward Currency Contracts	(342)	4,831	(2,949)	(915)	625
Futures	(662)	7,768	(5,741)	(1,220)	144
	1,518,695	**168,951**	**(166,365)**	**(101,289)**	**1,469,993**

Other Investment balances:					
Cash Deposits	26,817				12,328
Receivable for Sales	809				0
Investment Income due	1,538				2,160
Payable for Purchases	(42)				(4,362)
Net Investment Assets	**1,547,818**			**(101,289)**	**1,480,119**

The reduction in market value of £101,289k is £6,896k greater than the change in market value on the Fund Account of £94,393k, as a result of the netting off of indirect manager fees.

Investment type	Market Value 31/03/2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2019
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	152,901	100,536	(104,583)	1,859	150,714
Index Linked Securities	62,780	12,068	(5,614)	3,656	72,891
Equities	441,332	1,388,273	(1,860,021)	30,609	193
Pooled Investment Vehicles	750,042	1,790,800	(1,287,891)	42,951	1,295,903
Derivative Contracts					
Forward Currency Contracts	68	19,731	(9,575)	(10,566)	(342)
Futures	(369)	3,202	(2,123)	(1,372)	(662)
	1,406,755	**3,314,610**	**(3,269,806)**	**67,137**	**1,518,695**
Other Investment balances:					
Cash Deposits	33,132				26,817
Receivable for Sales	3,755				809
Investment Income due	3,056				1,538
Payable for Purchases	(6,834)				(42)
Net Investment Assets	**1,439,864**			**67,137**	**1,547,819**

Derivative payments and receipts correspond to the sterling equivalent amount of forward foreign exchange and futures contracts settled during the year. Further disclosure regarding derivative contracts can be found below.

d. Objectives and policies for holding derivatives

The Fund may hold derivatives for risk management purposes, or to facilitate efficient portfolio management. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and its investment managers. The Fund does not hold derivatives for speculative purposes.

Forward currency contracts
To maintain appropriate diversification and take advantage of overseas investment income, a proportion (maximum 30%) of the Fund's bond portfolio can be held in overseas

bonds. Within the portfolio, the Fund permits a maximum allowance to non-sterling currencies of 5%. The Fund's bond manager (BMO) therefore makes use of forward currency contracts to hedge non-sterling exposure, but is not permitted to create currency positions through derivatives alone.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2020 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		**£'000**	**£'000**
Assets					
One to six months	GBP	14,087	EUR	(15,419)	416
	GBP	18	CAD	(30)	1
	GBP	11,021	USD	(13,358)	264
	GBP	318	USD	(380)	11
	GBP	16	CAD	(29)	0
	GBP	259	AUD	(514)	5
	GBP	21	CAD	(36)	1
	GBP	3,406	EUR	(3,833)	8
	GBP	33	CAD	(56)	2
	GBP	119	CAD	(203)	4
Total Assets					**711**
Liabilities					
One to six months	EUR	416	GBP	(388)	(19)
	AUD	104	GBP	(52)	(0)
	AUD	247	GBP	(122)	(0)
	CAD	67	GBP	(39)	(1)
	USD	305	GBP	(263)	(17)
	CAD	91	GBP	(53)	(2)
	USD	270	GBP	(232)	(15)
	CAD	79	GBP	(47)	(2)
	AUD	0	GBP	(0)	(0)
	AUD	163	GBP	(81)	(1)
	CAD	29	GBP	(17)	(1)
	CAD	4	GBP	(2)	(0)
	EUR	676	GBP	(625)	(26)
	USD	333	GBP	(269)	(1)
Total Liabilities					**(86)**
Net Forward Contracts 2019/20					**626**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		£'000	£'000
Assets					
		0		0	0
Total Assets					**0**
Liabilities					
One to six months	GBP	7,416	EUR	(8,697)	(86)
	GBP	7,414	EUR	(8,697)	(88)
	GBP	4,102	USD	(5,425)	(55)
	GBP	4,100	USD	(5,425)	(57)
	GBP	4,101	USD	(5,425)	(56)
Net Forward Contracts 2018/19					**(342)**

Futures

The Fund's bond manager, BMO, is permitted to use bond futures for both risk management purposes and to facilitate efficient portfolio management. Specifically, the mandate permits BMO to use bond futures to make adjustments to the portfolio yield curve, with the restriction that total portfolio duration may not be negative in the following maturity buckets: 0-5yrs, 5-10yrs, 10-15yrs, 15-20yrs, 20+yrs.

The Outstanding futures contracts are as shown below. The economic exposure represents the notional asset value purchased under futures contracts and is therefore subject to market movements.

Investment Type	Expires	Economic Exposure	Market value 31-Mar-20	Economic Exposure	Market value 31-Mar-18
		£'000	£'000	£'000	£'000
Assets					
UK Bonds	Under one year	15,253	338	7,892	202
Overseas Bonds	Under one year	13,829	265	3,319	117
Total Assets			**603**		**319**
Liabilities					
UK Bonds	Under one year	4,086	(18)	0	0
Overseas Bonds	Under one year	(27,850)	(442)	(36,643)	(981)
Total Liabilities			**(460)**		**(981)**
Net Futures			**144**		**(662)**

e. Investments exceeding 5% of net assets The following investments represent more than 5% of the net assets of the fund:

Security	Market Value 31 March 2020	% of total fund	Market Value 31 March 2019	% of total fund
	£'000		£'000	
Threadneedle Property Fund (TPEN)	127,759	8.56%	136,226	8.8%
GMO (Global Real Return)	86,943	5.82%	98,748	6.4%
BlackRock Aquila Life UK Equity Fund	120,173	8.05%	147,685	9.5%
BlackRock ACS World Low Carbon Equity Fund	151,404	10.14%	155,496	10.1%
BlackRock Aquila Life MSCI World Equity Fund	244,631	16.38%	275,465	17.8%
LCIV RBC Sustainable Equity Fund	198,469	13.29%	207,750	13.4%
BlackRock Ultra Short Bond Fund	78,390	5.25%	0	0%

f. Stock Lending

The Fund did not undertake any direct stock lending activity during the year, but acknowledges that within pooled investments fund managers may participate in this activity.

14. FINANCIAL INSTRUMENTS

a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category.

Investment type	2019/2020 Designated as Fair Value through Profit & Loss	2019/2020 Financial Assets at amortised costs	2019/2020 Financial Liabilities at amortised costs	2018/2019 Designated as Fair Value through Profit & Loss	2018/2019 Financial Assets at amortised costs	2018/2019 Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	169,466	0	0	150,713	0	0
Index Linked Securities	63,733	0	0	72,891	0	0
Equities	150	0	0	0	0	0
Pooled Investments	1,082,186	0	0	1,133,421	0	0
Pooled Property funds	153,689	0	0	162,676	0	0
Derivative Contracts	1,315	0	0	319	0	0
Cash	0	16,179	0	0	27,086	0
Other Investment Balances	11,139	0	0	26,197	0	0
Debtors	0	9,569	0	0	9,247	0
	1,481,678	25,748	0	1,546,217	36,333	0
Financial Liabilities						
Derivative Contracts	(545)	0	0	(1,324)	0	0
Other Investment Balances	(7,851)	0	0	(42)	0	0
Creditors	0	0	(5,682)	0	0	(5,952)
	(8,396)	0	(5,682)	(1,365)	0	(5,952)
Total	**1,473,282**	**25,748**	**(5,682)**	**1,544,852**	**36,333**	**(5,952)**
Grand Total		**1,493,348**			**1,575,232**	

b. Net gains and losses on financial instruments

The majority of the financial assets and liabilities are classed at fair value. The following table summarises the net gains and losses as profit or losses associated with, the disposal of and changes in, the market value of investments and recognised within the Pension Fund account as ‘Returns on Investments’.

	31 March 2020	31 March 2019
	£’000	£’000
Fair Value through Profit and Loss	(101,465)	67,029
Financial Assets measured at amortised cost	176	108
Financial Liabilities measured at amortised cost	-	-
Total	**101,289**	**67,137**

The reduction in market value of £101,289k is £6,896k greater than the change in market value on the Fund Account of £94,393k, as a result of the netting off of indirect manager fees.

c. Fair Value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company, however in most instances the carrying value will equate to the fair value.

	31 March 2020		31 March 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£’000	£’000	£’000	£’000
Financial Assets				
Fair Value through Profit and Loss	1,481,678	1,481,678	1,546,217	1,546,217
Financial Assets measured at amortised cost	25,748	25,748	36,333	36,333
Total Financial Assets	**1,507,426**	**1,507,426**	**1,582,550**	**1,582,550**
Financial Liabilities				
Fair Value through Profit and Loss	(8,396)	(8,396)	(1,365)	(1,365)
Financial Liabilities measured at amortised cost	(5,682)	(5,682)	(5,952)	(5,952)
Total Financial Liabilities	**(14,078)**	**(14,078)**	**(7,318)**	**(7,318)**
Grand Total	**1,493,348**		**1,575,232**	

d. Valuation of Financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments 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. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market investments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where there are at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted equity investments (such as private debt) and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	11,743	1,263,603	206,332
Financial Assets measured at amortised cost	25,748	0	0
Total Financial Assets	**37,490**	**1,263,603**	**206,332**
Financial Liabilities			
Fair Value through Profit and Loss	(8,310)	(86)	0
Financial Liabilities measured at amortised cost	0	(5,682)	0
Total Financial Liabilities	**(8,310)**	**(5,768)**	**0**
Net Financial Assets	**29,180**	**1,257,835**	**206,332**

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	26,516	1,511,065	8,635
Financial Assets measured at amortised cost	36,333	0	0
Total Financial Assets	**62,849**	**1,511,065**	**8,635**
Financial Liabilities			
Fair Value through Profit and Loss	(1,024)	(342)	0
Financial Liabilities measured at amortised cost	0	(5,952)	0
Total Financial Liabilities	**(1,024)**	**(6,294)**	**0**
Net Financial Assets	**61,826**	**1,504,771**	**8,635**

During the period, the Fund reclassified its investments in pooled property funds from Level 2 to Level 3. The Coronavirus pandemic has resulted in a significant reduction in the number of UK commercial property transactions, which has had an impact on the standard CBRE valuation approach used by the manager, Threadneedle. An estimate has been provided by Threadneedle as the standard valuation approach cannot be applied at this time; given the lack of observable inputs underpinning the valuation, the Fund has made the decision to reclassify these assets to Level 3.

The following assets have been carried at cost:

Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment in London CIV Ltd (asset pool)			150
Investments held at cost	**0**	**0**	**150**

Unquoted equities in the London CIV asset pool are valued at cost, i.e. transaction price. The inputs available to the Fund to calculate fair value are limited, and the fund considers that the original transaction price represents an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2020 as the reliability of any observable or unobservable inputs used to calculate fair value cannot be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Kay Sensitivites Affecting Valuations
Fixed Interest Securities	Level 2	Market Value based on current yields		Not required
Index Linked Securities	Level 2	Market Value based on current yields		Not required
Pooled investments – Equity funds (unit-linked insurance policies and ACS funds)	Level 2	Published bid market price at end of the accounting period	Net Asset Value (NAV) per share	Not required
Pooled investments – Ultra short bonds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Diversified growth funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Property funds	Level 3	Closing single price at end of the accounting period. Threadneedle have provided additional disclosures around the valuations for these funds given the impact on the Coronavirus pandemic on property markets	NAV per share – valiation of the underlying property assets is based on CBRE methodology	Difficulties in applying standard valuation methodology (CBRE) as a result of the Coronavirus pandemic and resulting lack of property transactions
Pooled investments – Private debt	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange movements to the end of the accounting period	Cashflow transactions, i.e. distributions or capital calls, foreign exchange movements. Audited financial statements for underlying assets	Material events between the date of the financial statements provided and the pension fund's own reporting date; differences between audited and unaudited accounts

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund’s primary long term risk is that the Fund’s assets will be insufficient to meet its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Investment Strategy Statement (ISS) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pensions Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council’s pensions operations. Measures to control and manage risks are also included within the risk register. Policies and the Risk Register are reviewed by Pensions Committee and also by Officers on a frequent basis.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund’s investment portfolio are set out in Note 13.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

Other Price Risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The Pensions Committee regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 13.

Other Price Risk – Sensitivity Analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the funds' asset allocations.

Asset class	1 year expected volatility (%)	% of Fund
UK Equities	27.5	9.7
Global Equities (ex UK)	28.0	42.1
Emerging Market Equities	25.4	5.2
Property	14.2	10.7
Corporate Bonds (short term)	5.0	3.5
Corporate Bonds (medium term)	9.8	2.7
Corporate Bonds (long term)	11.6	1.2
UK Fixed Gilts (medium term)	7.6	0.1
UK Fixed Gilts (long term)	10.5	3.6
UK Index Linked Gilts (medium term)	7.4	2.0
UK Index Linked Gilts (long term)	9.3	2.8
Cash	0.3	4.8
Diversified Growth Fund	13.8	10.6
Senior Loans	7.2	0.6
Total fund volatility	**14.8**	**100**

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using the Economic Scenario Service, a proprietary stochastic asset model maintained by Hymans Robertson LLP. The model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The overall fund volatility has been calculated based on the asset valuations provided by the Fund's custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2020. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2020		Percentage change	Value on Increase	Value on Decrease
	£'000	**%**	**£'000**	**£'000**
Net Investment Assets	1,480,119	14.8	1,699,177	1,261,061
	1,480,199	**14.8**	**1,699,177**	**1,261,061**

31 March 2019	£'000	Percentage change %	Value on Increase £'000	Value on Decrease £'000
Net Investment Assets	1,547,819	10.3	1,707,244	1,388,394
Total assets available to pay benefits	**1,547,819**	**10.3**	**1,707,244**	**1,388,394**

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged.

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 of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy as agreed by the Pensions Committee.

The Fund's direct exposure to interest rate movement as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2020 £'000	Balance at 31 March 2019 £'000
Cash Deposits	12,328	26,817
Cash Balances	9,343	18,348
Fixed Interest Securities	264,560	245,380
Total	**286,321**	**290,544**

Interest Rate Risk – Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:-

Asset Type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits +100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	12,328	123	(123)
Cash Balances	9,343	93	(93)
Fixed Interest Securities*	264,560	(28,176)	28,176
Total	**286,321**	**(33,753)**	**33,753**

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits +100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	26,817	268	(268)
Cash Balances	18,348	183	(183)
Fixed Interest Securities*	245,380	(31,507)	31.507
Total	**290,544**	**(31,055)**	**31,055**

Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (between 12-13 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (£UK). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling (further details are in Note 13).

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2020 and as at the previous period end.

Currency Exposure – asset type	Asset Value as at 31 March 2020	Asset Value as at 31 March 2019
	£'000	£'000

Equities	0	0
Fixed Interest Securities	19,023	19,936
Indexed Linked Securities	8,563	7,621
Pooled Investment Vehicle	38,248	8,375
Cash and Deposits	6	502
Total	**65,839**	**36,434**

Currency Rate Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment consultant, the estimated volatility for individual currency was assessed and used for the following sensitivity analysis.

31 March 2020		**Potential Change v GBP**	**Value on increase**	**Value on decrease**
	£'000	**%**	**£'000**	**£'000**
Currency Exposure	65,839	10	72,423	59,255
Total change in assets			**6,584**	**6,584**

31 March 2019		**Potential Change v GBP**	**Value on increase**	**Value on decrease**
	£'000	**%**	**£'000**	**£'000**
Currency Exposure	36,434	10	40,077	32,791
Total change in assets			**3,643**	**3,643**

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Fund's custodian, HSBC Global Services. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with Lloyds Bank.

The Pensions Committee and senior officers monitor this risk by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

The Fund's holdings under the arrangements described above were held with the following:

Summary	Rating (Fitch)	Balance at 31 March 2020	Balance at 31 March 2019
		£'000	**£'000**
Cash (Current Assets)			
Lloyds Plc	A+	9,343	18,348
Cash Deposits (Investment Assets)			
Cash held outside fund managers and custodian			
Money Market Funds (Various)	AAA	5,500	23,850
Cash held by fund managers and custodian			
Cash	AA-	6,828	2,967
Call Accounts (Various)	AA- to A	-	-
Total		**21,671**	**45,165**

c) Liquidity Risk

Liquidity risk corresponds to the pension fund's ability to meet its financial obligations when they come due with sufficient and readily available cash resources.

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund's key exposure to illquid assets is via its private debt mandate, currently valued at £8,376. Whilst the Fund has no direct property exposure, it is invested in a single-priced, open-ended property fund. Whilst the Fund itself offers daily liquidity, the illiquid nature of the underlying assets exposes the Fund to a degree of liquidity risk

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the custodian that are highly liquid and can be used for payables and expenses such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the Financial Services team.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pensions Committee in collaboration with the Fund's actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

16. FUNDING ARRANGEMENTS

The actuarial valuation of the Pension Fund is carried out every three years, in line with the Local Government Pension Scheme. The purpose is to set employer contribution rates for the forthcoming triennial period. This is carried out by an independent actuary appointed by the Fund and the last valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website https://hackneypension.co.uk/ and a copy is also included in the Pension Fund Annual Report and Accounts.

The objectives of the Fund's funding policy include the following:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers.
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations.
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2019 valuation was based on a market value of the Fund's assets as at 31 March 2019, which amounted to £1,575 million and revealed a pension deficit of £131 million, representing a funding level of 92% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. The whole fund primary contribution rates applying from 1 April 2020 until 31 March 2022 and based on the 2019 valuation report are as follows:

Year	Employer Contribution rate
2020/21	18.7%
2021/22	18.7%
2022/23	18.7%

The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances.

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases.

The minimum required contributions (both primary and secondary) payable by each employer are set out in the Rates and Adjustments Certificate. Each employer must pay the percentage rate or monetary amount specified in the certificate, whilst the frequency of payment is prescribed by the Local Government Pension Scheme Regulations 2013.

The principal 2019 valuation report assumptions which informed the contributions payable from 1 April 2020 were:

Financial Assumptions based on 2019 Valuation Report

Assumption	Rate	Explanation
Investment return (discount rate)	3.85%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.3% – CPI	
Salary increases*	2.6%	0.3% pa over CPI
Pension increases	In line with CPI	Assumed to be 0.9% less than RPI

*plus an allowance for promotional pay increases.

Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	21.2	23.4
Future pensioners (assumed current age 45)	22.4	25.1

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation, (see Note 16), which is used to determine the contribution rates payable by employers.

The actuarial present value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £2,123 million (£2,448 million in 2018/19). This incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS 19 2020 valuation have been revised from the 2019 valuation report as set out in the table below:

Assumption	2020	2019
Pension increase rate assumption	1.9%	2.5%
Salary increase rate*	2.2%	3.6%
Discount rate	2.3%	2.4%
Inflation rate based on CPI**	1.9%	2.5%

* Also includes an additional allowance for promotional pay increases
** CPI is based on RPI less 0.9% at 31 March 2020

18. CURRENT ASSETS

The following is an analysis of the **non-investment** debtor and cash balances carried on the Net Asset Statement.

	31 March 2020 £'000	31 March 2019 £'000
Debtors:		
Contributions due	6,065	6,065
Sundry debtors	3,206	3,099
Cash Balances	9,343	24,119
VAT	112	83
Total	**18,886**	**33,366**

18a. LONG TERM DEBTORS

The lifetime allowance (LTA) is the overall limit on tax free pension funds a member can accrue during their lifetime. Where a member exceed the LTA a tax charge is incurred. Members can elect to pay the charge themselves of have the fund pay on their behalf to be recovered through increased contributions. The following figure represents the total amount paid over to HMRC for those members who have exceeded the life-time pension tax free allowance.

	31 March 2020 £'000	31 March 2019 £'000
Long-Term Debtors	(25)	(0)
Total	**(25)**	**(0)**

19. CURRENT LIABILITIES

The following is an analysis of the non-investment creditors balance carried on the Net Asset Statement.

Creditors	31 March 2020 £'000	31 March 2019 £'000
Benefits Payable	(1,013)	(793)
Sundry Creditors	(4,669)	(5,159)
Total	**(5,682)**	**(5,952)**

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions.

The total value of sums invested in the AVC funds as at 31 March 2020 was £5.338 million (£5.453 million as at 31 March 2019). Contributions received into the AVC facility during the year amounted to £0.287 million (£0.467 million in 2018/19). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

21. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £59.51 million to the Fund in 2019/20 (2018/19: £53.85 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.38 million in 2019/20 (£0.35 million in 2018/19) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

London Collective Investment Vehicle

The London CIV is a collective investment vehicle established by London Councils on behalf of the London Boroughs and the City of London Corporation. It consists of an ACS (Authorised Contractual Scheme) Operator, which is a limited company wholly owned by the 32 participating authorities, and the ACS fund itself. The Council is therefore a shareholder in the operating company. During 2015/16, the Pension Fund made an investment of £150k in the CIV to provide it with sufficient regulatory capital.

The Fund incurred costs of £90k in 2019/20 in relation to charges from the London CIV Ltd (the operating company).

Governance

The following Pensions Committee Members were deferred members of the Local Government Pension Scheme (LGPS) during the year; Cllr Michael Desmond (Vice-Chair).

The following Pensions Committee Members were pensioner members of the Local Government Pension Scheme (LGPS) during the year; Cllr Robert Chapman (Chair)

Jonathan Malins-Smith, Scheme Member Representative, is also a deferred member of the Pension Scheme

22. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2020 these employees included:

Ian Williams	**Group Director of Finance and Corporate Resources**
Michael Honeysett	**Director, Financial Management**
Rachel Cowburn	**Head of Pension Fund Investment**
Julie Stacey	**Head of Pensions Administration**
Sam Masters	**Group Accountant, Financial Services**

All of these employees are also members of the pension scheme. The financial value of their relationship with the Fund (in accordance with IAS 24) is set out below:

	31 March 2020 £’000	31 March 2019 £’000
Short term benefits	188	207
Long term/post-retirement benefits	29	32
Total	**217**	**239**

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hackney.

23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2020 were £119.241m (31 March 2019: £151.623m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private debt parts of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

24. IMPAIRMENT LOSSES

During 2019/20 there were £2k impairment losses to recognise (2018/19: £7k) for non-recovery of pension overpayments.Losses related to the Covid-19 pandemic are investment-related and are therefore accounted for through the change in market value of investments.

GLOSSARY

Accounting policies: Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accruals basis: An accounting principle whereby income and expenditure are recognised in the financial statements in the period in which they are incurred, regardless of when cash payments or receipts take place.

ACOP: Accounting Code of Practice.

Actuarial gains and losses: Gain or loss arising from the difference between estimates and actual experience in the pension plan.

Actuarial valuation: An appraisal of the assets of a fund (e.g. Pension or Insurance Fund) against an estimate of its liabilities made using various economic and demographic assumptions.

Agent: Where the Council is acting as an intermediary and does not therefore recognise agency transactions in its financial statements.

Amortisation: Amortisation is the depreciation of intangible assets such as purchased software licences.

Amortised cost: The carrying amount on initial recognition plus the interest taken to the Comprehensive Income and Expenditure Account less the cash paid or received for both interest and principal.

Asset: Something of worth which is measurable in monetary terms and relates to items in the Balance Sheet. Assets can be non-current (tangible or intangible) or current.

Associate: An entity, including an unincorporated entity such as a partnership, over which the Council has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Capital charge: Charge to revenue for the use of non current assets in providing services, consisting of depreciation, amortisation of intangible assets and/or impairment of non current assets.

Capital expenditure: Expenditure on items which have a long term benefit for more than one financial year, e.g. the purchase of land and property, design and construction of buildings, purchase of major equipment and vehicles etc.

Capital Financing Requirement: The difference between the total value of non current assets in the Balance Sheet and the revaluation and capital financing accounts. This represents the Council's ability to borrow for capital purposes and is the basis for the minimum revenue provision charge to revenue.

Capital receipts: Income from the sale of capital assets, mainly Council dwellings but including all sales of land, buildings and plant. Capital receipts can be used to repay the debt on outstanding loans (the reserved part of capital receipts) or to finance new capital expenditure (the usable part of capital receipts).

Carrying amount: The amount at which an asset is recognised in the Balance Sheet.
Cash and cash equivalents: Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Contingent asset: A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

Contingent liability: A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

Control: The power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

Cost of borrowing: Interest and other costs that the Council incurs in connection with the borrowing of funds.

Council tax base: An amount calculated by the Council by applying the band proportions to the total properties in each band to ascertain the number of band D equivalent properties in the Council's area. The tax base is used by the precept and levying bodies in determining their charge to the area.

Council tax: A system of local taxation introduced from 1st April 1993 as a replacement for community charge. It is set by both the billing and precept authorities at a level determined by the council tax base for the area.

Credit Default Swap: A swap contract in which the buyer makes a series of payments to the seller and, in exchange, receives a pay-off if the credit instrument (typically a bond or loan) undergoes a credit event (often described as a default).

Credit rating: An estimate of the ability to fulfil financial commitments, based on previous dealings.

Creditor: Amounts owed by the Council (for work done, goods received or services rendered). Sundry creditors relate to those amounts owed by the Council, which are outstanding at the end of the financial year.

Current asset: An asset that is intended to be sold within the normal operating cycle; the asset is held primarily for the purpose of trading or the authority expects to realise the asset within 12 months after the reporting date.

GLOSSARY

Current service cost: The increase in the present value of a defined benefit obligation resulting from employee service in the current period.
Curtailment: The cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

De Minimis: The level set below which items are considered too insignificant to be included in related financial disclosures.

Debtor: Amounts owed to the Council. Sundry debtors reflect those debts that are collectable or outstanding at the end of the financial year.

Depreciated replacement cost: A cost based method of arriving at a value for assets which are normally never exposed to the open market.
Depreciation - The loss in value of, or cost of using, an asset over its useful life.

Derecognition: The removal of a previously recognised financial asset or financial liability from an entity's Balance Sheet.

Derivative: A security whose price is dependent upon or derived from one or more underlying assets, its value being determined by fluctuations in the underlying asset(s).

Earmarked reserves: Funds set aside for special purposes, intended to meet future requirements.

Effective interest rate: The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Employee benefits: All forms of consideration given by an entity in exchange for service rendered by employees.

Enhancement: Work considered substantially lengthening the life of an asset, increasing open market value or increasing the extent to which the asset can be used for the purpose of the Council.

Events after the reporting period: Those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Fair value: The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Finance lease: A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial instrument: Any contract that gives rise to a financial asset (e.g. bank deposits, loans receivable) of one entity and a financial liability (e.g. trade payables, financial guarantees) or equity instrument (e.g. derivatives) of another.

Financing activities: Activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

Funding benefits: The timing of payments of contributions made with the aim of meeting the cost of a given set of benefits under a defined benefit scheme.
General Fund: The account which summarises the revenue costs of providing services which are met by the Council's demand on the Collection Fund, specific government grants and other income unrelated to housing services provided for Council tenants.

Grants and contributions: Assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities. They exclude those forms of assistance which cannot reasonably have a value placed upon them and transactions with organisations which cannot be distinguished from the normal service transactions of the authority.

Gross expenditure: Total expenditure before deduction of income.

Group Accounts: The financial statements of a group, plus the investments in associates and interests in joint ventures (jointly controlled entities), presented as a single economic entity.

Heritage asset: An asset with historical, artistic, scientific, geophysical or environmental qualities.

Historical cost: Deemed to be the carrying amount of an asset as at 1st April 2007 (i.e. b/f from 31st March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent capital expenditure, depreciation or impairment (if applicable).

Housing Revenue Account (HRA): An account that includes the expenditure and income arising in connection with the provision of housing. All items in the account are prescribed by regulations and are as determined by the Local Government and Housing Act 1989.

Impairment loss: The amount by which the carrying amount of an asset exceeds its recoverable amount.

Interest cost: The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

International Accounting Standards (IAS): An older set of standards issued by the International Accounting Standards Committee, superseded by IFRS from 2001, stating how particular types of transactions and other events should be reflected in the Council's financial statements.

International Financial Reporting Interpretations Committee (IFRIC): The body which has issued interpretations to complement IFRS since 2001.

International Financial Reporting Standards (IFRS): A set of accounting standards and interpretations developed by the International Accounting Standards Board. These replaced the previous regime (UK GAAP) applicable to the Council with effect from the transitional date of 1st April 2009.

International Public Sector Accounting Standards (IPSAS): IPSAS are based on IFRS but address specific key not-for-profit issues applicable to the public sector and allow the Council to deviate from IFRS where commercial based aspects of IFRS are not relevant to local government.

Inventories: Items held for sale or use in the normal course of business.

Investing activities: Are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Investment property: Property (land or a building, or part of a building, or both) held by the Council as owner (or lessee under a finance lease) to earn rentals or for capital appreciation, or for both.

Joint venture: A contractual or binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Lease: An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. In considering the accounting arrangements for a particular agreement, authorities shall take into account the requirements of SIC 27 and IFRIC 4. The definition of a lease includes hire purchase contracts.

Levies: The Council is required to pay levies to a number of statutory London-wide bodies e.g. Environment Agency.

Liability: A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.

Materiality: Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

Minimum Revenue Provision (MRP): The minimum amount that a local authority must statutorily charge to its income and expenditure account each year, for the repayment of borrowing. See Note 1. Accounting Policies (XXXII Minimum Revenue Provision, page 49).

National Non Domestic Rates (NNDR): NNDR are collected by each Council. NNDR is now shared between Government, the Council and Greater London Authority in the following proportions 50:30:20. When an Authority's NNDR baseline is greater than its funding baseline, it pays tariff payments to Government. If an Authority's NNDR baseline is less than its funding baseline it receives top-up payments from the Government.

Net expenditure: Gross expenditure less income.

Non-current asset: An asset that does not meet the definition of a current asset.

Operating activities: Activities of the entity that are not investing or financing activities.

Operating Lease: Any lease that is not a finance lease.

Past service cost: The increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Pooled investment vehicles: The term used to describe structures including hedge funds, private equity funds, venture capital funds, real estate funds and hybrid combinations of the above.

Precepts: The amount paid from the Collection Fund to the Council's General Fund and the Greater London Authority in accordance with those authorities' demands.

Premature repayment: The early redemption of a loan on a date before the maturity (end) date of the original loan agreement.

Principal: Where the authority is acting on its own behalf.

Private Finance Initiative (PFI): This is one of the mechanisms that central government supports for involving the private sector in public sector projects. Under PFI schemes the Council buys the services of a private company or consortium to design, build, finance and operate a public facility e.g. a technology and learning centre. The private sector borrows the money for the scheme and then the Council pays an annual fee to the consortium under a long term operating contract for the services.

Property, plant and equipment: Tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and expected to be used during more than one period.

Provision: A liability of uncertain timing or amount.

Prudential Framework: As part of the Local Government Act 2003 the detailed rules that controlled local authority borrowing were replaced by the Prudential Framework which is a self regulating system based upon CIPFA's Prudential Code. The Code defines a number of Prudential Indicators which the Council must annually determine and monitor.

Rateable value: The District Valuer assesses the rateable value of non-domestic properties and business rate bills are calculated by multiplying rateable value by one of two annual NNDR specified amounts set by the government.

Receipts in advance: Grants, contributions and payments received in advance of providing a good or service or meeting conditions attached to the receipt, shown as a liability on the Balance Sheet to reflect the unearned income.

Redemption yield: The return on an investment if it is held to its maturity date, reflecting the annual interest it pays and an annualised amount to account for any profit or loss when it is redeemed.

Related party: Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Remuneration: Any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

Revenue expenditure: The regular day to day running costs a Council incurs in providing services.

Settlement: Pension settlements take account of outgoing bulk transfers and will show the difference between the FRS 17 liability and the amount paid to settle the liability.

Significant influence: The power to participate in the financial and operating policy decisions of the investee but not control or have joint control over those policies.

Soft loan: Loans made by the Council at less than market rates (including zero interest), where a service objective justifies such concessions.

Standing Interpretations Committee (SIC): The body which issued interpretations to complement IAS prior to 2001.

Subsidiary: An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

Support services: These are back-up activities of a professional, technical and administrative nature which are not direct local Council services (i.e. services in their own right like Social Services or Housing) but which give technical, organisational and administrative support to those services.

Surplus or Deficit on the Provision of Services: The total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.

Termination benefits: Amounts payable as a result of an employee's decision to accept voluntary redundancy.

Transaction costs: Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

Treasury Management Strategy – A document setting out the Council's approach to borrowing, investment and cash management.

Unfunded pension payments: Payments from the employer's current income whenever required by retiring employees or beneficiaries, rather than out of money put aside on a regular basis regardless of current need.

Useful life: The period which an asset is expected to be available for use by an entity.

VAT: An indirect tax levied on most business transactions and on many goods and some services.

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