

Audit Committee

**Thursday, 23 November 2023 at 6.30 p.m.
Committee Room - Tower Hamlets Town Hall,
160 Whitechapel Road, London E1 1BJ**

Supplemental Agenda 2

3. DELOITTE ITEMS FOR CONSIDERATION

3.1 Deloitte 2018/19 and 2019/20 update (Pages 3 - 32)

4.7 Treasury Management Outturn Report for 2022-23 (Pages 33 - 52)

Contact for further enquiries:

Farhana Zia, Democratic Services,
farhana.zia@towerhamlets.gov.uk

020 7364 0842

Town Hall, 160 Whitechapel Road, London, E1 1BJ

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London Borough of Tower Hamlets

Second update to Final Report to the Audit Committee on the audits for the years ended 31 March 2020 and 31 March 2019

Issued on 20 November 2023 for the meeting on 23 November 2023

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Key messages

We have pleasure in presenting our report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audit of the statement of accounts for the years ended 31 March 2019 and 31 March 2020. This report should be read in conjunction with our earlier reports presented at meetings of the committee in July 2019, November 2020, April 2021, January 2022, January 2023 and May 2023.

Purpose of this update report	<p>When we presented our Final Report to the audit committee on 26 January 2023, we identified that there were a number of matters outstanding in relation to our audits for the years ended 31 March 2020 and 31 March 2019. We reported on progress on clearing these items in an update report which we presented to the audit committee on 30 May 2023.</p> <p>This second update report sets out key findings arising from completion of the remaining procedures.</p>
Status of our audit	<p>Our audit is now substantially complete. As normal for this stage of the audit, in addition to review of the final versions of the accounts document, similar closedown procedures and finalisation of internal quality assurance reviews, the following points are outstanding which will be completed shortly after the meeting:</p> <ul style="list-style-type: none">• Receipt of management representation letter; and• Update of post balance sheet review to the date of signing. <p>As required by the NAO's Code of Audit Practice applicable to these years of account, we will issue annual audit letters for both years following the conclusion of these audits.</p>
Changes to key findings and conclusions reported in May 2023	<p>The principal outstanding matter reported to you in May 2023 related to an "other experience gain" arising on re-measurement of the pension liability in 2018/19 to true-up estimates to actuals. The gain of £94.2m, representing 4.9% of the gross liability, was larger than we would normally expect, given the size of scheme, and the council, with its actuary, had not provided sufficient information to enable us to assess the reasonableness of its quantum.</p> <p>We determined that if the gain resulted from an error in the closing pension liability, this was most likely to arise from errors in membership data provided to the actuary. We carried out analytical procedures on parts of the membership data where this was readily possible and requested officers investigate anomalous groups of records. This resulted in the identification of liabilities which had been incorrectly omitted from the closing liability at 31 March 2020 and 31 March 2019. As the liabilities were correctly included in the opening balance at 1 April 2018, this had the consequence of inflating the experience gain in 2018/19 by £51.2m. The error has now been corrected, resulting in increases in pension liabilities at 31 March 2019 and 31 March 2020 of £50.6m and £40.7m respectively. We did not receive an explanation for the adjusted other experience gain of £43.1m. Other errors in membership data identified by the officers' exercise were not provided to the actuary for quantification and we determined that errors in the records examined which had been reported to us by officers were not complete as a result of the way in which the results of the exercise had been recorded. We identified gaps in control, such as a lack of check between information provided to the actuary and payroll records.</p> <p>In view of the incidence of corrected and uncorrected errors in member records examined, weaknesses in control and the lack of explanation for the adjusted other experience gain of £43.1m, it is probable that there are also further errors in the data not yet examined. We concluded it was not practicable to determine the adjustment which should be made in view of the volume of records involved. We therefore expect to qualify our opinion in respect of this matter in relation to both 2018/19 and 2019/20 audits. Further commentary and the proposed wording of the additional qualification are given in the next section.</p> <p>We have also drawn to your attention a matter arising from our audit of valuations at 31 March 2021 which is also pertinent to the financial statements for the two earlier years.</p>

Key messages (continued)

Uncorrected misstatements	Changes have been made to the schedule of uncorrected misstatements included in our May 2023 reporting for new misstatements identified through procedures performed as part of the 2020/21 audit and other changes arising from completion of other procedures reported as outstanding in May 2023. We have attached the current version of the schedule of uncorrected misstatements at Appendix A (for 2019/20) and Appendix B (for 2018/19).
Audit of the financial statements of the London Borough of Tower Hamlets Pension Scheme	<p>We reported in January 2022 on key findings to date from our audit of the pension fund financial statements. There is only one additional key finding to the matters previously communicated, which is as follows.</p> <p>Appendices to the 2018/19 and 2019/20 pension financial statements disclose the actuarial present value of benefit obligations for the scheme which form part of the pension scheme financial statements for the respective year by cross reference. The disclosures are affected by the same issue over the accuracy of membership data as the pension liability recorded in the council's financial statements. As a result, we also expect our separate audit report on the pension scheme financial statements will be qualified in a similar way.</p> <p>We also give a separate report on the pension scheme annual report on whether it is consistent with the pension scheme financial statements in the council's statement of accounts. We expect that this report will be unqualified (i.e. in respect of consistency) but we expect to make reference in it to the qualification of our report on the pension scheme financial statements in the council's statement of accounts.</p>
Audit fees	<p>We set out in our report to the January 2023 audit committee meeting that we were seeking approval for a variation to the scale fees for the council audits for 2018/19 and 2019/20 to cover additional costs of £312k incurred during the period from 1 February 2021 to 31 December 2022. This variation has now been approved by Public Sector Audit Appointments Limited (PSAA) and the adjusted scale rates for 2018/19 and 2019/20 are £408k and £368k, respectively. We have incurred further costs since 1 January 2023 in completing the remaining work as set out in this report and our report to the May 2023 meeting and therefore expect to request final variations in respect of the period from 1 January 2023 to completion totalling c.£120-130k.</p> <p>Additional fees for the audit of the pension scheme financial statements for 2018/19 and 2019/20 of £33k and £27k respectively have also been approved by PSAA. The additional costs relate to changes in expectations of auditors since the base year for the audit framework contract (2017/18), the impact of the pandemic and the quality and timing of initial information received for the 2018/19 audit.</p>

Update to the Final Report

1. Update on item reported as outstanding in our report to the meeting on 30 May 2023

Item	Update
<p>We reported previously to the audit committee on concerns relating to the recognition of a substantial experience gain, originally recorded in the 2019/20 financial statements.</p> <p>An experience item represents the effect on the pension liability of replacing estimated inputs to the actuarial calculation (for example information about the scheme membership) with the actual data.</p> <p>We reported in January 2023 that we disagreed with the timing of recognition of the experience gain. We reported in May 2023 on how this concern had been addressed by the council's decision to commission the actuary to perform revised calculations which replaced estimates used in the original calculation of the liability at 31 March 2019 with known actuals at that date, which had the effect of pulling forward recognition of the experience gain to 2018/19.</p> <p>We also reported to the audit committee in January 2023 that we had not been able to obtain sufficient information to support the quantum of the experience gain. We reported that this would result in the qualification of our audit report. This judgement was informed by our assessment that the gain as a proportion of the liability was outside the range we would ordinarily expect to arise from normal variations between estimates and actuals.</p> <p>We reported in May 2023 that, following the January meeting, officers had decided they would seek to remediate the position by commissioning the council's actuary to analyse and provide further explanation and support for the experience gain, now recorded in the 2018/19 financial statements. We reported in May 2023 that we had not at that time received sufficient information to enable us to assess the reasonableness of the amount.</p> <p>The adjusted experience gain on re-measurement of pension liabilities in 2018/19 was £94.2m. We explained in our May 2023 report that we needed to consider the possibility that the failure to provide a full explanation for the experience item may result from an undetected issue over the calculation of the closing liability, most likely in relation to membership data.</p>	<p>We considered various submissions prepared by the council's actuary regarding the experience gain and held discussions with representatives from the actuarial firm and council officers. We concluded that the submissions made by the actuary did not provide analysis or explanation which was in sufficient detail for our purposes.</p> <p>We assessed the reasonably possible sources of material error in scoping our further work and concluded our work should be focused on membership data.</p> <p>We obtained membership data used in the valuations at 31 March 2016 and 31 March 2019. These valuations were used as a basis for the valuation of pension liabilities at 31 March 2018 and 31 March 2019, respectively. We performed analytical procedures to identify groups of anomalous changes and requested officers investigate. The time taken to complete this procedure was impacted by the time taken for the actuary to provide information in a suitable format and the time needed for officers to complete their investigation of exceptions.</p> <p>The exercise, and officers' subsequent investigation, identified liabilities relating to discretionary enhancements to benefits ("added years") which the council had treated as funded (i.e. the responsibility of the pension scheme) at 31 March 2016 but unfunded (i.e. falling directly on the council) at 31 March 2019. Officers' investigation determined that these liabilities were funded and had been incorrectly omitted from the valuation at 31 March 2019 (as well as subsequent valuations).</p>

Continued on next page

Update to the Final Report

1. Update on item reported as outstanding in our report to the meeting on 30 May 2023

Update (continued)

Officers commissioned further updated actuarial reports to correct this error. This resulted in the following further, material changes:

- An increase in pension liabilities of £50.6m from £506.2m to £556.8m at 31 March 2019
- A reduction in the other experience gain in 2018/19 on remeasurement of the liability of £51.2m from £94.2m to £43.1m
- An increase in pension liabilities of £44.6m from £428.7m to £473.4m at 31 March 2020.

As a result of these adjustments, the experience gain fell to 2.2% of the gross liability, within a more normal range for a scheme of this size. We did not, however, receive a detailed explanation for the reduced amount of the gain of £43.1m. We also note the possible impact of a discrepancy in the analysis of the movement on pension liabilities on this amount (see page 26).

Officers' investigation identified other errors in membership data but the actuary was not requested to quantify the effect of these.

We held a meeting with officers to discuss the exercise performed. We identified that, whilst officers had updated the pension administration system to correct for errors identified through the exercise, errors were not consistently reported as such within the separate record of officers' investigation. We therefore concluded that we could not rely on the record of the exercise to show the full extent of errors identified by officers' checks.

We identified deficiencies in controls including the failure to perform basic checks on data submitted to the actuary, such as comparing information of salaries and pensions in payment with payroll data.

We concluded in view of the incidence of both corrected and uncorrected errors in the membership data selected for checking, deficiencies in controls, and the lack of explanation for the adjusted other experience gain of £43.1m, it was probable that there was also further error in the remaining membership data.

As it is not practicable to quantify the amount of any adjustment needed to the financial statements in view of the volume of records involved, we expect to qualify our audit report in respect of both 2018/19 and 2019/20.

We included a draft of our audit reports in our reports to the May 2020 audit committee meeting. We expect to add the following wording to those draft reports in respect of this issue:

Additional wording to be added to the audit report for the year ended 31 March 2019:

"Pension liability

As explained in note 40, errors were identified in a sample of membership data used to calculate the pension liability of £556.8m at 31 March 2019 and related entries, including the other experience gain of £43.1m in note 40. The pension liability and related entries were corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. Similarly, we were unable to determine whether any adjustments to the comparative balances, being the pension liability of £572.0m at 31 March 2018 and £628.5m at 1 April 2017, and related entries were necessary."

Update to the Final Report

1. Update on item reported as outstanding in our report to the meeting on 30 May 2023

Update (continued)

Additional wording to be added to the audit report for the year ended 31 March 2020:

"Pension liability

As explained in note 38, errors were identified in a sample of membership data used to calculate the pension liability of £473.4m at 31 March 2020 and £556.8m at 31 March 2019 and related entries in note 38. The pension liability and related entries were corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019."

We have also referred to this matter within the section on other information in our audit report for each year and included a reference to this and other qualifications within the section on basis for qualification of our Value for Money conclusion for each year.

The issue over the accuracy of membership data is likely to impact on future years' accounts and further management investigation will be needed if these are also not to be qualified. We also recommend the council considers what improvements are needed to the control framework.

The council's actuary revised his calculations for the timing and amount of the experience gain but did not make changes to other financial and demographic assumptions or the position previously taken on McCloud and Goodwin cases. Our report to the meeting on 26 January 2023 should be referred to for our comments on these judgements.

Update to the Final Report (continued)

2. Additional matter identified subsequent to the 30 May 2023 audit committee meeting

Item	Audit response
<p>Subsequent to the issue of our May 2023 report, we commenced our audit of the statement of accounts for the year ended 31 March 2021.</p> <p>We identified that the valuer had made changes to his valuation methodology for properties valued on a depreciated replacement cost basis.</p> <p>Firstly, in relation to the gross replacement cost of properties, the valuer has made explicit allowance in the valuation calculation for “externals” (items such as site works, drainage, external services and minor building works) which the valuer has estimated are 20% of the gross replacement cost of the main structures. This item was not explicit in valuation calculations for previous years, although the valuer has asserted that externals were nevertheless allowed for previously, but rolled-up in the build cost assumption for the main structure, rather than shown separately in the valuation calculation.</p> <p>The gross replacement cost of the main structure uses information from a published database of past tender prices. In 2020/21, the valuer selected a build cost (excluding externals) per square metre which was the mean tender price. In 2019/20 and 2018/19, the build cost assumption which we are told included externals was set close (within 1%) to the mean tender price. On the assumption that externals were allowed for in valuations in 2019/20 and 2018/19 at a similar level, but rolled into the build cost for the main structures, this would imply that the valuer used a build cost (i.e. excluding externals) per square metre which was between the third and fourth quartile for the two earlier years.</p> <p>We have calculated the impact of this change on the valuation of the schools (which is the principal class of asset valued using depreciated replacement cost) at 31 March 2021 to be an increase in the gross replacement cost of £85m.</p> <p>Secondly the valuer has made changes in 2020/21 to the algorithm used to estimate the allowance for physical deterioration and obsolescence to: allow for depreciation in the first five years (the previous algorithm made no allowance for depreciation in this period); to allow for depreciation on a reducing balance basis (previously allowance was made on a straight-line basis) and to cap the allowance at 75% (previously the allowance was capped at 65%).</p> <p>We have calculated the effect of changing the algorithm on the valuation of schools at 31 March 2021 to be an increase in the allowance of £86m.</p>	<p>The question arises as to whether either or both these changes should also be applied to valuations in earlier periods which remain open.</p> <p>We have consulted with our internal valuation specialist and noted:</p> <ul style="list-style-type: none"> • The inclusion of externals in the valuation is appropriate, albeit the assumption made in 2021 that externals represent 20% of the value of the build cost for the main structure is at the higher end of the range we typically observe. • The valuer has not provided information on the assumption used for externals in 2019 and 2020 other than to confirm that the valuation allowed for these. Nevertheless, it is clear, on the basis that externals were rolled into the build cost assumption in 2018/19 and 2019/20, that the build cost assumptions were less centred, albeit they are still within the range observed for recent tender prices. If a lower percentage for externals was assumed, this would imply a higher and more centred build cost per square metre. • Both the original and revised approaches to determining the allowance for physical deterioration and obsolescence are simplistic, but acceptable. • It is usual practice to allow for some physical deterioration from first operation of the asset. An allowance is now made at 1.67% pa from the point of construction • Whilst assets may be used for much longer than their target lives in the public sector, they are nevertheless subject to a finite physical life. The increase in the cap on the allowance from 65% to 75% better acknowledges this. • Notwithstanding the approaches used in 2019/20 and 2018/19 are acceptable, the revised approaches represent improvements in the valuer’s approach. We calculated the net effect on valuations at 31 March 2021 of the two changes in approach to be immaterial (£1m) and expect that the effect of changing to the revised approaches in 2019/20 and 2018/19 would also be immaterial. <p>The financial statements have been updated to refer to the selection of build cost as a key estimate (having previously been updated to refer to the determination of the allowance).</p>

Purpose of our report and responsibility statement

This report should be read in conjunction with our earlier reports presented at meetings of the committee in July 2019, November 2020, April 2021, January 2022, January 2023 and May 2023 in respect of the audits for the years ended 31 March 2019 and 31 March 2020 and sets out an update on those audit matters of governance interest which came to our attention during the audit and were outstanding at the time of our final report or have arisen since that date. Our audit was not designed to identify all matters that may be relevant to the Audit Committee and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.



Deloitte LLP

St Albans

20 November 2023

Appendix A: Audit adjustments – year ended 31 March 2020

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Appendix A: Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). **New or amended misstatements since our report to the committee in May 2023 are in purple in the tables and commentary in the rest of this appendix.**

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Factual and judgemental current period misstatements						
Provision for appeals against rateable values	[1]	2.5	-	(2.5)	-	-
Error in recording audit journal (£0.6m)	[2]	-	-	-	-	-
Demolition costs	[3]	0.8	-	(0.8)	-	-
Assets not in operational existence	[4]	1.1	-	(1.1)	-	-
Late cut-off on capital expenditure (£1.1m)	[5]	-	-	-	-	-
Income from the Building Council Homes fund	[6]	1.5	-	(1.5)	-	-
Internal receivable not eliminated (£1.0m)	[7]	-	-	-	-	-
Section 31 income recognition	[8]	(2.4)	-	2.4	-	-
Apportionment between preceptors (£0.8m)	[9]	-	-	-	-	-
Invalid NNDR debtor raised in year	[10]	0.5	-	(0.5)	-	-
Error in unit building cost input	[11]	-	(1.4)	1.4	-	-
Impact of Goodwin case	[12]	4.0	-	(4.0)	-	4.0
Overstatement of H&SE penalty provision	[13]	(1.6)	-	1.6	-	(1.6)
Tenant arrears and credit loss calculation	[14]	(0.8)	-	0.8	-	0.7
Other differences between estimates and actuals	[14]	2.6	-	(2.6)	-	1.9

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Factual and judgemental current period misstatements						
Under accrual of CIL income	[20]	(1.0)	-	1.0	-	-
Incorrect classification of operational assets as AUC	[21]	0.7	-	(0.7)	-	0.7
Understatement of HMO licence income deferral	[22]	1.5	-	(1.5)	-	-
Omission of surplus land assets	[23]	-	(2.3)	2.3	(2.3)	-
Total factual and judgemental current period misstatements		9.4	(3.7)	(5.7)	-	5.7

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

		Debit/ (credit) surplus on provision of services £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Factual and judgemental misstatements identified in the prior period						
Impact of Goodwin case	[12]	(4.0)	-	-	4.0	(4.0)
Provision for appeals against rateable values	[1]	(3.0)	-	-	3.0	-
Roll forward of valuation of council dwellings	[15]	(4.0)	-	-	4.0	(4.0)
Pension assets valued using stale prices	[16]	-	(1.1)	-	1.1	-
Impact of McCloud/Sargeant rulings	[17]	(1.6)	-	-	1.6	(1.6)
Unreconciled difference on schools cash control account	[18]	1.3	-	-	(1.3)	1.3
Error in unit building cost input	[11]	-	1.4	-	(1.4)	-
Overstatement of H&SE penalty provision	[13]	1.9	-	-	(1.9)	1.9
Recognition of full LPFA pension asset	[19]	-	3.5	-	(3.5)	-
Under accrual of CIL income	[20]	0.6	-	-	(0.6)	-
Understatement of HMO licence income deferral	[22]	(0.9)	-	-	0.9	-
Omission of surplus land assets	[23]	-	2.3	-	(2.3)	-
Total misstatement identified in the prior year		(9.7)	6.1	-	3.6	(6.4)
Total current and prior year misstatements		(0.3)	2.4	(5.7)	3.6	(0.7)

[1] In estimating the provision for the cost of appeals by ratepayers against rateable values, the council has not taken into account information available on historical experience of such appeals or information which has become available after the reporting date about appeals lodged or determined. We have estimated the effect of taking these matters into account would be to increase the provision by £5.2m, of which the council's share would be £2.5m. For similar reasons (and as set out in more detail in our report to this meeting on the 2018/19 accounts) we

proposed an adjustment to the equivalent provision at 31 March 2019.

[2] An audit journal to correct an error relating to the omission of VAT from a sales invoice was incorrectly posted. The correcting journal is to increase Short term creditors - HM Revenue & Customs and reduce Short term debtors - HM Revenue & Customs by £585k.

[3] An existing building was demolished prior to the year end with a replacement extension under construction at the year end. Demolition costs of £0.8m were inappropriately capitalised.

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[4] As explained in our January 2022 report, officers carried out a further review of the fixed asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

[5] Capital expenditure of £1.1m incurred prior to 31 March 2020 was not recognised in 2019/20.

[6] Income from the GLA's Building Council Homes fund was recognised in advance of conditions being met.

[7] The council recorded an internal receivable of £1.0m due from schools in respect of teacher pension scheme contributions paid by the council on behalf of schools. The internal payable was recorded by schools as a deduction from cash. These amounts should be eliminated.

[8] An accrual of £2.4m for the repayment of section 31 grant which had been overpaid at 31 March 2019 was not released on repayment during 2019/20.

[9] There was an error in the apportionment of council tax receivables between preceptors resulting in the understatement of Council Tax receivables by £0.8m and corresponding understatement of amounts due to other preceptors of £0.8m.

[10] A business rate demand was raised in the wrong amount. This was confirmed in a subsequent court case. The council's share of the overstated demand was £0.5m.

[11] In the revised valuation for certain schools, the build cost for the wrong category of school (secondary, primary etc) was used. This had the effect of undervaluing schools by £1.4m at both 31 March 2020 and 31 March 2019.

[12] A legal challenge has been made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. An Employment Tribunal on 30 June 2020 has upheld the claim. This should result in an additional liability being recognised in FY20 DBO, as the ruling gives rise to a post balance sheet adjusting event. In our view this should be treated as a post balance sheet adjusting event, and the estimated impact should be recognised as a past service cost in the 2019/20 Comprehensive Income and Expenditure Statement. Based on general information that we have for LGPS's, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m. As the 2018/19 accounts are still open, this is a misstatement at both 31 March 2019 (in the 2018/19 accounts) and at 31 March 2020.

[13] A provision for penalties payable in relation to a possible Health and Safety Executive prosecution at 31 March 2020 was £1.6m higher than the amount determined during 2020/21 (£1.0m higher at 31 March 2019). In addition, a provision at 31 March 2019 for penalties in a second case of £0.9m was released during 2019/20 as, taking into account the elapse of time, a prosecution is no longer expected.

[14] These relate to the correction of an error on the tenant control account identified by reconciliation processes performed after the closure of the 2019/20 accounts, offset by an error in the methodology for calculating the related credit loss allowance; and the true up of estimates to actuals identified through budget analysis in 2020/21.

[15] Council dwellings were revalued by a valuer with an effective date of 1 April 2018. The council's finance team rolled this forward to 31 March 2019 by adjusting for additions, disposals, depreciation and transfers to other categories during 2018/19, together with applying an index, advised by the valuer, to take account of market change over the year. The approach results in adding to the original valuation the excess of additions over depreciation (£4m). This methodology does not allow for the effect of the social housing discount applied in arriving at the existing use valuation for social housing and assumes that the effect on the valuation of spend on replacements has outweighed the impact of wear and tear and passage of time – which is not supported.

[16] Stale prices were used by a custodian to value one of the pension scheme's assets, resulting in an overstatement of plan assets at 31 March 2019.

[17] As explained in more detail in our report to this meeting on the 2018/19 statement of accounts, the pension liability at 31 March 2019 does not take into account the impact of the McCloud/Sargeant rulings.

[18] The total of the cash books for individual schools at 31 March 2019 is £1.3m higher than the general ledger control account. Officers have not been able to reconcile this difference. As the council is only able to support the individual cash book amounts, we have proposed adjustments to agree to the totals of the individual cash book amount.

[19] The full amount of the pension asset calculated by the actuary was not recognised at 31 March 2019, but should have been following changes to the Local Government Pension Scheme Regulations 2013 in 2018. The full amount was recognised at 31 March 2020.

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[20] The council performed an additional review of the Community Infrastructure Levy (CIL) income during the 2020/21 audit and identified an under accrual of £1.0m (of which £0.4m related to 2019/20 and £0.6m related to earlier years).

[21] Works on the Collingwood Community Centre were finished during 2019/20, but an entry to reclassify the asset from assets under construction to other land and buildings was not recorded until 2020/21. As a result, the building was incorrectly held at cost at 31 March 2020, rather than at its current valuation. The valuation performed for the purpose of the 2020/21 financial statements resulted in an impairment of £0.7m and we have assumed, had the property been valued at 31 March 2020, this would have resulted in an impairment of similar quantum.

[22] Deferred income relating to the administration of HMO licences is understated by £1.5m. There was a similar error at 31 March 2019 (£0.9m).

[23] During 2023, the council identified that holdings of surplus land had been previously omitted from the fixed asset register. This was identified when the council received offers from developers to purchase these assets. Officers have obtained a valuation for these assets at 31 March 2021 of £2.3m and we have assumed that the amount of the error at previous reporting dates is similar to this.

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

In addition, we bring to your attention the following possible misstatements. We have not proposed that the financial statements are adjusted for these items as these are projections or other estimates of the possible misstatement and we are not able to quantify the actual adjustment, if any, which is required. We have taken account of these in evaluating whether the accounts are materially misstated as a whole and included a representation in the management representation letter to confirm management's view that any adjustment required to correct these misstatements is not material individually or in aggregate with proposed adjustments in the previous table.

	Note	Debit/ (credit) in surplus on provision of services £m	Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Gross expenditure on services £m
Current period projected misstatements						
Overstatement of business rates debtors	[1]	1.5	-	(1.5)	-	-
Business rates debtors and creditors – difference to breakdown	[2]	1.1	-	(1.1)	-	-
Invalid or overstated accruals	[3]	(0.8)	-	0.8	-	(0.8)
Differences between detailed pay records and general ledger (£1.2m)	[4]	-	-	-	-	-
Invalid items in schools bank account reconciliations	[5]	(1.2)	-	1.2	-	(1.2)
Incorrect inputs for area information in property valuations	[6]	-	2.3	(2.3)	-	-
Transfer to schools reserves	[7]	-	-	-	-	-
Total current year projected misstatements		0.6	2.3	(2.9)	-	(2.0)
Projected misstatements identified in prior year						
Accruals which are not valid or in excess of amount due	[8]	2.5	-	-	(2.5)	2.5
Invalid items in schools bank account reconciliations	[5]	4.1	-	-	(4.1)	4.1
Incorrect inputs in area information for valuations	[6]	-	-	-	-	-
Total prior year projected misstatements		6.6	-	-	(6.6)	6.6
Total projected misstatements		7.2	2.3	(2.9)	(6.6)	4.6

Appendix A: Audit adjustments (continued)

Unadjusted misstatements

[1] An error was identified in our sample testing of business rates which resulted in an over statement of business rate debtors by £1.0m, of which the council's share is £0.5m. The council's share of the projected error is £1.5m

[2] There is a difference between the detailed breakdown of amounts owed to business rate payers and the total recorded in the general ledger account. The difference is unreconciled and may relate to timing differences between the running of the two reports (which may not require any adjustment) or may relate to non timing differences which require adjustment. As a result, net assets may be overstated by £1.1m.

[3] Sample testing identified accruals which were not valid or which were incorrectly calculated. The amount of the error identified was an overstatement of accruals of £78k. The projected error across all accruals was £797k

[4] Detailed payroll reports for a sample of schools which had opted out of the council's corporate payroll arrangement could not be reconciled to the council's general ledger. The amounts recorded in the detailed payroll records for this sample was £196k more than the amount recorded in general ledger. The projected variance across all schools which had opted out of the corporate payroll arrangement was £1.2m. As we are not able to determine a correction is needed and if so the other accounts, in addition to payroll control accounts, which would be impacted, we have shown as a memorandum item in the table.

[5] Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half) at both 31 March 2020 and 31 March 2019, where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries which should be released to revenue accounts. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented cheques and BACS at 31 March 2020 and 31 March 2019 was £2,348k and £8,127k, respectively, representing the maximum amount of error at each reporting date and

the projected error approximately half of this amount.

[6] Discrepancies between information given to the valuer and site plans were identified in our sample testing of the valuation at 31 March 2019 during our 2018/19 audit. We previously communicated a projected error of £3.1m carried over from prior year. We subsequently tested the land area inputs and identified an error in the opposite direction. This reduced the projected error to £170k which is below our clearly trivial threshold. We also previously reported that there was a similar error at 31/3/2020 which we estimated at the same amount as in the prior year. We now update to replace with the projected error based on sampling in 2019/20 (being £2.3m).

[7] Officers have only been able to perform a partial reconciliation between the transfer from General Fund to schools reserves shown in the Movement in Reserves Statement and the total of income and net expenditure for schools recorded in the general ledger. The reconciliation shows an expected deficit for schools of £1,107k compared to an actual transfer from school reserves of £244k (i.e. giving a remaining, unexplained difference of £1,351k).

[8] Officers carried out an exercise to evaluate whether accruals were valid and recorded in the correct amount in response to errors identified by our sample testing. The exercise did not cover the whole of the population. Errors identified by the exercise were corrected. The projected error in the part of the population not covered by officers' exercise was £1,450k. In addition, the exercise identified accruals totalling £687k where we were not able to obtain sufficient information to determine whether the accrual amount was valid and recorded in the correct amount.

The further projected error relating to items which could not be supported is £363k. The total projected error for accruals which are not valid or could not be substantiated is £2,499k.

Appendix A: Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure

Inconsistencies between the Comprehensive Income and Expenditure Statement and Note 13, Income and Expenditure analysed by Nature

There are differences between income and expenditure on services per CIES and the amounts shown in Note 13, Income and Expenditure analysed by Nature. Gross income from services using information extracted from the Note 13 is £3539k higher than the amount shown in the CIES and gross expenditure (£3358k) and capital grants (£181k) is also higher by the same amount. We are not able to determine whether the CIES or Note 13 requires correction.

Classification of commercial rent deposits

Commercial rent deposits of £835k have been classified within Short term creditors – receipts but should be classified within Short term creditors - Other entities and individuals.

Disclosure on number of council dwellings

Medium-rise flats are understated and high-rise flats overstated by c.40 flats.

Presentation of grant income

A grant of £506,402 in relation to the Levy Account Surplus Allocation was credited to service accounts. This is a business rate related grant which is not specific to a particular service and therefore should be presented within 'Taxation and Non-Specific Grant Income.

Pooled budgets

The Council has disclosed equal and opposite income and expenditure within the Pooled Budgets note. Actual expenditure may be up to £2m less but cannot be accurately quantified as the general ledger codes have not been set up to monitor in this way.

Operating lease commitments (council as lessee)

The total commitment disclosed was overstated for a sample of leases tested by £1.1m as a result of an error in the calculation. The projected error across all leases is £1.6m.

Appendix A: Audit adjustments (continued)

Disclosures

Disclosure

Movements on provisions

The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year and contributions to provisions and transfers between current and non-current provisions. The disclosure does not distinguish between these amounts and instead presents the aggregate amounts used and unused amounts reversed in the year and the aggregate of contributions to provisions and transfers between current and non-current provisions [Code: 8.2.4.2].

This is because the council has not been able to analyse movements on the provision for appeals against business rates, in turn because the council has not been able to distinguish between adjustments to business rates income as a consequence of successful appeals and other adjustments to business rates income.

Adjustments to business rates income as a consequence of a successful appeals and other adjustments to business rates income are presented on separate lines within the supplementary collection fund statement (being "Impairment of debts/appeals for non-domestic rates" and "Income from non-domestic rates", respectively).

As the council has not been able to extract information to determine the correct allocation of adjustments between these lines, it has done so on the basis of estimates.

Based on information provided to us, we estimate that income from non-domestic rates and the charge for appeals for non-domestic rates in the collection fund supplementary statement may have been understated by £15.3m. We reported in respect of the 2018/19 financial statements that these lines may be understated by £6.9m for that year.

Within the note on provisions, the amount disclosed as used or written back of £12.6m is consistent with the council's reporting to the Department in Form NNDR3, the Form is not consistent with the Collection Fund as the credit in the Collection Fund of £7.9m is the movement on the total allowance for appeals and not the amount described in Form NNDR3 as charged to the Collection Fund.

Short term debtors analysis

An aggregated loss allowance provision was made against both arrears of council tax and council tax collection costs outstanding and included within Short term debtors - council tax. Gross council tax collection costs outstanding of £3.1m are disclosed within "Short term debtors - other entities and individuals". The loss allowance relating to this balance should be reclassified from "Short term debtors - council tax" to "Short term debtors - other entities and individuals".

Analysis of movement on pension liability

In the analysis of movement on pension assets and liabilities, the amount recorded for benefits paid is higher than the amount shown in pension records by £2.4m. This arises because the actuarial calculation has used estimated and not actual cash flows. Similarly, the analysis does not take into account cash flows relating to the council's share of net cash flows relating to the transfers of value and similar payments in respect of leavers of £0.8m. Contributions estimated for the purpose of the roll forward of pension assets are £0.7m lower than the pension scheme records. In principle, this impacts only on pension assets in the disclosure and balance sheet. However, it is most likely that this arises on additional contributions to settle additional liabilities arising from pension strain in respect of terminations in the year which have also not been recorded.

Appendix B: Audit adjustments – year ended 31 March 2019

Page 22

Appendix B: Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). **New or amended misstatements (and related commentary) since our final report in May 2023 are highlighted in purple.**

		Debit/ (credit) in surplus on provision of services £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m	Gross expenditure on services £m
Current year misstatements						
Impact of McCloud/Sargeant rulings	[1]	1.6	(1.6)	-	-	1.6
Impact of stale prices in pension assets	[2]	-	(1.1)	-	1.1	-
NNDR appeals provision	[3]	3.0	(3.0)	-	-	-
Roll forward of valuation of council dwellings	[4]	4.0	(4.0)	-	-	4.0
Impact of Goodwin case	[5]	4.0	(4.0)	-	-	4.0
Unreconciled difference on schools cash control account	[6]	(1.3)	1.3	-	-	(1.3)
Incorrect net down of income and expenditure (£1.5m)	[7]	-	-	-	-	(1.5)
Error in unit building cost input	[8]	-	1.4	-	(1.4)	-
Reduce provision for H&SE penalties	[9]	(1.9)	1.9	-	-	(1.9)
Recognise LPFA pension surplus in full	[10]	-	3.5	-	(3.5)	-
Omission of surplus land assets	[12]	-	2.3	-	(2.3)	-
Total current year misstatements		9.4	(3.3)	-	(6.1)	4.9
Prior year misstatements identified in the current year						
Invalid PFI grant balance	[11]	(2.2)	-	2.2	-	-
Error in unit building cost input	[8]	-	-	(1.0)	1.0	-
Unreconciled difference on schools cash control account	[6]	(2.7)	-	2.7	-	(2.7)
Omission of surplus land assets	[12]	-	-	(2.3)	2.3	-
Total prior year misstatements identified in the current period		(4.9)	-	1.6	3.3	(2.7)
Total		4.5	(3.3)	1.6	(2.8)	2.2

Appendix B: Audit adjustments (continued)

Unadjusted misstatements

[1] As explained on pages 35-36, the pension liability does not take into account the impact of the McCloud/Sargeant rulings.

[2] Stale prices have been used by a custodian to value one of the pension scheme's assets, resulting in an overstatement of plan assets.

[3] As explained on pages 33-34, the NNDR appeals provision does not take into account information received after the reporting date which is relevant to the circumstances at the reporting date.

[4] Council dwellings were revalued by a valuer with an effective date of 1 April 2018. The council's finance team rolled this forward to 31 March 2019 by adjusting for additions, disposals, depreciation and transfers to other categories during 2018/19, together with applying an index, advised by the valuer, to take account of market change over the year. The approach results in adding to the original valuation the excess of additions over depreciation (£4m). This methodology does not allow for the effect of the social housing discount applied in arriving at the existing use valuation for social housing and assumes that the effect on the valuation of spend on replacements has outweighed the impact of wear and tear and passage of time – which is not supported.

[5] A legal challenge has been made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. An Employment Tribunal on 30 June 2020 has upheld the claim. This should result in an additional liability being recognised. Although tribunal ruling was not made until 2020/21, in our view the tribunal decision should be treated as an adjusting event, with the estimated impact recognised as a past service cost in the 2018/19 Comprehensive Income and Expenditure Statement. Based on general information that we have for LGPS's, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m.

[6] The total of the cash books for individual schools at 31 March 2019 is £1.3m higher than the general ledger control account and at 31 March 2018 is £2.7m lower than the general ledger control account. Officers have not been able to reconcile these differences. As the

council is only able to support the individual cash book amounts, we have proposed adjustments to agree to the totals of the individual cash book amount.

[7] A journal was incorrectly posted which had the effect of reducing income and expenditure in the service analysis in the Comprehensive Income and Expenditure Statement by £1.5m on the Corporate costs and central items line.

[8] In the revised valuation for certain schools, the build cost for the wrong category of school (secondary, primary etc) was used. This had the effect of undervaluing schools by £1.4m, £1.0m and £2.7m at 31 March 2019, 31 March 2018 and 1 April 2017, respectively.

[9] The council made provision for possible Health and Safety Executive penalties. One case was determined in 2020/21 for a lower amount than provided and in a second case a penalty is no longer considered probable given the elapse of time.

[10] The full amount of the pension asset calculated by the actuary was not recognised, but should have been following changes to the Local Government Pension Scheme Regulations 2013 in 2018.

[11] PFI grant is received in full in the year to which it relates and should be recognised in full in that year. As a result, no amounts should be carried forward at year end. Amounts were incorrectly carried forward in short term debtors at 31 March 2018 and 1 April 2017 of £2.2m and £3.1m, respectively.

[12] During 2023, the council identified that holdings of surplus land had been previously omitted from the fixed asset register. This was identified when the council received offers from developers to purchase these assets. Officers have obtained a valuation for these assets at 31 March 2021 of £2.3m and we have assumed that the amount of the error at previous reporting dates is similar to this.

Appendix B: Audit adjustments (continued)

Unadjusted misstatements

In addition, we bring to your attention the following possible misstatements. We have not proposed that the financial statements are adjusted for these items as these are projections or other estimates of the possible misstatement and we are not able to quantify the actual adjustment, if any, which is required. We have taken account of these in evaluating whether the accounts are materially misstated as a whole and included a representation in the management representation letter to confirm management's view that any adjustment required to correct these misstatements is not material in aggregate with proposed adjustments in the previous table.

	Note	Debit/ (credit) on provision of services £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m	Expenditure on gross services £m
Accruals which are not valid or in excess of amount due	[1]	(2.5)	2.5	-	-	(2.5)
Expenditure in excess of amount payable	[2]	(6.8)	6.8	-	-	(6.8)
Receipts recorded twice in expenditure analysis (£1.9m)	[3]	-	-	-	-	-
Incorrect set of income against expenditure (£14.1m)	[4]	-	-	-	-	14.1
Invalid items in schools bank account reconciliations (£4.6m)	[5]	-	-	-	-	-
Differences between detailed pay records and general ledger (£1.4m)	[6]	-	-	-	-	-
Discrepancies between floor plans and build areas provided to valuer	[7]	-	-	-	-	-
Total current year projected misstatements		(9.3)	9.3	-	-	4.8

In addition, The council has restated opening balances and comparative information as follows:

- An increase in schools' reserves at 1 April 2018 by £2.1m to agree to the aggregate of individual returns from schools, after correcting adjustments for known errors in the returns.
- A reduction in the General Fund balance at 1 April 2018 by £7.8m to account for the impact of adjustments made to other asset, liability and reserve accounts.
- An increase in expenditure for the year ended 31 March 2018 by £7.0m and reduced income by £0.3m.

The council has not been able to provide full information on the changes made to income and expenditure in 2017/18 or to the amount of reserves at 31 March 2018, including a full reconciliation of opening to closing schools reserves. As a result, the allocation of these entries between schools and general fund reserves and between income and expenditure may not be accurate.

Appendix B: Audit adjustments (continued)

Unadjusted misstatements

[1] Officers carried out an exercise to evaluate whether accruals were valid and recorded in the correct amount in response to errors identified by our sample testing. The exercise did not cover the whole of the population. Errors identified by the exercise were corrected. The projected error in the part of the population not covered by officers' exercise was £1,450k. In addition, the exercise identified accruals totalling £687k where we were not able to obtain sufficient information to determine whether the accrual amount was valid and recorded in the correct amount.

The further projected error relating to items which could not be supported is £363k. The total projected error for accruals which are not valid or could not be substantiated is £2,499k.

[2] Sampling of other service expenditure identified a payment which was £155k higher than the amount due but had been expensed in full. The projected error across all accruals is £6.8m. No similar errors were identified in our sample.

[3] In expenditure analyses provided to us, expenditure on precepts and other levies of £1,859k is included twice. We have not been able to determine what adjustment, if any, is required in respect of this item.

[4] Sampling of other service expenditure identified grant income which had been incorrectly set off against expenditure of £521k. The projected error across all credits to other service expenditure is £14.1m.

[5] Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half) at 31 March 2019, where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented cheques and BACS at 31 March 2019 was £8,127k, representing the maximum amount of error at each reporting date and the projected error approximately half of this amount, this projection being the amount included in the table. Note that in the January 2023, we included this as a possible adjustment to expenditure, but on further investigation, all errors in our sample related to balance sheet classification errors. We have also amended the quantum of the projected error by using the precise error rate observed in our sample.

[6] Detailed payroll reports for a sample of schools which had opted out of the council's corporate payroll arrangement could not be reconciled to the council's general ledger. The amounts recorded in the detailed payroll records for this sample was £184k more than the amount recorded in general ledger. The projected variance across all schools which had opted out of the corporate payroll arrangement was £1.4m.

[7] Discrepancies between information given to the valuer and site plans were identified in our sample testing of the valuation at 31 March 2019. We previously communicated a projected error of £3.1m carried over from prior year. We subsequently tested the land area inputs and identified an error in the opposite direction. This reduced the projected error to £170k which is below our clearly trivial threshold.

Appendix B: Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure

Inconsistencies and other errors relating to Note 42, Income and Expenditure analysed by nature

There are differences between income and expenditure on services per CIES and the amounts shown in Note 42, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 42 is £2.0m lower than the amount shown in the CIES. Similarly, in respect of the restated comparative information, gross income from services and gross expenditure on services using information extracted from the Note 42 is £0.6m lower than the amount shown in the CIES.

We are not able to determine whether the CIES or Note 42 requires correction.

From our review of the other service expenses ledger, we identified that the precepts and levies expense of £1,859k had incorrectly been double counted in both other service expenses and the precepts and levies note line within Note 42. Due to the deficiencies identified in the initial version of the accounts and lack of information available, officers were unable to whether there is an equal and opposite credit within other service expenses to offset this amount or if a true double count, where the other side of the entry would be.

In addition, whilst an adjustment has been made to correct for an error in the Comprehensive Income and Expenditure Statement involving the incorrect classification of an item of service cost within other comprehensive income, Note 42 has not been similarly adjusted. As a result, employee benefit expenses are understated in Note 42 by £2,205k.

Revaluation reserve

The unusable reserves note disclosure contains a reconciliation of the opening and closing revaluation reserve:

- 'Upward revaluation of assets' note line is overstated by £5,166k
- 'Downward revaluation of assets' note line is understated by £4,123k.

Pooled budgets

The Pooled Budgets note discloses expenditure equal to income from the Better Care Fund of £23,165k. The council has not separately monitored expenditure which, based on a high level review of account codes, may be £1.3m higher than the amount assumed and disclosed.

Appendix B: Audit adjustments (continued)

Disclosures

Disclosure

Movements on provisions

The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and discloses instead the aggregate of these two amounts [Code: 8.2.4.2].

This is because the council has not been able to analyse movements on the provision for appeals against business rates, in turn because the council has not been able to distinguish between adjustments to business rates income as a consequence of a successful appeals and other adjustments to business rates income.

Adjustments to business rates income as a consequence of a successful appeals and other adjustments to business rates income are presented on separate lines within the supplementary collection fund statement (being "Impairment of debts/appeals for non-domestic rates" and "Income from non-domestic rates", respectively).

As the council has not been able to extract information to determine the correct allocation of adjustments between these lines, it has done so on the basis of estimates.

Based on information provided to us, we estimate that income from non-domestic rates and the charge for appeals for non-domestic rates in the collection fund supplementary statement may have been understated by £6.9m.

Analysis of movement on pension liability

In the analysis of movement on pension assets and liabilities, the amount recorded for benefits paid and lump sums is lower than the amount shown in pension records by £5.9m. We have been informed that the amount in the disclosure was estimated by the actuary and officers have not provided us with an explanation of the difference. In addition, the actuary has not taken account of cash flows relating to transfers of value and similar payments to leavers. As a result, the movement analysis also does not include the council's share of total net transfers in and similar payments in respect of leavers of £1.1m. The "other experience" gain/loss is a balancing amount in the disclosure and it is likely therefore that this line is also misstated by an equal and opposite amount.

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure

Disclosures relating to the transition to IFRS 9

The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9 [Code: 7.4.3.16].

Appendix C: Expected modifications to our audit report on the pension scheme financial statements

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Appendix C: Expected modifications to our audit report on the pension scheme financial statements

Year ended 31 March 2020

Section	Expected modification
Qualified opinion	<p>Qualified Opinion</p> <p>In our opinion, except for the effects of the matter described in the basis for qualified opinion section of our report, the pension fund financial statements of London Borough of Tower Hamlets Pension Fund (the 'pension fund'):</p> <ul style="list-style-type: none"> • give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; 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 qualified opinion	<p><i>Present value of promised retirement benefits</i></p> <p>Note 2 refers to Appendix A which sets out the present value of promised retirement benefits of £1,990 million at 31 March 2020. As explained in note 3m, errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020. The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019.</p>
Other information	<p>As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the present value of promised retirement benefits at 31 March 2020 and 31 March 2019. Where the results and financial position of the Authority in respect of these matters are discussed in the other information, we have concluded that the other information is materially misstated for the same reasons.</p>

Appendix C: Expected modifications to our audit report on the pension scheme financial statements

Year ended 31 March 2019


Section	Expected modification
Qualified opinion	<p>Qualified Opinion</p> <p>In our opinion, except for the effects of the matter described in the basis for qualified opinion section of our report, the pension fund financial statements of London Borough of Tower Hamlets Pension Fund (the 'pension fund'):</p> <ul style="list-style-type: none"> • give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; and • have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
<div data-bbox="91 722 145 885" data-label="Page-Header"> Page 31 </div> Basis for qualified opinion	<p><i>Present value of promised retirement benefits</i></p> <p>Note 2 refers to Appendix A which sets out the present value of promised retirement benefits of £2,102 million. As explained in note 3m, errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2019, some of which were also present at 31 March 2018. The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. Similarly, we were unable to determine whether any adjustment to the comparative disclosure was necessary, being the present value of promised retirement benefits at 31 March 2018 of £2,007 million.</p>
Other information	<p>As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the present value of promised retirement benefits at 31 March 2019 and 31 March 2018. Where the results and financial position of the Authority in respect of these matters are discussed in the other information, we have concluded that the other information is materially misstated for the same reasons.</p>

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Thursday, 23 November 2023</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Julie Lorraine Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Treasury Management Outturn Report for 2022-23</p>	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions and Treasury
Wards affected	(All Wards);

REASONS FOR URGENCY:

The attached reports were not published five clear days in advance of the meeting. Therefore, before the reports can be considered at this meeting, the Chair would need to be satisfied that it is necessary to consider the Treasury Management Reports. The delay has been in receiving report approvals. The Audit committee needs to approve these reports prior to the Council considering these reports at Budget Council.

Executive Summary

This report covers the period 1st April 2022 to 31 March 2023. Investment returns fluctuate with the Bank of England base rate. The base rate at 31 March 2023 was 4.25% while current base rate is 5.25%.

The Council has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates and inflation. The successful identification, monitoring and control of risks are therefore key to the Council's treasury management strategy.

The average credit worthiness of investments is AA- in line with the local authority benchmark average of A+ while average credit score was 4.36 against a local authority average score of 4.72.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31 March 2023.
2. Note the Council's investments as set out in Appendix 1. The balance as at 31 March 2023 was £237.950m.

1. REASONS FOR THE DECISIONS

- 1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.
- 1.2 This report updates members on both the borrowing and investment decisions made by the Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's treasury management performance.
- 1.3 The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its investment strategy as approved by Council.

2. ALTERNATIVE OPTIONS

- 2.1 The Council is bound by legislation to have regard to the Treasury Management Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council was to deviate from those requirements, there would need to be justifiable reason for doing so.

3. DETAILS OF THE REPORT

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 3.2 Treasury management is defined as "the management of the Council's investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.
- 3.3 The Treasury Management Strategy Statement, Investment Strategy and Capital Strategy (incorporating the Minimum Revenue Provision Policy Statement) reports were included in the Budget pack that was presented to Council on 2nd March 2022.
- 3.4 The Council has both borrowing and investments and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

- 3.5 The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing and treasury management.

ECONOMIC OUTLOOK

- 3.6 During the year, the war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession.
- 3.7 The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates during the year, even in the face of potential economic slowdowns in those regions. Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July 2022 and then 11.1% in October.
- 3.8 Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. RPI followed the same pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.
- 3.9 Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period.

Financial Markets

- 3.10 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy.
- 3.11 Over the period, the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe, the 10-year gilt yield rose from 1.16% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declines to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit Review

- 3.12 During the year, rating agency Fitch revised the outlook on the UK sovereign to negative from stable while Moody made the same revision to the UK sovereign.

TREASURY MANAGEMENT STRATEGY 2022-23

- 3.13 The 2022-23 Treasury Management Strategy Statement was approved on 2nd March 2022 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2022-23 including the limits and criteria for selecting institutions to be used for the investment surplus cash and the Council's policy on long-term borrowing and limits on debt.

The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

- 3.14 As at 31 March 2023, the Council had net investments of £169.241m arising from its revenue and capital income and expenditure, a decrease of on 2022 of £82.087m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1A below. The 2021/22 and 2022/23 Council accounts are nearing production. The figures for working capital have been calculated.

	31 st March 2022 Provisional** Actual £m	Movement over the Year £m	31 st March 2023 Provisional** Actual £m
CFR	381.63	21.558	403.188
HRA CFR	152.485	4.609	157.094
Total CFR	534.115	26.167	560.282
Less: Other debt liabilities *	-50.087	4.067	-46.02
Borrowing CFR	484.028	30.234	514.262
<i>Less: External borrowing</i>	-69.872	1.163	-68.709
<i>Internal borrowing</i>	414.156	31.397	445.553
Usable reserves	-676.242	29.98	-646.262
Working capital	583.286	-144.627	438.659
Investments	321.2	-83.25	237.95
Net investments	251.328	-82.087	169.241

**closing balances from 2018/19 to 2022/23 are unaudited or audited yet to be signed off as applicable

***finance leases, PFI liabilities and transferred debt form part of the Council's total debt.

Table 1B: Liability benchmark. Balance sheet resources have been calculated

Position at 31 March	31 st March 2022 Provisional**	Movement over the Year £m	31 st March 2023 Provisional**
	Actual £m		Actual £m
CFR	381.63	21.558	403.188
HRA CFR	152.485	4.609	157.094
Total CFR	534.115	26.167	560.282
Less: Other debt liabilities *	-50.087	4.067	-46.02
Borrowing CFR	484.028	30.234	514.262
External Borrowing	-69.872	1.163	-68.709
Internal (over) borrowing	414.156	31.397	445.553
Balance sheet resources	735.356	-51.853	683.503
Investments (new borrowing)	321.200	-83.250	237.950
Treasury Investments	321.200	-83.250	237.950
New borrowing	0	0	0
Net loans requirement	-251.328	82.087	-169.241
Liquidity allowance	56.000	0.000	56.000
Liability benchmark	-195.328	82.087	-113.241

- 3.15 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risks and keep interest costs low.

The balance sheet summary position at 31 March 2023 is shown in Table 1 above, while the treasury management position at 31 March 2023 is shown in Table 2 below.

The extent of internal borrowing which stood at £445.553m at the end of 2022-23, is the difference between the Borrowing CFR (£514.262m) and the level of external borrowing (£68.709m).

Table 2: Treasury Management Summary

	31.03.22 Balance £m	Movement over the Year £m	31.03.23 Balance £m	31.03.23 Rate %
Long-term borrowing	69.872	(1.163)	68.709	3.01
Short-term borrowing	-	-	-	-
Total borrowing	69.872	(1.163)	68.709	3.01
Long-term investments	56.000	0.000	56.000	
Short-term investments	40.000	(20.000)	20.000	
Cash and cash equivalents	225.200	(63.250)	161.950	
Total investments	321.200	(83.250)	237.950	3.83
Net Investments	251.328	(82.087)	169.241	

The net investment figure (£169.241m) is the level of investments (£237.950m) less external borrowing £68.709m).

Borrowing Update

- 3.16 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.
- 3.17 The Council was not planning to borrow to invest for commercial return and so is unaffected by the changes to the Prudential Code. The Council is not planning to purchase any investment assets primarily for yield.

Borrowing Strategy for the year ending 31st March 2023

- 3.18 The Council held £68.709m of external loans at 31st March 2023 which is £1.163m lower than the 31 March 2022 position of £69.872m. The external borrowing position at 31 March 2023 is shown in Table 3 below.

Table 3: External Borrowing Position

	31.03.23 Balance £m	31.03.23 Rate %
Public Works Loan Board	51.209	2.55

Banks (fixed term)	17.500	4.34
Total borrowing	68.709	3.01

- 3.19 The Council takes a low-risk approach to its borrowing strategy as outlined in the treasury strategy. This means that the principal objective when borrowing is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The secondary objective is to have flexibility to renegotiate loans should the Council's long-term plans change.

The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 3.20 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% and 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. As at the time of writing this report, rates have now fallen from September peaks but remain volatile and well above recent historical norms.

The PWLB 10 year maturity rate stood at 4.33% at 31 March 2023, 20 years at 4.70% and 30 years at 4.66%.

- 3.21 No new borrowing was undertaken in keeping with these objectives in 2022-23.
- 3.22 The Council has an increasing CFR as demonstrated in table 1 due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account useable reserves and working capital.

Other Debt Activity

- 3.23 Although not classed as borrowing from a treasury management perspective, the Council also holds £19.607m of PFI capital financing and £26.413m of finance leases.

Treasury Investment Activity

- 3.24 The Council holds significant invested funds, representing S106 and CIL income, other income received in advance of expenditure plus balances and reserves held. These monies are temporarily invested in short-dated, liquid instruments such as Notice Accounts, Money Market Funds and fixed deposits. Investment balances during the year ranged between £210.75m and £357.7m. The investment position at the year-end is shown in Table 4 below.
- 3.25 CIPFA published a revised treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes on 20th December 2021. These

define treasury management investments as investments that arise from the organisation's cashflows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

- 3.26 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.27 In 2018, the Council diversified into strategic pooled (cash plus, bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These are externally managed and £76m has been invested as shown in Table 4 below.

Investment Outstanding & Maturity Structure

- 3.28 The table below shows investments outstanding at the end of March 2023, categorised according to the financial sector invested.

Table 4: Outstanding Investments by Financial Sector

Financial Sector	31.03.22 Balance £m	Movement over the Year £m	31.03.23 Balance £m	% Portfolio
UK Banks	15.00	(14.00)	1.00	0.42
Government (incl. local authorities)	55.00	(35.00)	20.00	8.41
Overseas Banks	60.00	(30.00)	30.00	12.61
Money Market Funds	115.20	(4.25)	110.95	46.63
Pooled Investment Funds:	76.00	0.00	76.00	31.94
<i>Cash plus funds</i>	20.00	0.00	20.00	
<i>Short-dated bond funds</i>	18.00	0.00	18.00	
<i>Strategic bond funds</i>	9.00	0.00	9.00	
<i>Equity Income funds</i>	13.00	0.00	13.00	
<i>Property funds</i>	5.00	0.00	5.00	
<i>Multi asset income funds</i>	11.00	0.00	11.00	
Total investments	321.20	(83.25)	237.95	100.00

Performance Report

- 3.29 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 5A, 5B and 5C below.

Table 5A: Investment Performance for Financial Year to 31 March 2023 (Income Return)

Period	LBTH Internal Return	External Fund Return (Cash Plus & Short Bond Fund)	External Fund Return (Strategic Funds)	LBTH Total Return	Benchmark Return (LA Average)	Over/(Under) Performance
Quarter 4 2021/22	0.46%	0.58%	2.76%	0.87%	0.97%	-0.10%
Quarter 1	0.98%	0.68%	2.69%	1.29%	1.39%	-0.10%
Quarter 2	1.75%	0.89%	7.26%	2.85%	2.06%	0.79%
Quarter 3	2.70%	1.26%	3.27%	2.71%	2.93%	-0.22%
Quarter 4 2022/23	4.07%	1.88%	3.79%	3.83%	3.68%	0.15%

Table 5B: Externally Managed Funds Total Return Including Capital Gain/Loss Financial Year to 31 March 2023

Period	External Fund Return (Cash Plus & Short Bond Fund)	External Fund Return (Strategic Funds)	LBTH Externally Managed Investments Total Return	Benchmark Return (LA Average)	Over/(Under) Performance
Quarter 4 2021/22	-1.41%	0.67%	0.90%	2.09%	-1.19%
Quarter 1	-2.24%	-5.81%	0.00%	1.75%	-1.75%
Quarter 2	-3.83%	-10.00%	0.42%	1.47%	-1.05%
Quarter 3	-2.36%	-9.39%	0.29%	1.39%	-1.10%
Quarter 4 2022/23	-1.07%	-7.18%	2.13%	1.64%	0.49%

Table 5C: 2022-23 Budgeted Interest against actuals

	Actual	Budget	Over/Under
	£m	£m	£m
PWLB	1.325	1.490	(0.165)
Market Loans	0.759	0.760	(0.001)
Total borrowing	2.084	2.250	
Investments	5.697	2.270	3.427

Externally Managed Pooled Funds

- 3.30 £76m of the Council's investments are invested in externally managed strategic pooled funds (bond, equity, multi-asset and property), where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

- 3.31 Bonds had their worst year of performance in several decades, long-term government bonds had their worst year ever as central banks delivered larger interest rates hikes than initially expected and promised to combat inflation. As Bank Rates rapidly rose from very low levels, bond investors suffered large crystallised or unrealised losses from rising sovereign and corporate bond yields (i.e. falling prices) as well as from widening credit spreads as concern grew over the risk of defaults in a recessionary environment thereby impacting the values of Council's investments in externally managed pooled funds.

UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and increasing risk of recession.

As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down in months, quarters and even years; but with the confidence that over a three -to five-year period total returns will exceed cash interest rates.

INVESTMENT BENCHMARKING

- 3.32 The Council participates in a benchmarking club being run by Arlingclose to enable officers compare the Council's treasury management and investment returns against those of similar authorities. The model considers a combination of credit duration and returns achieved over the duration, and it includes data from 120 to 128 local authorities at any one time. The progression of risk and return metrics are shown in Table 6 below.

Table 6: Investment benchmarking

	Tower Hamlets		21 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31.03.22	31.03.23		
Internal Investments	£245.20	162.0m	£77.40	£67.90
External Funds*	£75.70	£71.90	£9.50	£13.80
Average Credit Score	4.4	4.36	4.76	4.72
Average Credit Rating	AA-	AA-	A+	A+
Number of Counterparties & Funds	31	26	9	12
Proportion Exposed to Bail-in	59%	69%	64%	60%
Proportion Available within 7 days	39%	47%	63%	50%
Proportion Available within 100 days	78%	78%	80%	70%
Average Days to Maturity	38	8	37	13

Internal Investment Income Return	0.46%	4.07%	3.79%	3.68%
External Funds Income Return -Cash Plus Fund	0.58%	1.88%	1.76%	1.35%
External Funds - Income Return - Strategic Fund	2.76%	3.79%	3.71%	3.93%
Total Investments - Total Return (Income Only)	0.87%	3.83%	3.70%	3.68%

- Externally managed investments market values in table above include unrealised profit

COMPLIANCE REPORT

- 3.33 All treasury management activities undertaken from the beginning of the financial year 2022-23 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Debt Limits

	31.03.22 Restated Actual £m	2022/23 Forecast £m	31.03.23 Actual £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied
Borrowing	69.872	68.709	68.709	568.665	608.665	
PFI & finance leases	50.087	117.768	46.021	49.059	49.059	
Total debt	119.959	186.477	114.730	617.724	657.724	✓

- 3.34 Table 8 below shows 2022-23 treasury management approved investment limits.

Table 8: Investment Limits

Sector	Counterparty limit	Actual	Sector limit	Complied? Yes/No
The UK Government	Unlimited	£37.7m	n/a	✓
Local authorities & other government entities (<i>subject to checks on their balance sheet position depending on duration</i>)	£30m	£15m	Unlimited	✓
Secured investments *	£30m	none	Unlimited	✓
Banks (unsecured) *	£15m	£15m	Unlimited	✓
Building societies (unsecured) *	£15m	none	£30m	✓

Registered providers (unsecured) *	£15m	none	£75m	✓
Money market funds *	£30m	£25m	Unlimited	✓
Strategic pooled funds*	£30m	£10m	£150m	✓
Real estate investment trusts	£30m	none	£75m	✓
Other investments *	£15m	none	£30m	✓

Treasury Management Indicators

- 3.35 The measures and manages its exposures to treasury management risks using a range of indicators.
- 3.36 Security: The Council has adopted a voluntary measure to its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AAA+=2, etc.) and taking the average arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.03.22 Actual	31.03.23 Actual	2022-23 Target	Complied
Portfolio average credit rating	AA-	AA-	A-	✓

- 3.37 Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.03.22 Actual	31.03.23 Actual	2022-23 Target	Complied
Total cash available within 3 months	225.20m	£161.95m	£50m	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

- 3.38 Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were as follows:

	30.03.22 Actual £m	31.03.23 Actual £m	Upper Limit %	Lower Limit %	Complied
Under 12 months	1.163		50	0	✓
12 months and within 24 months	-	-	50	0	✓
24 months and within 5 years	-	-	60	0	✓

5 years and within 10 years	-	-	75	0	✓
10 years and within 20 years	-	-	100	0	✓
20 years and within 30 years	-	-	100	0	✓
30 years and within 40 years	1.209	1.209	100	0	✓
40 years and within 50 years	67.500	67.500	100	0	✓

NON-TREASURY INVESTMENTS

- 3.39 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities, this is replicated in DLUHC's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.40 The Council currently does not have such investments.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no equalities implications directly arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.

Best Value Implications

- 5.2 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

Assessment of value for money is achieved through:

- Monitoring against benchmarks

- Operating within budget

Risk Management

- 5.3 There is inevitably a degree of risk inherent in all treasury activities. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.
- 5.4 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by Council.

The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place, the Council has obtained independent advice from Arlingclose who specialise in local authorities' treasury issues.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 This report provides an update on Treasury Management activities for the 2022-23 financial year.
- 6.2 The Council held an investment portfolio of £237.950m at 31st March 2023. This portfolio earned an income only average rate of return of 3.83% and a total return on investments (including capital gains and losses) of 2.13%.
- 6.3 The Council's approach to investment activities includes the use of pooled fund investments to increase the level of investment income generated, in line with approvals given in the Treasury Management Strategy. The Council's income target of 2022-23 was £2.27m while generated investment income was £5.7m.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003.
- 7.3 This noting report of the Corporate Director, Resources advises the Committee of the Council's borrowing and investment activities for the year ending 31st

March 2023 and is consistent with the key principles expressed in the Treasury Management Code. The Corporate Director, Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

- 7.4 When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty).

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
-
- State NONE if none.

Appendices

- Appendix 1 - Investments Outstanding at 31st March 2023
- Appendix 2 - Glossary

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:

Miriam Adams, Interim Head of Pensions and Treasury

Email: Miriam.Adams@towerhamlets.gov.uk

Appendix 1: Investments Outstanding at 31st March 2023

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		On demand	0.200	
	Aviva MMF		On demand	25.000	
	Insight MMF		On demand	16.800	
	BlackRock MMF		On demand	25.000	
	Morgan Stanley MMF		On demand	14.700	
	Deutsche MMF		On demand	25.000	
	Federated MMF		On demand	1.450	
	CCLA MMF		On demand	2.800	
	SUB TOTAL			110.950	
< 1 Month	Development Bank of Singapore	09/01/2023	11/04/2023	10.000	3.88%
	Australia & New Zealand Banking Group	09/01/2023	11/04/2023	15.000	4.07%
	SUB TOTAL			25.000	
1 - 3 Months	Santander			1.000	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	Development Bank of Singapore	13/02/2023	15/05/2023	5.000	4.08%
	DMADF	31/03/2023	02/05/2023	20.000	4.06%
	SUB TOTAL			46.000	
> 12 Months	CCLA Lamit Property Fund (POOLED)			5.000	
	CCLA Diversified Income Fund (POOLED)			5.000	
	Payden Absolute Return Bond Fund (POOLED)			10.000	
	Columbia Threadneedle Global Equity Income Fund Z (POOLED)			3.000	
	Columbia Threadneedle Strategic Bond Fund Z (POOLED)			5.000	
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000	
	Investec Fund Series I Diversified Income (POOLED)			6.000	
	Schroder Income Maximiser Fund (POOLED)			3.000	
	M & G Global Dividend Fund (POOLED)			2.000	
	M & G Optimal Income Fund (POOLED)			2.000	
	M & G UK Income Distribution Fund (POOLED)			3.000	
	M & G Strategic Corporate Bond Fund (POOLED)			4.000	
	SUB TOTAL			56.000	
	GRAND TOTAL			237.950	

Appendix 2: Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or

	"covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short-term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non-Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
SONIA	Sterling Overnight Indexed Average
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds is for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.

