



London Borough of Hammersmith & Fulham

Audit and Pensions Committee

Agenda

**TUESDAY
29 JUNE 2010**

7.00 pm

**COMMITTEE ROOM 1
HAMMERSMITH
TOWN HALL
KING STREET
LONDON W6 9JU**

Membership

Councillor Michael Adam (Chairman)
Councillor Nicholas Botterill
Councillor Marcus Ginn
Councillor Robert Iggulden
Councillor Michael Cartwright
Councillor PJ Murphy

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**Members of the Public are welcome to attend.
A loop system for hearing impairment is provided,
along with disabled access to the building**

Issue Date: 21 June 2010

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http://www.lbhf.gov.uk/Directory/Council_and_Democracy/

Agenda

<u>Item</u>	<u>Pages</u>
1. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF 23 MARCH 2010 AND THE MEETING OF THE PENSION FUND PANEL OF 16 MARCH 2010	1 - 13
<p>(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit Committee of the 23rd March 2010 and the open minutes of the meeting of the Pension Fund Panel of 16th March 2010.</p> <p>(b) To note the outstanding actions.</p>	
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST	
<p>If a Councillor has any prejudicial or personal interest in a particular item, they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.</p> <p>At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken, unless a dispensation has been obtained from the Standards Committee.</p> <p>Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.</p>	
4. MEMBERSHIP AND TERMS OF REFERENCE	14 - 18
<p>This report sets out the membership and terms of reference of the Committee</p>	
5. PENSION VALUE AND INVESTMENT PERFORMANCE	19 - 38
<p>This report, prepared by P-Solve, provides details of the performance</p>	

and the market value of the Council's pension fund investments for the quarter ending 31st December 2009.

- 6. EXTERNAL AUDIT PROGRESS REPORT** 39 - 47

This report summarises external audit work since the meeting of the Council's Audit Committee on 23 March 2010.
- 7. 2010/11 EXTERNAL AUDIT FEE LETTERS** 48 - 56

These letters detail the 2010/11 external audit fees for the Council and Pension Fund.
- 8. AUDIT COMMISSION RECOMMENDATIONS UPDATE** 57 - 68

The report updates the Committee on the implementation of Audit Committee recommendations.
- 9. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS FOR 2009/10** 69 - 208

This report presents the 2009/10 statement of accounts. It is a requirement of the Account and Audit Regulations 2003 that the accounts are approved by a committee of the Council, prior to audit.
- 10. WORMWOOD SCRUBS CHARITABLE TRUST ACCOUNTS 2009/10** 209 - 228

This report presents the 2009/10 Wormwood Scrubs Charitable Trust statement of financial activity. The Audit and Pensions Committee is the specific body that the Council has established to receive the annual reports of the trust.
- 11. ANNUAL GOVERNANCE STATEMENT AND REVIEW OF INTERNAL AUDIT** 229 - 238

This Statement forms part of the council's 2009-10 year accounts and is submitted for review by the Committee
- 12. HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2009/10** 239 - 262

This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2009/10 year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a

key element of the evidence supporting the Annual Governance Statement (AGS) that forms part of the 2009/10 year annual accounts.

13. RISK MANAGEMENT PROGRESS REPORT 263 - 282

This report informs the Committee on the overall arrangements for, and performance of, risk management across the Council.

14. CORPORATE ANTI FRAUD SERVICE ANNUAL FRAUD REPORT 2009-10 283 - 297

This is the annual report on the progress made in delivering the 2009-10 year service plans; key results of the work undertaken; and the performance achieved.

15. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JANUARY TO 31 MARCH 2010 298 - 340

This report summarises internal audit activity in respect of audit reports issued during the period to, as well as reporting on the performance of the Internal Audit service.

16. EXCLUSION OF THE PUBLIC AND PRESS

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 1 and 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

17. MINUTES OF THE PENSION FUND PANEL OF 16 MARCH 2010- EXEMPT ASPECTS 341 - 343



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 1 2010

June 2010



CAMRADATA
Pension Reporting

Summary

The assets of the Scheme are considered in terms of four equally weighted sections: UK Equities, Overseas Equities, Dynamic Asset Allocation Mandates and the Matching Fund.

The UK Equities are managed by Majedie and the Overseas Equities by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer, managing three quarters and one quarter of this section respectively. The Matching Fund is split equally between a global bond mandate managed by Goldman Sachs and a Liability Driven Investment (LDI) fund managed by Legal & General. With the exception of the LDI fund, all others are actively managed by fund managers who aim to meet or exceed their stated benchmark.

Liability Benchmark (LB)

To match the predicted growth in the liabilities, the Total Fund return needs to meet a return equivalent to the Liability Benchmark plus 1.75% p.a. (net of fees). The Total Fund strategy aims to exceed this and targets a return 2.5% p.a. (net of fees) in excess of the Liability Benchmark. Within this, the Matching Fund is targeting a return of 1% p.a. in excess of the Liability Benchmark.

The liabilities move in accordance with moves in relevant gilt yields. For this reason, the benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" is calculated based on the movement of a selection of Index Linked gilts, in the following proportions:

27% Index-linked Treasury Stock 2½% 2024, 63% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2055

This Liability Benchmark was last reviewed in September 2008.

Manager Benchmarks

Each Investment Manager has a benchmark which they are monitored against on an ongoing basis. These are:

Majedie	<i>FTSE All Share + 2% p.a. over three year rolling periods</i>
MFS	<i>FTSE World ex UK + 2% p.a. over three year rolling periods</i>
Barings	<i>3 month Sterling LIBOR + 4% p.a.</i>
Ruffer	<i>3 month Sterling LIBOR + 4% p.a.</i>
Goldman Sachs	<i>3 month Sterling LIBOR + 2% p.a.</i>
Legal & General	<i>2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.</i>

Private Equity

Additionally, the Panel has agreed to invest up to £15 million in four private equity fund of funds. Two managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two by Unigestion which is invested almost entirely in Europe.

Breakdown of Scheme Performance by Manager as at 31st March 2010

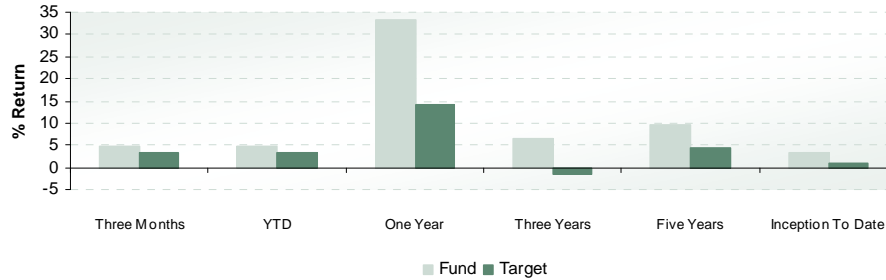
Fund	Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	3 year return (%)
Total Fund		548,224	100.0	100.0	4.8	33.1	6.5
	<i>Liability Benchmark + 1.75% p.a.</i>				3.2	14.0	(1.5)
	<i>Difference</i>				1.5	19.1	8.0
UK Equities		143,998	26.3	25.0			
	Majedie				4.7	49.7	6.2
	<i>FTSE All Share + 2% p.a.</i>				6.9	55.3	1.7
	<i>Difference</i>				(2.2)	(5.6)	4.4
Overseas Equities		147,894	27.0	25.0			
	MFS				9.8	46.6	9.9
	<i>FTSE World ex UK + 2% p.a.</i>				10.8	49.6	7.3
	<i>Difference</i>				(1.0)	(3.0)	2.6
Dynamic Asset Allocation Mandates		137,032	25.0	25.0	4.7	28.0	-
	Barings (note 2)	102,112	18.6	18.8	3.8	27.9	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.1	4.9	
	<i>Difference</i>				2.6	23.0	-
	Ruffer (note 2)	34,920	6.4	6.2	7.6	28.2	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.1	4.9	
	<i>Difference</i>				6.5	23.3	-
Matching Fund		119,300	21.8	25.0	(0.9)	10.8	
	<i>Liability Benchmark + 1% p.a.</i>				3.0	13.2	
	<i>Difference</i>				(3.9)	(2.4)	
	Goldman Sachs	58,098	10.6	12.5	1.1	10.3	0.2
	<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	2.6	(2.6)
	<i>Difference</i>				0.5	7.7	2.8
	Legal & General (note 3)	61,201	11.2	12.5	(2.7)	11.3	2.5
	<i>2 x FTSE + 15yr IL Gilts - LIBOR p.a.</i>				0.4	20.6	(2.6)
	<i>Difference</i>				(3.1)	(9.3)	5.1

Notes:

- 1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
- 2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.
- 3) At the time of reporting, the Legal & General mandate consisted of index linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.

Asset Reconciliation and Valuation									
Fund	Manager	Opening Market Value as at 31st December 2009 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Closing Market Value as at 31st March 2010 £000	% of Total Fund	Target % of Total Fund
Total Fund		523,353	100.0	-	22,666	2,205	548,224	100.0	100.0
UK Equities	Majedie	137,494	26.3	-	5,139	1,364	143,998	26.3	25.0
Overseas Equities	MFS	134,653	25.7	-	12,658	584	147,894	27.0	25.0
Dynamic Asset Allocation Mandates		130,848	25.0	-	5,929	255	137,032	25.0	25.0
	Barings	98,406	18.8	-	3,667	39	102,112	18.6	18.8
	Ruffer	32,442	6.2	-	2,262	216	34,920	6.4	6.2
Matching Fund		120,359	23.0	-	(1,060)	1	119,300	21.8	25.0
	Goldman Sachs	57,468	11.0	-	630	1	58,098	10.6	12.5
	Legal & General	62,891	12.0	-	(1,690)	0	61,201	11.2	12.5

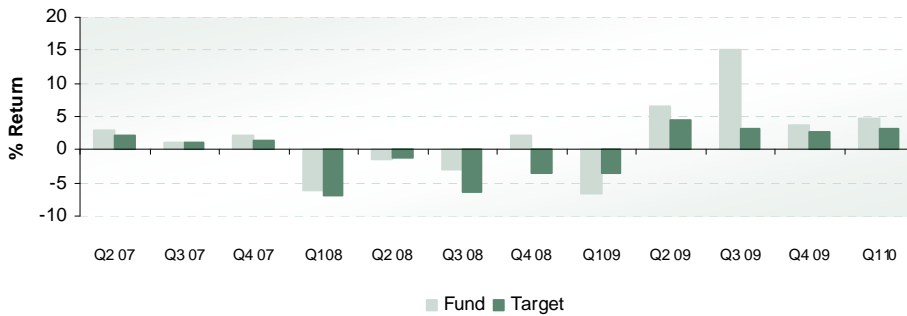
Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.75	4.75	33.10	6.53	9.56	3.37
Target	3.21	3.21	14.01	-1.45	4.37	0.82

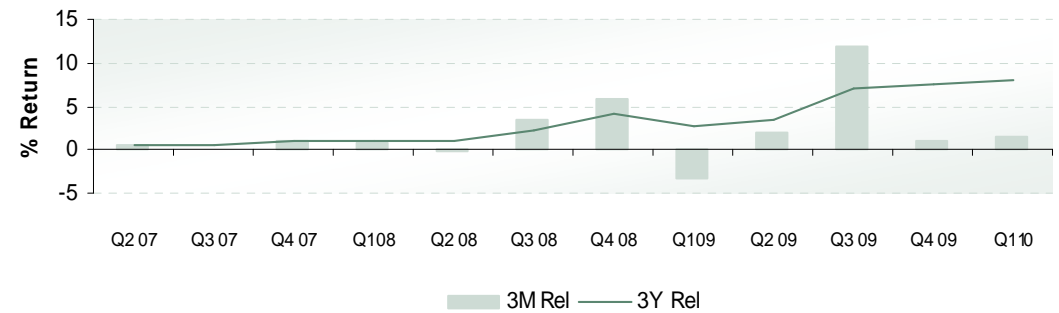
The Scheme outperformed its liability benchmark over the quarter, returning +4.8% compared to the target of +3.2%. The outperformance can be attributed to all areas of the strategy, particularly the DAA funds, with the exception of the Legal & General Gilt fund, although this fund did track the 2055 Single Stock Index-Linked index over the quarter. There was again significant outperformance over the last 12 months, of 19.1%, the outperformance can primarily be attributed to the rebound in equity markets, which particularly aided the performance of the DAA funds. Overall the Scheme has outperformed well on a 3 and 5 year basis.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	2.87	1.09	2.28	-6.13	-1.39	-3.11	2.03	-6.68	6.46	5.21	3.59	4.75
Target	2.28	1.05	1.36	-6.85	-1.23	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21

Three Years Rolling Relative Returns

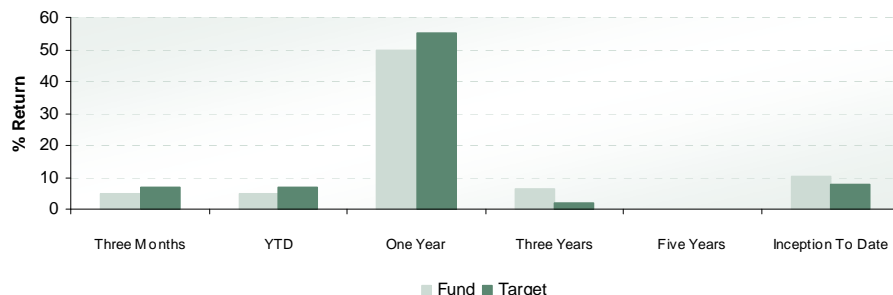


	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	0.58	0.04	0.91	0.78	-0.16	3.45	5.85	-3.29	1.90	11.76	1.00	1.49
3Y Rel	0.47	0.58	0.95	1.08	1.03	2.21	4.13	2.79	3.37	7.14	7.52	8.10

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified. The historic figures for the three years rolling relative returns table differ from those shown in the Q3 report; Northern Trust have revised the historic figures since Q3.

Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.73	4.73	49.68	6.17	-	10.40
Target	6.93	6.93	55.27	1.74	-	7.75

Quarterly Manager update

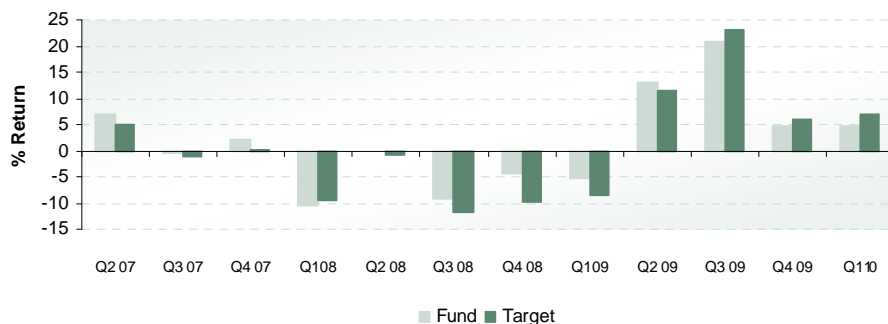
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 4.8% over the quarter, 2.2% behind its target. Over 12 months, they are 5.6% below their target. The portfolio has maintained a mildly cautious stance against a particularly robust market, costing the fund some relative performance. The fund's long position in Sportingbet stocks made a positive contribution to the fund's overall performance, while short positions in Carnival and Rio Tinto stocks were negative contributors to the fund's performance. Shares in many UK multinationals, such as GlaxoSmithKline, generally lagged the market over the quarter, despite being cheaply rated and seeing strong operating performance. Majedie believe that as risk appetite wanes, the defensive characteristics of the fund will shine through.

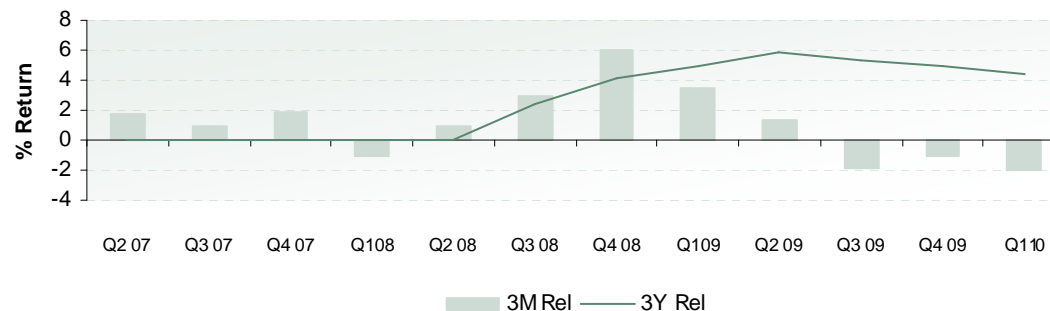
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	6.84	-0.38	2.03	-10.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73
Target	5.06	-1.27	0.15	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	1.70	0.91	1.88	-1.05	0.96	2.96	5.94	3.46	1.38	-1.81	-1.12	-2.06
3Y Rel	-	-	-	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35

MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	9.83	9.83	46.58	9.88	-	11.28
Target	10.80	10.80	49.61	7.31	-	9.92

Quarterly Manager update

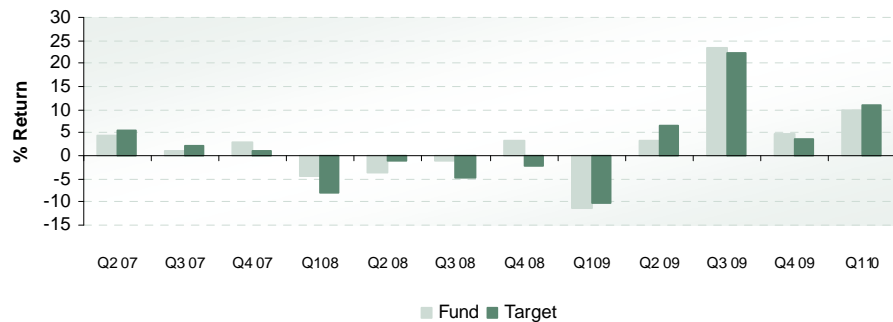
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 9.8% over the quarter, 1.0% below its target. Over 12 months, they are 3.0% behind their target. Currency effects were adverse, due to the overweight to Euro and underweight to Japanese domiciled stocks, relative to the British Pound. Stock selection in health care, financial services and leisure also detracted from performance. However, the underweight positions in utilities & communications and autos & housing along with stock selection in technology, retailing and autos & housing added to the performance of the fund over the quarter.

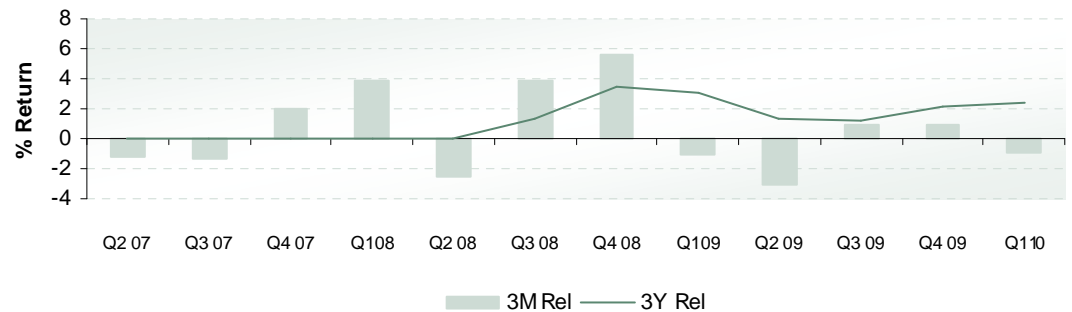
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



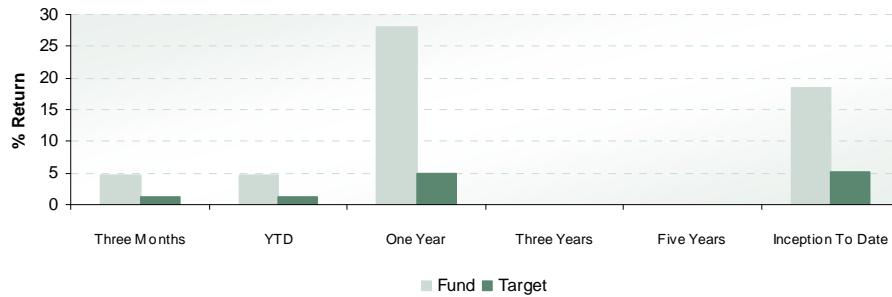
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	4.23	0.99	2.95	-4.44	-3.72	-1.02	3.29	-11.21	3.23	23.43	4.74	9.83
Target	5.43	2.28	0.94	-8.05	-1.27	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-1.15	-1.27	2.00	3.92	-2.48	3.93	5.64	-1.07	-3.02	0.92	0.98	-0.87
3Y Rel	-	-	-	-	-	1.32	3.50	3.02	1.32	1.21	2.11	2.39

Historical Plan Performance

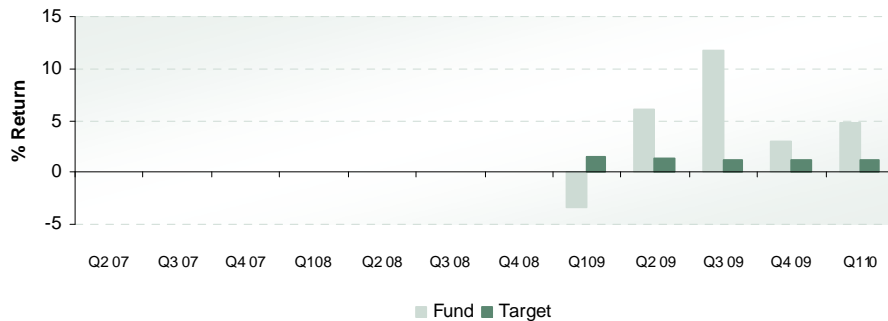


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.73	4.73	27.96	-	-	18.50
Target	1.14	1.14	4.88	-	-	5.14

The group has returned 4.7% over the quarter compared to its LIBOR-based target of 1.1%, due to strong performance from both Barings and Ruffer. Over the year to date, performance has been above target, as both Barings and Ruffer have outperformed. The Dynamic Asset Allocation group in general has benefited from the strong performance from the equity components of their portfolios.

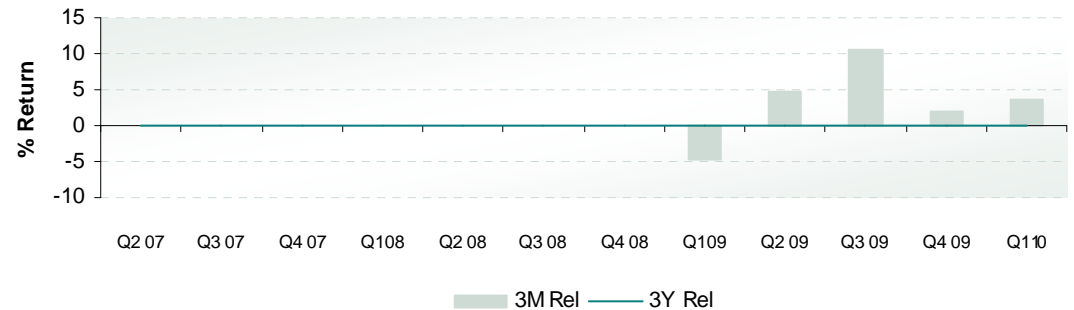
Page 27

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	-	-3.38	6.10	11.82	2.99	4.73
Target	-	-	-	-	-	-	-	1.50	1.33	1.19	1.14	1.14

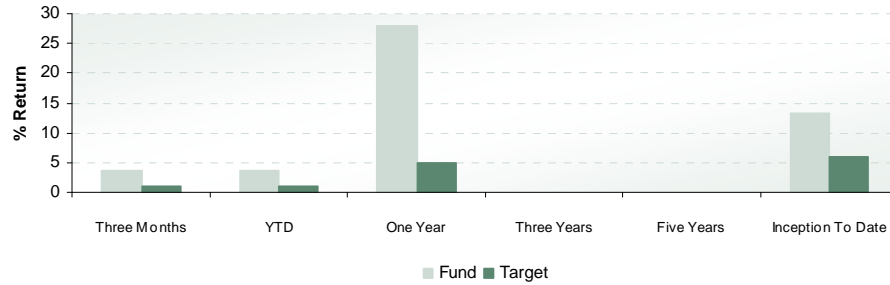
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-	-4.81	4.71	10.51	1.83	3.54
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in July 2008.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	3.77	27.89	-	-	13.33
Target	1.14	1.14	4.88	-	-	6.08

Quarterly Manager update

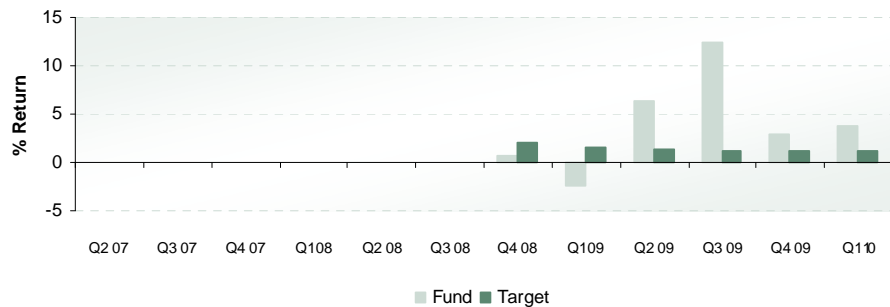
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 3.8% over the quarter, 2.6% ahead of its target. Over 12 months, they are 23.0% ahead of their target. The UK equity holdings again provided the largest contribution over the quarter at 150 basis points. The next largest contributor to performance was Global ex UK bonds with a contribution of 110 basis points.

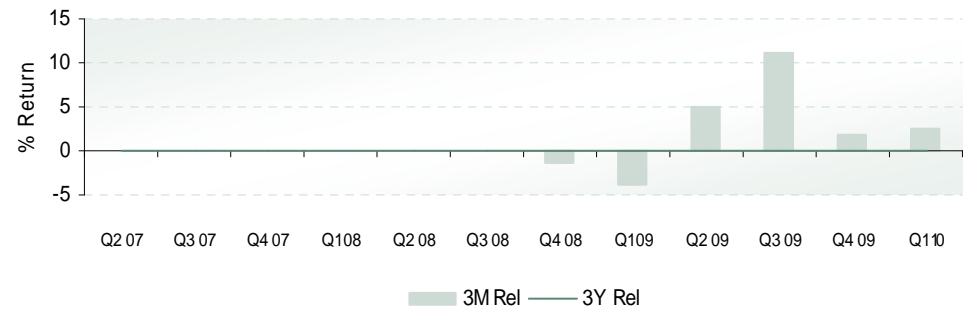
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	0.67	-2.42	6.42	12.50	2.94	3.77
Target	-	-	-	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14

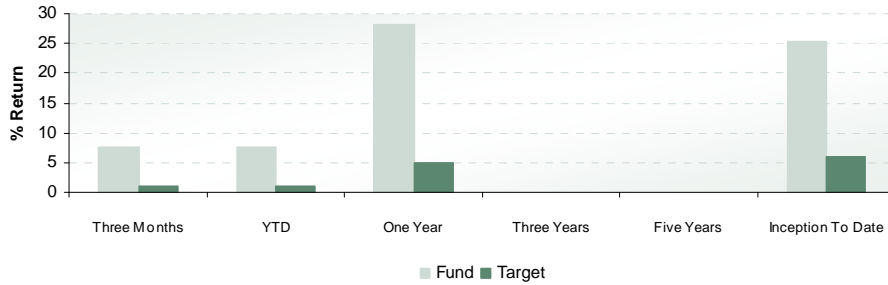
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-1.32	-3.86	5.02	11.13	1.78	2.59
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in July 2008.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	7.64	7.64	28.19	-	-	25.32
Target	1.14	1.14	4.88	-	-	6.08

Quarterly Manager update

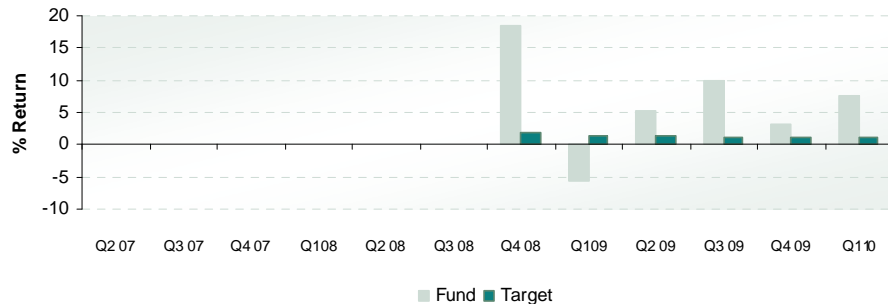
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 7.6% over the quarter, 6.5% ahead of its target. Over 12 months, they are 23.3% ahead of their target. Strong equity performance particularly in Japan and the funds increased dollar exposure led to a strong return over the quarter. Shares in BT group fell as the company was unable to confirm an agreement on the level of future pension contributions, however the attractions that Ruffer see in holding BT shares remain.

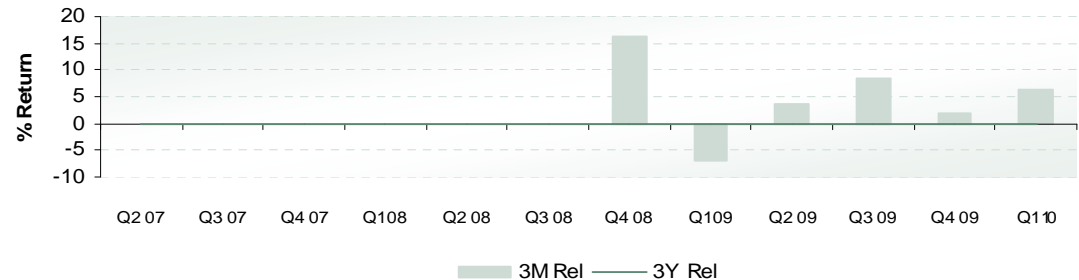
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



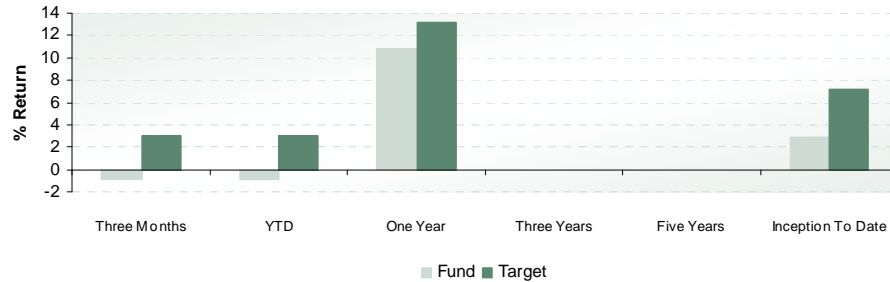
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	18.47	-5.49	5.17	9.81	3.12	7.64
Target	-	-	-	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	16.14	-6.90	3.79	8.52	1.96	6.42
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

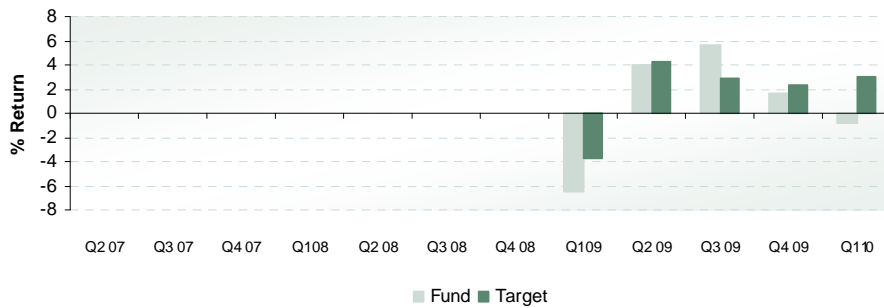
Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-0.88	-0.88	10.78	-	-	2.90
Target	3.02	3.02	13.18	-	-	7.15

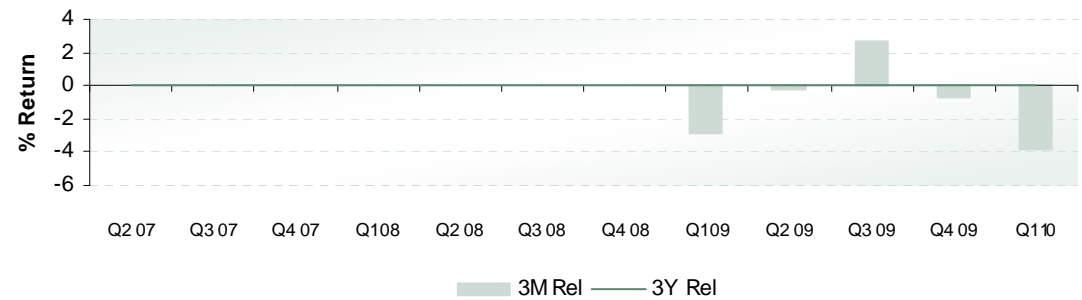
The performance of the Matching Fund over the quarter of -0.9% is below its gilts-based liability benchmark. This can be attributed to relative underperformance of the Legal & General Gilt fund. In contrast the Goldman Sachs fund performed well over the quarter.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	-	-6.45	4.04	5.66	1.67	-0.88
Target	-	-	-	-	-	-	-	-3.68	4.28	2.90	2.38	3.02

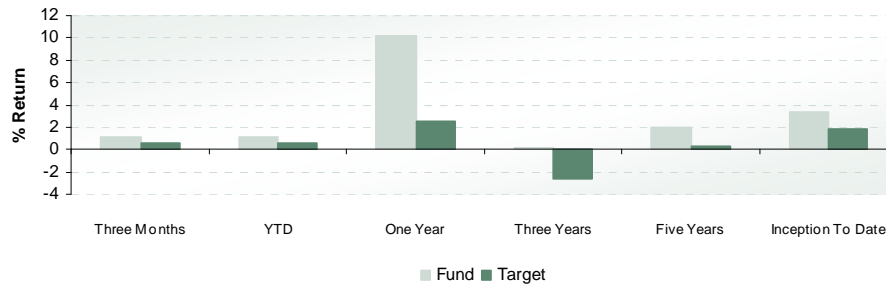
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

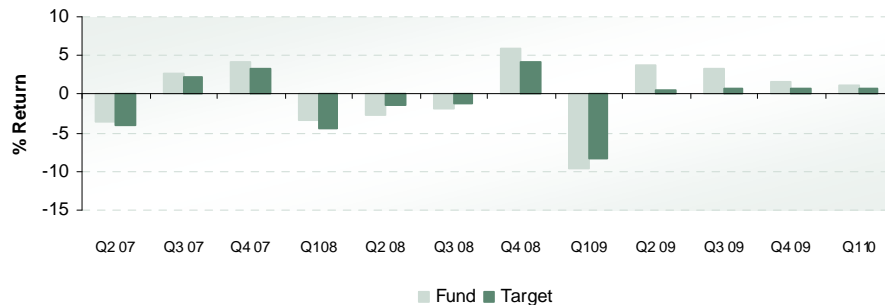
Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since Feb 09 manage an active bond fund.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	1.10	1.10	10.25	0.15	1.97	3.38
Target	0.65	0.65	2.59	-2.64	0.26	1.84

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-3.55	2.60	4.24	-3.27	-2.67	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10
Target	-3.93	2.15	3.29	-4.46	-1.48	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65

Quarterly Manager update

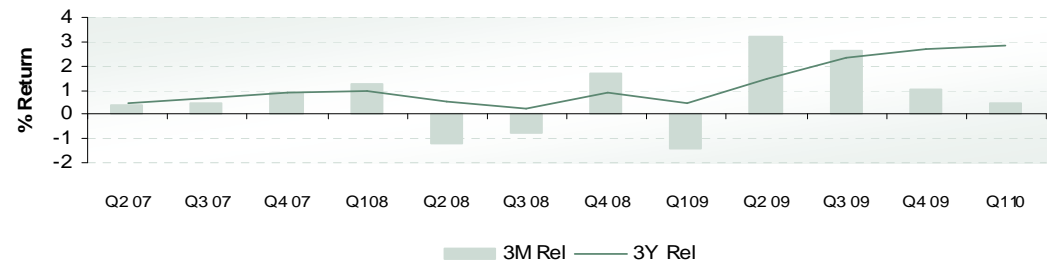
Organisation After the end of the quarter the US Securities and Exchange Commission ('SEC') announced that Goldman Sachs is to face a fraud charge. Goldman Sachs is accused of committing civil fraud by selling Abacus (a mortgage-backed security) to investors without telling them hedge fund Paulson & Co was shorting the instrument. It is also accused of failing to reveal it allowed Paulson to select many of the securities held in Abacus.

Product No significant changes over the quarter.

Performance The fund performance was 1.1% over the quarter, 0.5% ahead of its target. Over 12 months, they are 7.7% ahead of their target. The strong fund performance can mainly be attributed to the fund's overweight holdings to corporate and MBS credit, the long positions in 5yr and 10yr nodes of the European yield curve and the fund's long Europe / short US and long Europe / short UK positions.

Process No significant changes over the quarter.

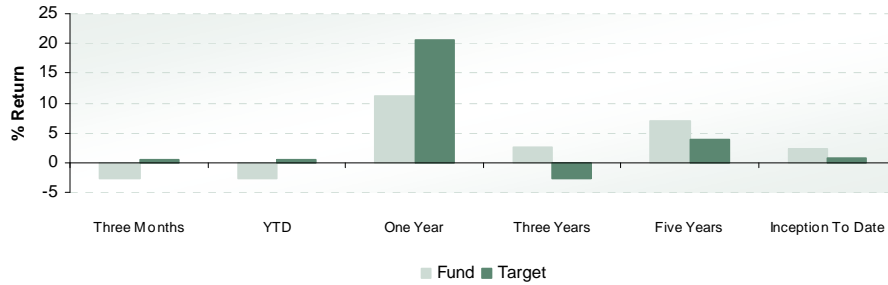
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	0.39	0.44	0.91	1.24	-1.21	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44
3Y Rel	0.49	0.67	0.89	1.00	0.54	0.27	0.90	0.47	1.48	2.37	2.68	2.86

Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in July 2009 following the investment structure review.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-2.69	-2.69	11.29	2.47	7.05	2.29
Target	0.36	0.36	20.59	-2.59	3.80	0.67

Quarterly Manager update

Organisation No significant changes over the quarter.

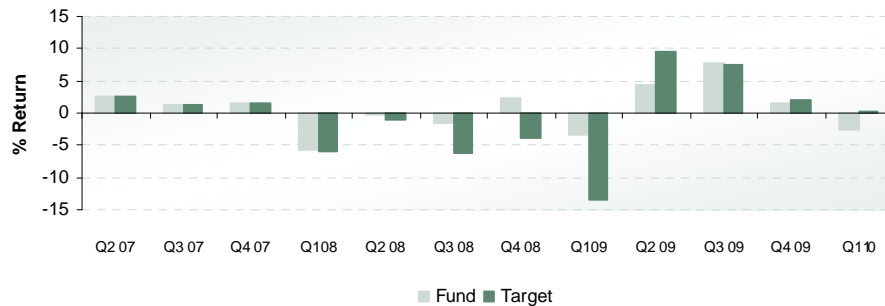
Product No significant changes over the quarter.

Performance The fund performance was -2.7% over the quarter, 3.0% below its target. Over 12 months, they are 9.3% behind their target. The fund, which is invested in the 2055 Index-Linked Gilt, has again tracked its benchmark over the quarter. Although the return this quarter has been negative, the fund as a whole has continued to achieve its target of tracking its benchmark since inception.

Process No significant changes over the quarter.

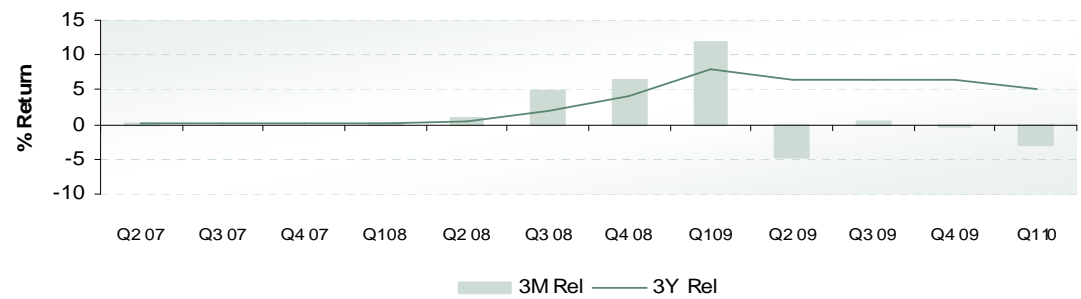
Page 32

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	2.51	1.34	1.66	-5.79	-0.17	-1.60	2.34	-3.32	4.29	7.85	1.68	-2.69
Target	2.46	1.42	1.67	-5.98	-0.99	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	0.05	-0.08	-0.01	0.19	0.83	4.97	6.49	11.78	-4.77	0.34	-0.40	-3.03
3Y Rel	0.18	0.12	0.12	0.12	0.42	2.03	4.16	8.07	6.34	6.46	6.29	5.20

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified. Northern Trust have revised some of the rolling three year fund and target performance numbers from their Q4 2009 report.

This is a general market commentary for CAMRADATA Pension Fund clients covering the events of Q1 2010.

Equity markets, though advancing for the fourth consecutive quarter on the back of continued global recovery, experienced a volatile start to the year with global markets losing ground during the latter part of January, before rallying again in February and March.

The Budget revealed few major changes to fiscal projections but given the proximity to a General Election, lacked detail as to how the government's deficit was to be addressed. The consensus view is that the "real" budget will take place post election.

With the exception of the Euro, Sterling weakness against most other major currencies, notably the Yen and \$US, enhanced local returns. This weakness was attributable to a combination of poor economic data, implying a continued hold in interest rates and signs of a rise in inflation.

Data included a surprisingly poor trade balance for the UK in January with exports and imports falling by 1.6% and 6.9% respectively. This fuelled speculation over why the UK's net trade position has not recovered given the depreciation of Sterling. However, in February the trade deficit fell from £3.9 Billion to £2.1 Billion as a consequence of export growth and a reduction in imports.

The manufacturing PMI index fell from 58.4 to 56.5 in March but remains indicative of growth while the service sector figure reached a three-year high. Annual CPI inflation rose to 3.4% some 1.4% above the Bank of England's target.

In the UK, the FTSE All-Share Index rose 6.4% over the quarter whilst overseas equity markets were led by Japan and the US which returned

15.4% and 12.4% over the quarter in sterling terms respectively. Emerging market equities continued to deliver strong returns to sterling based investors providing 10.3% over the quarter. European Equities (excluding the UK) meanwhile proved more disappointing with a return of 4.0% over the quarter in sterling terms.

Investors' continuing concerns over a soaring budget deficit combined with worries over the implications of a "hung parliament" post General Election, adversely impacted the Gilt market over the quarter.

These concerns against a backdrop of relatively slow economic recovery also affected other government bond markets on worries over the sustainability of some countries' medium-term fiscal positions. As a result, investors demanded higher yields to absorb the sizeable prospective bond issuance with notable increases in yields on some euro-zone economies relative to German Government Bonds.

Larger public sector deficits might in theory be expected to push up on real interest rates or future expected inflation. Over recent months, medium (5-year) forward rates rose internationally, particularly for sterling. In contrast UK and US future inflation rates (implied from the swap markets) were little changed.

Fixed interest investors saw a rise in premiums for protection against default for some sovereign debt by the use of sovereign credit default swaps. This was particularly true in Greece, where a substantial budget deficit and the lack of a substantive plan to address it caused a crisis of confidence leading to other Euro-Zone governments having to offer support. Greece continued to maintain that it would be able to finance its debt through market issuance though nervous investors have unloaded Greek Bonds in recent weeks pushing interest rates

on 10 year debt to 8%. This has led Greece to renew talks with fellow European Union members and the IMF on a financial rescue deal. Although the Greek problem is perhaps the most serious, the general situation is exacerbated by similar challenges facing Portugal, Ireland, Italy and Spain (the so called PIIGS economies) which also unsettled markets. Even Bundesbank bond auctions have been affected with the most recent auction of 30 year Bunds only partially sold.

Despite rising yields notably at the long end of the market, UK Fixed Interest Gilts overall produced a positive return of 1.1% for the quarter due to the effect of interest earned. That said, longer dated Fixed Interest Gilts only just managed to stay in positive territory with a return of 0.2% over the period. Meanwhile the UK Corporate Bond sector was the best performing area within UK fixed interest with a return of 4.0% with UK Index-Linked Gilts delivering a more modest 2.2%.

Investors in fixed interest focussed on more riskier sectors of the market as lower rated bonds continued their rehabilitation and benefited from Sterling weakness. Global High Yield Bonds and Emerging Market Debt producing equity like returns of 11.3% and 10.3% in sterling terms respectively.

Commercial property values continued to advance albeit at a far less hectic pace than was seen in the final months of 2009. The best sector was retail warehousing and the best area was central London where there was evidence of rental increases, the first for 3 years following downward pressure as the result of difficult economic conditions. Improved valuations have helped release liquidity but transactional volumes remain low. Overall property provided a return of 5.1% over the quarter.

Outlook

An election in the UK is imminent and is largely overshadowing the domestic market. Sentiment is more likely to be influenced by the outcome than any policy announcements in the interim. Expectations are that there will be “pain” ahead but it is by no means clear in which areas or to what extent.

From an investment perspective and despite improving sentiment, equity markets remain vulnerable to any economic setbacks and concerns still remain globally over levels of sovereign debt.

Over the past 12 months, Governments have focussed on addressing the credit crunch crisis however the debt crisis still remains and the issue of excess fiscal debt will continue to present difficult challenges for the foreseeable future.

Sources: Bloomberg, Reuters, Datastream, Bank of England, Office for National Statistics

Chris Windeatt, Senior Associate at CAMRADATA Analytical Services, discusses analytics.

Market events over the last two years have highlighted the increasing need to regularly assess your Pension Scheme’s investment managers. It is important to understand how your existing managers add value, and whether this is by luck or judgement.

When thinking about your existing investment managers, you may ask yourself “Is this the right time to sell my incumbent fund manager?” Poor performance may not give you sufficient comfort to make a sell decision. To supplement the information from performance reporting, it is useful to have additional insight from quantitative analysis. You want to make an informed decision, and balance the costs involved in switching managers against potential lost returns. For example, if a manager has underperformed recently what has caused this; and if a manager has outperformed recently, wouldn’t you like to know more about how they have achieved this?

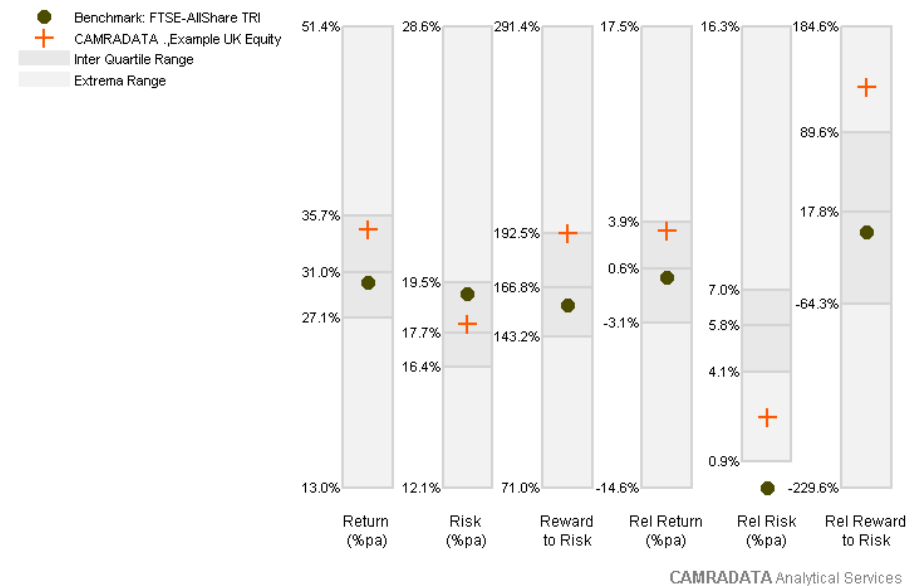
If you decide to sell a fund manager the next stage is to identify new managers with skill; and get to the bottom of the key issues that affect each one. To do this you may want to organise a beauty parade and interview each manager in turn. To support you, new analytical techniques can cut through the wall of data to provide you with a summary of how skilled an investment manager is, and tell you more about their true philosophy. More importantly, it allows you to quickly get to the searching questions that test a manager’s thinking on their approach and style.

Returns data can provide an insight into an investment manager’s story, and applying returns analysis across a universe can offer a valuable insight into the industry. Analytics are key to framing historic returns and can affect the buying and selling decisions. Quantitative analysis of universe returns is important in making a well informed decision regarding new and existing investment managers.

Another form of analysis is to assess an investment manager against a selected peer group. Peers need to be a representative comparison so it is necessary to ensure that the peer group is as fair as possible. Graphical representation can be used such as summary risk-return charts and calendar year peer group dispersion charts in order to assess performance.

Let us now look at some case studies which explore the measurement of an investment manager:

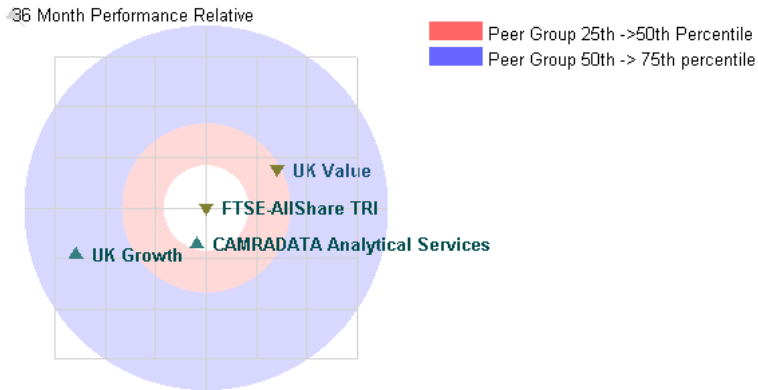
Case Study 1: Summary Statistics



In this chart the bars relate to return, risk and reward to risk in absolute terms, and relative to the FTSE All Share Index. A natural question that a trustee may ask is ‘where is my fund manager in the peer group?’ In this example the red cross is well within the upper quartile for relative reward to risk. This indicates a fund which historically has been very effective at transforming risk from the benchmark into positive relative returns. Conversely, if the red cross was within the lower quartile for relative reward to risk, then this would indicate a fund which had not been effective at transforming risk from the benchmark into positive relative returns.

Case Study 2: Mapping

In another case study, we examine the distances between styles to tell us about the sort of stocks that a fund invests in. It is important to understand a manager’s style basis, as this leaves trustees with an understanding of the environments in which the manager is likely to outperform. A manager investing in distinctly growth stocks would be expected to lie closer to an index made of these growth companies, than to an index made of value companies.



The points broadly map the products variance relative to each other, arrows represent three year relative performance.

CAMRADATA Analytical Services

For illustration purposes, we have shown a hypothetical CAMRADATA Analytical Services fund.

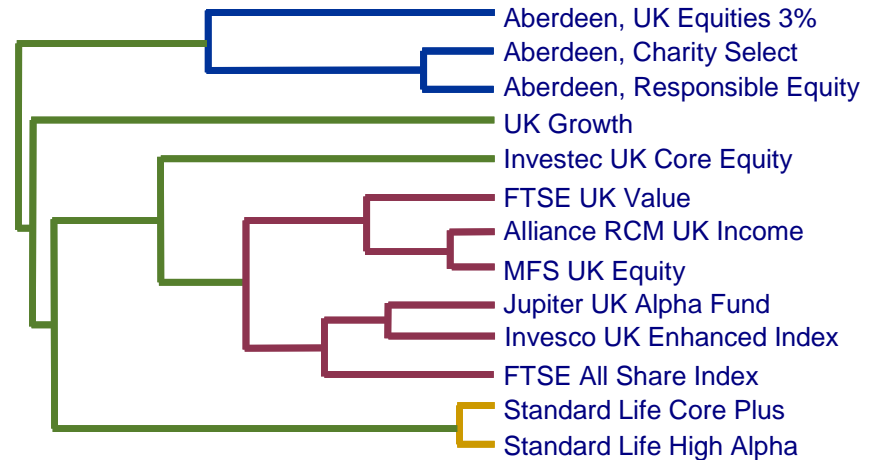
The map in this chart places the benchmark in the middle. As we move away from the benchmark we are taking increasing risk relative to it.

The colours in the target areas tell us about the level of risks taken relative to the benchmark by the wider peer group. Seventy five percent of the peer group lie at a risk level from the index within the blue area, fifty percent within the red area and twenty five percent within the white area.

Case Study 3: Dendrogram

In our final case study we will be extracting ‘returns DNA’ and map it as a family tree from a manager peer group. Typically 90% of the variance in a peer group can be compressed to a smaller set of bellwether products that represent specific types of ‘returns DNA’. The realism from this analysis is very interesting, as you can identify investment managers who sit opposite each other but don’t necessarily share ideas, and other products that you thought were complimentary to be as closely related as a brother and sister.

These analytics can be used to identify complementary managers, and ways to improve the diversification properties of a portfolio. It is also possible to apply these mapping techniques to spot the product that really is away from the herd.



In this example, several houses can demonstrate that they operate a house process because their products have been linked together, like Aberdeen and Standard Life. In this particular case, Alliance RCM UK Income and MFS UK Equity have been identified as having demonstrated certain similarities in style because they are also closely linked together.

What does this mean for my Scheme?

Assessing your Scheme's investment managers is an important part of your role as a Trustee. Understanding why an investment manager has performed well or poorly can assist in the decision making process for retaining or adding new investment managers. Using this type of analysis gives Trustees more information to assess and question their investment managers.

If you would like further information about how we can help you, please contact your usual CAMRADATA governance adviser. We will also be happy to discuss the various other tools that can assist you with your understanding.

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Datasource: Data has been sourced from the Custodian, Northern Trust, and the Managers.

IMPORTANT INFORMATION

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External Audit Progress Report

London Borough of Hammersmith & Fulham

Audit 2009/10

June 2010

Contents

Summary of progress	3
Appendix 1 – Progress against the 2009/10 audit plan	4
Appendix 2 – Summary of recent Audit Commission publications	5
The Audit Commission	8

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Summary of progress

- 1 Appendix 1 details progress against the 2009/10 audit plan. To date, all audit work remains on track.

Opinion on the 2009/10 financial statements

- 2 We aim to give an opinion on the 2009/10 financial statements by 30 September 2010. Work is due to commence on the financial statements in July. The results of the audit will be reported to the September audit Committee.

Comprehensive Area Assessments and Use of resources

- 3 The government coalition has stated in its programme of government document that it plans to abolish Comprehensive Area Assessment. All work on updating the area assessment and organisational assessment will cease with immediate effect. The Audit Commission is working with the government and partner inspectorates to ensure we can continue to increase accountability for local public services through more transparency, richer data and less inspection.
- 4 As a result, detailed scores for use of resources work will not be issued as in previous years.

Recent Audit Commission reports

- 5 The Audit Commission publishes independent reports which highlight risks and good practice to improve the quality of financial management in local government and encourage continual improvement in public. Some of the recent reports are summarised in Appendix 2 and are also available on the Audit Commission web-site at: <http://www.audit-commission.gov.uk/localgov/pages/default.aspx>

Appendix 1 – Progress against the 2009/10 audit plan

Audit plan content	Planned date	Status
Audit Plan	April 2009	Completed
Opinion audit plan	March 2010	Completed
Annual governance report	September 2010	Not yet started
Auditor's opinion on the financial statements	September 2010	Not yet started
Use of resources report	September 2010	Cancelled
Final accounts memorandum	October 2010	Not yet started
Annual audit letter	November 2010	Not yet started
Review of market testing	July 2010	Draft report with the Council for comment

Appendix 2 – Summary of recent Audit Commission publications

The truth is out there: a discussion paper (05 March 2010)

This discussion paper looks at how the public sector can improve information made available to the public. It follows our publication in November 2009, [Nothing but the truth](#) that looked at the reliability of facts and figures used by public service providers and decision-makers such as councils and health trusts, social workers, doctors and police.

The next document in our 'Truth' series, 'The truth is out there' poses questions such as 'What information will capture the public's imagination?' and 'How will the public know what information to trust?'

The paper is written on the assumption that:

- data about public services should be in the public domain, subject to essential safeguards for confidentiality;
- information should be in forms that can be easily accessed, understood and analysed; and
- it is both necessary and possible to take steps to reduce the risk that public trust will be undermined by inaccurate data or deliberate distortion.

To prompt that debate, the paper:

- shares learning and innovative practice from Britain and other parts of the world;
- highlights the challenges and risks of making data and information more widely accessible; and
- suggests some ways to mitigate those risks in the years ahead.

'The truth is out there' aims to stimulate debate on transparency in the public sector. Comments are invited online via thetruth@audit-commission.gov.uk

By mutual agreement: severance payments to council chief executives (16 March 2010)

The study looked at council chief executives' job moves over 33 months, and found that:

- agreed severance packages for 37 council chief executives totalled £9.5 million, 40 per cent of which was in pension benefits;
- three in every ten outgoing council chief executives received a pay-off;
- only six took up other senior council jobs within a year;

- one in seven single tier or county councils had paid off a chief executive, and this rate seems to be growing; and
- the average cost to councils of each severance package was almost double the annual basic salary, but in four cases was more than triple.

Severance deals can be in the interests of the council and the taxpayer. But our research shows that not all such deals are justified, that competent chief executives have sometimes lost their jobs needlessly, and that less effective individuals have been paid-off rather than dismissed.

The Commission wants all deals to be more transparent. They should be reviewed by scrutiny or remuneration committees, with details published shortly after they are agreed. And councils should consider whether to include so-called 'pre-nuptial' clauses in contracts, specifying the grounds and payment for severance.

The report found that rapid re-employment in local government is unusual – only six out of the 37 returned to a senior council post within a year, and over 80 per cent have yet to return to local government. However, a way should also be found of recouping some of a pay-off where an executive moves quickly into another top council job.

In the interests of openness and transparency, the Audit Commission is making submissions received, following our call for evidence, for the By Mutual Agreement: Severance payments to council chief executives study available. These can be viewed on the Audit Commission internet page. A copy of responses will also be placed in the House of Commons library.

Surviving the crunch: Local finances in the recession and beyond (23 March 2010)

This report is the third in a series of publications looking at the impact of the credit crunch and subsequent recession on local authorities.

It says that councils must think bigger and act quicker to reduce costs, or funding cuts will cause more damage to services and jobs than is necessary. Most councils have been cushioned from the worst of the recession because the government stuck to its three-year funding settlement. But this ends in 2011. On average, councils receive two-thirds of their income from grants.

Even though the timing and extent of cuts in government support are unclear, the report says that councils must prepare now for leaner times. The sooner they get clarity the better. The best-prepared councils are taking action now to preserve services in the years ahead, but others have yet to make any financial plans beyond 2011.

A review of collaborative procurement across the public sector (21 May 2010)

The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009.

Summary of progress

The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements.

It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

Download [A review of collaborative procurement across the public sector](#) from the National Audit Office website.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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Our reference HA00511A

13 April 2010

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— Dear Geoff

Annual audit fee 2010/11

Further to our ongoing discussions, I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at the London Borough of Hammersmith & Fulham. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Audit Commission Comprehensive Area Assessment Lead will be writing to you separately on these fees.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £400,000, which compares to the planned fee of £419,000 for 2009/10. A summary of this is shown in the table below.

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	328,000	328,500
Use of resources / VFM conclusion	67,000	85,500
Whole of Government Accounts	5,000	5,000
Total audit fee	400,000	419,000

IFRS rebate	(24,223)	
Certification of claims and returns (estimate)	110,000	120,000

The Audit Commission has published its work programme and scales of fees 2010/11. The Audit Commission scale fee for London Borough of Hammersmith & Fulham is £362,400. The fee proposed for 2010/11 is +10 per cent compared to the scale fee.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £24,223 in April 2010.

Changes in international auditing standards will increase the audit procedures I need to carry out. However the Audit Commission will absorb the cost of these additional requirements within the fee.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate opinion plan for the audit for the financial statements will be issued in January 2011. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
The move to International Financial Reporting Standards presents risks to	We will continue with regular liaison with the finance team to support the Council with	Ongoing throughout the year

financial reporting, both in terms of managing the transition and the potential impact on budgets and capital financing.	this change, and perform early testing where agreed.	
The economic downturn presents a risk to all local authorities. The impact is likely to include reductions in capital receipts, reductions in income from fees, and increased costs for some services such as housing benefits. Alongside reduced government funding, there is a risk to financial standing.	We will monitor the impact of the economic downturn on Council finances and take account of the Council's responses to the economic downturn in reaching our conclusions on use of resources.	Ongoing throughout the year
The Council has sought to integrate with the PCT including joint senior management positions. Robust governance arrangements will be critical to making the arrangement a success.	We will consider the results of work being conducted as part of the 2009/10 audit plan, and consider whether follow up work is required.	To be determined
The Council aims to obtain significant funding (up to £175 million) from the Building Schools for the Future programme. This funding is critical to achievement of the Council's vision.	We will keep a watching brief on the programme, and consider any impact on our use of resources conclusions.	Ongoing throughout the year

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 are:

Audit Manager – Julian McGowan: 07813 850643

Team Leader – Grace Kua: 0208 753 2182

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance.

Alternatively you may wish to contact the London Head of Operations, Les Kidner (les.kidner@audit-commission.gov.uk).

Yours sincerely

Jon Hayes
District Auditor

cc Jane West, Director of Finance and Corporate Services

Appendix 1: Planned Outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee:

Planned output	Indicative date
Opinion audit plan	January 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Final accounts memorandum	October 2011
Annual audit letter	November 2011

Our reference 20100511

11 May 2010

Mr Geoff Alltimes
Chief Executive
London Borough of Hammersmith & Fulham
Town Hall
King Street
Hammersmith
W6 9JU

Direct line 0844 798 2895

Dear Geoff

Hammersmith & Fulham Pension Fund Annual Audit Fee 2010/11

Further to our recent discussions, I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year for the Hammersmith & Fulham Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is £35,000 (exclusive of VAT) which compares to the planned fee of £35,000 for 2009/10. The Audit Commission has recently set the fee scale for single employer funds for both these years at £35,000. This reflects the fact that there is not a single cost driver for a pension fund audit and that for the single employer funds the Commission was not able to identify a statistically valid fee formula.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate plan for the audit of the financial statements will be issued in March 2011. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 6187 www.audit-commission.gov.uk

The key members of the audit team for the 2010/11 are:

Audit Manager – Julian McGowan 0208 753 2182

Team Leader – Grace Kua 0208 753 2182

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the London Head of Operations, Les Kidner (les.kidner@audit-commission.gov.uk)

Yours sincerely

Jon Hayes
District Auditor

cc Jane West - Director of Finance

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Planned output	Indicative date
Opinion audit plan	March 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements	September 2011

LONDON BOROUGH OF HAMMERSMITH & FULHAM

STATEMENT OF ACCOUNTS

2009/10

**CERTIFICATION BY CHAIRMAN OF THE PENSIONS AND AUDIT
COMMITTEE**

I confirm that these accounts were approved by the Pensions and Audit
Committee on 29 June 2010

Councillor Michael Adam
29 June 2010

CONTENTS

The Council's Statement of Accounts for the year ended 31 March 2010 is set out on the following pages.

FOREWORD BY THE DIRECTOR OF FINANCE AND CORPORATE SERVICES (Pages 6 - 13)

This is an explanatory introduction to the financial statements.

STATEMENT OF RESPONSIBILITIES (Page 14)

This is a statement which sets out the financial responsibilities of the Council and of the Director of Finance and Corporate Services in relation to the Statement of Accounts.

STATEMENT OF ACCOUNTING POLICIES (Pages 15 - 28)

This is an explanation of the basis on which the accounts have been prepared and their compliance with the guidance of the relevant regulatory bodies.

FINANCIAL STATEMENTS (Pages 29 - 34)

These statements summarise the overall financial performance of the Council in the financial year 2009/10 and its financial position at 31 March 2010. For comparison purposes, figures relating to 2008/09 have also been included. The financial statements have been produced to conform with the requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice', often referred to as the 'SORP', and the Best Value Accounting Code of Practice 2008' (BVACOP), both published by the Chartered Institute of Public Finance and Accountancy.

INCOME AND EXPENDITURE ACCOUNT (Page 30)

This account shows the cost of services provided by the Council and the income which those services have generated.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE (Page 31)

This statement reconciles the deficit on the Income and Expenditure Account with the movement on the General Fund Balance.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (Page 32)

This statement brings all gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in the Council's net worth for the year.

BALANCE SHEET (Page 33)

The Balance Sheet sets out all the balances held by the Council at the end of the year, indicating how much is owed to it and how much it owes others, excluding the Pension Fund, which is reported separately. It sets out the overall financial position of the Council.

CASH FLOW STATEMENT (Pages 34)

This statement shows the total of cash inflows and outflows in respect of revenue, capital and capital financing for the year and their effect on balances at the end of the year.

NOTES TO THE CORE FINANCIAL STATEMENTS (Pages 35 - 90)

COLLECTION FUND ACCOUNT (Pages 91 - 94)

This account summarises income and expenditure relating to the collection of council tax and national non-domestic rates, including the precept collected on behalf of the Greater London Authority. It sets out the contribution of Hammersmith and Fulham council tax payers to the costs of local services and its distribution to the Greater London Authority.

HOUSING REVENUE ACCOUNT (Pages 95 - 101)

This account shows the income and expenditure relating to the provision of housing and associated services to Council tenants and leaseholders and includes the Statement of Movement on the HRA Fund Balance. This reflects the statutory obligation of the Council to account separately for the costs of its activities as a landlord in the provision of Council housing.

PENSION FUND ACCOUNTS (Pages 102 - 118)

The Pension Fund accounts set out a summary of the transactions during the year and the overall financial position of the Fund. The full accounts are available from the Director of Finance and Corporate Services at the address shown below. The summary accounts comprise:

- Fund Account
- Net Assets Statement

ANNUAL GOVERNANCE STATEMENT (Pages 119 - 125)

This is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the Council and the governance arrangements of the group.

GLOSSARY OF FINANCIAL TERMS (Pages 126 - 133)

This comprises an explanation of the local government and financial terms used in this Statement.

FURTHER INFORMATION

Further information about the 2009/10 Statement of Accounts is available from the Head of Corporate Accountancy by telephoning (020) 8753 1862, or by writing to the address below;

Head of Corporate Accountancy
Finance and Corporate Services Department
Room 5
Hammersmith Town Hall
King Street, London, W6 9JU

EXPLANATORY FOREWORD

The accounting arrangements of any large organisation are complex. The purpose of this Statement of Accounts is to summarise the financial performance and overall financial position of the Council in a manner which is reasonably comprehensible, whilst acknowledging that over-simplification can be misleading. Accounting and local government finance have a language of their own so, inevitably, some technical wording remains. A Glossary is included at the end of the Statement to assist understanding of the information in this document.

The framework within which the Council's Accounts are prepared and published is regulated as set out in the Statement of Accounting Policies.

The financial statements have been produced to conform with the requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice', often referred to as the 'SORP', and the 'Best Value Accounting Code of Practice' (BVACOP), both published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The core financial statements are comprised of the Income and Expenditure Account which shows the cost of services provided by the Council and the income which those services have generated; the Statement of Movement on the General Fund Balance which reconciles the deficit on the Income and Expenditure Account with the movement on the General Fund Balance; the Statement of Total Recognised Gains and Losses which brings all the gains and losses together with the outturn on the Income and Expenditure Account to show the movement in the Council's net worth for the year; the Balance Sheet sets out the overall financial position of the Council including all the balances held by the Council at 31 March 2010 and the Cash flow Statement which shows the total of cash inflows and outflows in respect of revenue, capital and capital financing for the year and their effect on balances at the end of the year. These Statements are further supported by notes to the Core Financial Statements.

The supplementary financial statements include the Collection Fund Account which summarises income and expenditure relating to the collection of council tax and national non-domestic rates, including the precept collected on behalf of the Greater London Authority. It sets out the contribution of Hammersmith and Fulham council tax payers to the costs of local services and its distribution to the Greater London Authority. The Housing Revenue Account shows the income and expenditure relating to the provision of housing and associated services to the Council tenants and leaseholders and includes the Statement of Movement on the HRA Fund Balance. This reflects the statutory obligation of the Council to account separately for the cost of its activities as a landlord in the provision of Council housing. Both statements are also supported by various notes.

The Pension Fund accounts set out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31 March 2010 (Net Assets Statement). The Pension Fund Accounts are also supported by various notes.

Finally, the Annual Governance Statement is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the Council and the governance arrangements of the group.

Accounting Changes

The 'Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice' requires the following changes, in accounting treatment, including

- Private Finance Initiative (PFI) treatment. The early adoption of the International Accounting Standard (IFRIC 12) as part of Local Government's transition to International Financial Reporting Standards (IFRS) for 2010/11, requires the PFI scheme to be shown on the balance sheet. Restated entries do not impact on the level of Council Tax or the General Fund balance.
- Council Tax and National Non-Domestic Rates. Council tax transactions and balances are now allocated between the Council and GLA. This is a change to previous practice where the Council showed all outstanding debt, prepayments and bad debt provision for council tax on its balance sheet. Apart from its own share of council tax transactions, the Council accounts only for the effects of timing differences between the collection of council tax attributable to the GLA and paying it over.

NNDR income does not directly benefit the Council and therefore is no longer in the Income & Expenditure Account. NNDR debtor and credit balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and are no longer recognised on the balance sheet. The difference between cash collected from taxpayers and cash paid to the government is now treated as either a debtor or creditor on the balance sheet.

The above are reflected in a prior period restatement of 2008/09 figures

- There have also been minor changes to Financial Instruments and Events After the Balance Sheet Date as well as the removal of the following notes to the accounts – Section 137 Expenditure; Expenditure on Publicity; Income under Local Authorities Goods and Services Act; Building Control Account; Business Improvement District Schemes. The note on staff remuneration also includes more detailed disclosure.

Revenue Expenditure 2009/10

General Fund Services

The Council started the year with a General Reserve of £14.831 million and budgeted to contribute a further £1.337 million. Pressures within the Children's Services department during the year, mainly due to concerns highlighted nationally by the Baby Peter case led to a draw down from the General Reserve of £1.86 million in the revised budget.

However, at the end of the year the Council was able to add back £0.169m to the General Fund from an underspend on departmental expenditure and centrally managed budgets, after making contributions to earmarked reserves. The General Fund balance at year end was £15 million.

Details of the outturn are shown in the table below:

Department	Original Budget	Revised Budget	Actual	Over/Under Spend
	£000s	£000s	£000s	£000s
Children's Services (inc Children's Asylum Services)	59,482	94,542	94,538	(4)
Community Services	74,967	64,670	63,144	(1,526)
Housing & Regeneration Services	7,913	8,024	8,045	21
Environment Services	33,793	17,939	17,880	(59)
Controlled Parking Account	(14,577)	(14,642)	(14,472)	170
Residents Services	11,205	38,936	38,933	(3)
Finance & Corporate Services	9,269	10,108	10,069	(39)
Centrally Managed Budgets	15,843	(16,412)	(18,783)	(2,371)
Use of Earmarked Reserves	(821)	(5,575)	(2,457)	3,118
Total	197,074	197,590	196,897	(693)
Funded by:				
Revenue Support Grant	(22,345)	(22,345)	(22,345)	0
National Non Domestic Rate	(96,808)	(96,808)	(96,808)	0
Council Tax	(66,264)	(66,264)	(66,264)	0
Area Based Grant	(12,647)	(11,302)	(11,302)	0
Prior Year Collection Fund Surplus	(347)	(347)	(347)	0
Contribution to/(from) Balances	1,337	(524)	169	693
Total	(197,074)	(197,590)	(196,897)	693

Reasons for significant outturn variances are as follows:

Children's Services

Children's Services, including Asylum Services for Children achieved a net underspend of £0.004 million. This was after a contribution of £1.86 million to the department from General Reserves in the year due to increased pressures in the Complex Needs service after the Baby Peter case (£1

million), additional legal expenses (£0.66 million) and added pressures to the Asylum Seeking Children service (£0.2 million).

Community Services

Community Services achieved a departmental underspend of £1.526 million, due to the following items:

- Adult Social Care – mainly from underspends arising from client budgets and staffing vacancies that were held during the year totalling £0.885 million.
- Departmental underspends on building maintenance and redundancy costs produced a total variance of £0.279 million
- The departmental write off for an over provision of debt of £0.362 million

Housing and Regeneration

The department reported a small overspend of £0.021 million which was mainly due to an overspend totalling £0.086 million relating to redundancies and dilapidations in the Housing Strategy and Regeneration service. This was offset by a £0.065million underspend in Housing Options due to a reduction in management fees for Housing Associations acting as landlords and in amenity costs shared between the HRA and General Fund

Environment Services

The department reported a small underspend of £0.059 million.

- Underspends totalling £1.601 million were achieved through staff vacancy management; a reduction in departmental support staff expenditure and highways maintenance and column replacement underspend.
- Overspends totalling £1.542 million were due to a delay in implementing staff parking charges; delays in the civic accommodation strategy; income shortfalls from advertising hoardings, the building control service, commercial rents, highways and building technical services.

Controlled Parking Account

The unfavourable year end variance of £0.170 million was due to a shortfall in PCN income, permits income, parking bay suspensions and CCTV PCNs. Favourable income variances were shown in pay & display income, as well as Bus Lane PCNs, towaways and removals and a reduction in planned expenditure.

Residents Services

Residents Services reported a small underspend of £0.003 million.

- Underspends on variable waste disposal due to lower waste tonnages in the last quarter of the financial year and other departmental expenditure underspends contributed to a favourable variance of £0.371 million.
- This was offset by income shortfalls in the trade refuse service, additional street sweeping and Fulham Palace functions totalling £0.368 million.

Finance & Corporate Services

Finance and Corporate Services managed an underspend of £0.039 million due to staff vacancy management and reduced planned expenditure in the Strategy, Performance and Procurement division; the Human Resources division and within Councillor Services, totalling £0.294 million. This was offset by overspend in H&F Direct of £0.255 million due to the increased need for services from the public due to the economic downturn.

Centrally Managed Budgets

Overall centrally managed budgets underspent by £2.371 million. The majority of this underspend was due to increased subsidy for Housing Benefit and Council Tax due to a more effective and accurate assessment regime, this accounted for £2.225 million of the underspend. Other small favourable variances were recorded against land charge income and a lower contribution than planned to the Insurance Fund

Housing Revenue Account Services

The Housing Revenue Account (HRA) accounts for the costs of housing people in Council-owned accommodation. The Local Government and Housing Act 1989 requires this income and expenditure to be ring-fenced. The HRA cannot be subsidised by the General Fund.

The outturn for the HRA was £1.224 million better than budgeted. The Council started the year with an HRA balance of £4.905 million with a budgeted appropriation from this reserve of £2.948 million. The net surplus was added to the HRA balance at year end to leave a balance carried forward into 2010/11 of £3.241 million.

CAPITAL OUTTURN 2009/10

Since the capital programme of £131.258m was approved by the Council in February 2009 there have been amendments to the programme which were approved by Cabinet. The amendments relate to new additions, slippage brought forward from 2008/09, slippage carried forward to 2010/11 and

allowance made for revenue expenditure funded from capital under statute resulting in the outturn figure of £101.549m. The table below summarises capital expenditure by service area:

	2009/10 £'000s
Children's Services	9,585
Environment Services	10,824
Housing Revenue Account	78,259
Community Services	567
Residents Services	2,207
Other	107
Total	101,549

The financing of the capital expenditure incurred in 2009/10 is summarised in the table below:

	2009/10 £000s
Loans	51,091
Direct Revenue Funding	520
Grants and Contributions	38,695
Capital Receipts	11,243
Total	101,549

Fixed assets have increased by £59m. Long-term borrowing has increased by £78m net, in respect of borrowing to fund the capital programme, mainly due to the Recent Homes Programme funded by central government (grant to cover interest payments).

GROUP ACCOUNTS

As with the 2008/09 Statement of Accounts, Group Accounts have not been included in the 2009/10 Statement of Accounts on the grounds that they do not have a material effect on the overall statements and therefore their inclusion would not provide any more usefulness to readers. The Group Accounts in previous years showed the activities of the Council, the Hammersmith and Fulham Bridge Partnership (HFBP) and Hammersmith and Fulham Homes (HFH). It should be noted that the Council still considers HFBP as an Associate and HFH as a Subsidiary. Details on the total 2009/10 net assets and profit and loss for both companies (with 2008/09 comparators) can be found in Note 32 (Interest in Companies) to the main financial statements, along with contact details for the procurement of the full accounts for both companies.

It is envisaged with the introduction of International Financial Reporting Standards (IFRS) in 2010/11 that the Council will, again, be required to produce Group Accounts.

PENSION LIABILITY

In accordance with FRS 17 a total liability of £546.735 million has been included in the 2009/10 Balance Sheet.

The 2009/10 total liability consists of the funded liabilities of £525.099 million relating to the Hammersmith and Fulham Pension Fund and £21.636 million relating to the London Pensions Fund Authority Pensions Fund.

COLLECTION FUND

The Council has reported a deficit of £1.482 million for 2009/10. This deficit will be taken into account in the council tax setting process for 2011/12. Only the Council's share of this balance is treated as a Council reserve.

CURRENT BORROWING AND CAPITAL RESOURCES

The borrowings disclosed in Note 25 to the Core Financial Statements relate to the financing of capital expenditure incurred in 2009/10 and earlier years. All of the Council's borrowing (£475.520 million) has been borrowed from the Public Works Loans Board. This figure differs from the figure reported in the Balance Sheet because of the accounting arrangements for the financial assets and liabilities explained in the Statement of Accounting policies. This means that the Balance Sheet figure includes the balances of premiums and discounts yet to be written down to revenue plus accrued interest due.

Future capital expenditure will be financed from borrowing, in accordance with the Council's treasury management strategy, revenue contributions, sales of fixed assets, capital grants and contributions and relevant funds within earmarked reserves.

OUTLOOK

The Local Government Finance Settlement for 2010/11 contained a grant increase, against the comparable 2009/10 allocation, for Hammersmith and Fulham of 1.5%. This was significantly less than the national increase of 2.6%, and below the London average increase of 2.0%.

Despite receiving a below average grant increase the Council has delivered a fourth successive council tax reduction of 3% for 2010/11. The Band D charge is now the fifth lowest in the country and this is the only authority to have lowered council tax for four years running.

The future financial environment within which the Council is operating is both challenging and uncertain. The Government has recently published its programme for the forthcoming term and has identified tackling the current

structural fiscal deficit as a priority. This will be achieved primarily through reduced public spending. For 2010/11, it is planned to deliver £6bn of savings across the public sector including reductions in grants for the Council. Future government spending plans are due to be published as part of the public spending review in Autumn 2010 and are likely to include further funding reductions.

The Council's 2010/11 Budget Strategy recognised the uncertainty over future funding levels and recommended that the optimal level of general balances be increased from £11m-£13m to £12m-£15m. The actual balances carried forward at the close of 2009/10 are £15m.

The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3-year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks.

Jane West

Director of Finance and Corporate Services
17 June 2010

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs; for this Council, that officer is the Director of Finance and Corporate Services,
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- approve the Statement of Accounts.

Responsibilities of the Director of Finance and Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice"), elsewhere referred to as the "SORP".

In preparing this Statement of Accounts, the Director of Finance and Corporate Services has

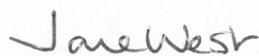
- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Code of Practice.

The Director of Finance and Corporate Services has also

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

CERTIFICATE OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

I certify that the Accounts set out on pages 30 to 34 present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham as at 31 March 2010 and its income and expenditure for the year then ended and that the Accounts set out on pages 102 to 118 present fairly the net assets of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2010 and its income and expenditure for the financial year 2009/10.



Jane West
Director of Finance and Corporate Services

17 June 2010

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The 2009/10 Statement of Accounts provides financial information based on the activities of the Council throughout the financial year and reflects the position at the year-end. The Council's accounts have been prepared in accordance with the 2009 Code of Practice on Local Authority Accounting (SORP), Statements of Standard Accounting Practice (SSAPs), and Financial Reporting Standards (FRS), relevant to local authorities. If exceptions occur these are noted at the appropriate place in the Statement of Accounts.

The basic accounting convention adopted is to express values at historic cost, but modified by the revaluation of certain tangible fixed assets and financial instruments.

2. BASIS ON WHICH DEBTORS AND CREDITORS ARE INCLUDED IN THE ACCOUNTS

The revenue accounts of the Council are maintained on an accruals basis in accordance with the SORP and FRS 18. This means that sums due to or from the Council during the year are included in the accounts whether or not the cash has actually been paid or received in the year.

Revenue transactions are included as income and expenditure in the year of account. Accounts are kept on a receipts and payments basis and, at the year end, are adjusted in respect of amounts receivable or payable, where the actual transactions had not been completed at the year end, by the inclusion of debtors and creditors. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used. Amounts for debtors in the Balance Sheet are impaired for doubtful debts and known uncollectable debts are written off. Bad debt provisions were reviewed during 2008/09 in light of the economic climate and in some specific cases were increased by 2.5%; this has remained in place for 2009/10. Only individual amounts over £2,500 have been considered unless there are exceptional circumstances where a lower amount has a material effect. Details of debtors and creditors are provided in Notes 21 and 23 of the Core Financial Statements.

3. RETIREMENT BENEFITS

Local authorities have a commitment to fund the cost of pensions provided to their employees. The full cost of pensions to the Council is the cost of present and future benefits payable. The SORP requires the full recognition of Retirement Benefits earned to be accounted for in accordance with FRS 17. Since 2008 this has required the recognition of the net asset or liability and

the inclusion of a Pensions Reserve in the Balance Sheet and entries in the Income and Expenditure Account to reflect movements in the asset or liability. More details are provided in Note 6 to the Core Financial Statements.

The employees of the Council participate in two defined benefits schemes under provisions of the Local Government Pension Scheme. The two schemes are the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, for which the Council acts as the Administering Authority, and the London Pensions Fund Authority (LPFA) Pension Fund, which is administered by the London Pensions Fund Authority. The net assets and liabilities of both Pension Funds are shown separately on the Balance Sheet.

In addition, the Council participates in a defined benefits scheme for teachers, which is administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families. The arrangements for the teachers' scheme are such that liabilities for benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, by recognising the contributions payable for the year and not accruing any underlying pensions' asset or liability. Only the costs of employer's contributions are therefore recognised in the accounts.

The Local Government Pension Scheme is accounted for as follows:

- ▶ The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of future earnings for current employees.
- ▶ Liabilities have been discounted to their value at current prices using a discount rate 5.5% (6.7% in 2008/09) based on the indicative rate of return on a high quality corporate bond of equivalent currency and term to the liabilities.
- ▶ The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – bid price
 - Unquoted securities – professional estimate,
 - Unitised securities – the average of bid and offer rates, and
 - Property – market value.
- ▶ The change in the net Pensions Liability is analysed into seven components:
 - Current Service Cost, representing the increase in liabilities as a result of the years of service earned in 2009/10, has been charged in the Income and Expenditure Account to the service revenue accounts for which the employees worked.

- Past Service Cost, representing the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, has been included in Non Distributed Costs in the Income and Expenditure Account.
- Interest Cost, representing the expected increase in the present value of liabilities during 2009/10 as employees move one year closer to being paid their earned benefits, has been charged to Net Operating Expenditure in the Income and Expenditure Account.
- Expected Return on Assets, representing the annual investment return on Funds' assets attributable to the Council based on an average of the expected long term return, has been credited to Net Operating Expenditure in the Income and Expenditure Account.
- Gains/Losses on Settlements and Curtailments, comprising the result of actions to relieve the Council of liabilities and events that reduce the expected future service or accrual of benefits of employees, have been included in Non Distributed Costs in the Income and Expenditure Account.
- Actuarial Gains/Losses, representing changes in the net Pensions Liability arising because events have not coincided with the assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, have been entered in the Statement of Total Recognised Gains and Losses.
- Contributions paid to the Funds, representing the cash paid by LBHF employers' into the Funds, as shown in the Statement of Movement in General Fund Balance (see Note 7).

Statutory provisions limit the Council to raising council tax to cover only the amounts payable by the Council to the Pension Funds in the year. This means that in the Statement of Movement on the General Fund Balance there are appropriations to and from the Pensions Reserves to remove the notional debits and credits for retirement benefits leaving only the cash payable to the Pension Funds.

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

4. RESERVES

The Council has set aside money to cover future known or anticipated liabilities and each reserve is clearly identified as to its purpose and usage. The Notes to the Core Financial Statements identify Earmarked Reserves

(Note 29), Capital Accounts and Balances (Note 30) and Revenue Reserves and Balances (Note 31).

Amounts set aside for purposes outside the definition of provisions, which are defined in Note 6 of this Statement, are classified as reserves. Transfers to and from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances that represent resources set aside for purposes such as general contingencies and cash flow management. Where expenditure is to be financed from a revenue reserve, it is charged to the appropriate service revenue account and therefore included in the Council's Net Cost of Services in the Income and Expenditure Account. A matching appropriation from the reserve is then included in the Statement of Movement on the General Fund Balance.

The General Fund reserves are used to meet revenue expenditure that does not relate to the Housing Revenue Account (HRA). The HRA Reserve may only be applied to fund expenditure relating to that account. The HRA is also required to maintain a Major Repairs Reserve, which represents the balance of the HRA Major Repairs Allowance not used to fund major repairs to housing stock during the year.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, e.g. the Revaluation Reserve, and retirement benefits, e.g. the Pensions Reserve, and do not represent useable resources for the Council.

5. TREATMENT OF CAPITAL EXPENDITURE IN THE ACCOUNTS

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. In this context, enhancement means the carrying out of works to a fixed asset which are intended to increase substantially the life, value or use of the asset. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts. Details of additions to Fixed Assets are contained in Note 17.

A capital scheme not completed in the year and for which there is more expected expenditure is classified as an Asset Under Construction (AUC). When an AUC from a previous year has been completed, it has been re-classified as an appropriate category of fixed asset at cost in the year of completion. In cases where the total cost of the scheme is £750,000 or more, the asset will be re-valued in the financial year following completion. Otherwise, capital expenditure on new schemes has been added to fixed assets at cost on completion and will be carried at cost in the Balance Sheet until they are programmed to be re-valued under the five-year revaluation cycle.

The debtors/creditors materiality threshold for capital expenditure has been set at £10,000.

All expenditure on Housing Revenue Account (HRA) stock has been the subject of an impairment review to ensure that the cost of any enhancement work equates to an increase in the value of the stock. All dwellings are re-valued on 1 April of each financial year.

6. PROVISIONS

Provisions are required, in accordance with FRS 12 to be set aside for known, certain or likely obligations arising from past events which are expected to result in future expenditure that can be reliably estimated but where the timing of the transfer of economic benefit is uncertain although the prospective liability can be reliably estimated.

Provisions are charged to the appropriate revenue account when identified and included in the Balance Sheet. Any payments made in respect of the identified obligation are subsequently charged directly to that provision. Any unused provision is credited back to the appropriate revenue account. Provisions are covered in Note 26 to the Core Financial Statements.

7. CONTINGENT LIABILITIES & ASSETS

As defined by the SORP, 2009, a contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

A contingent liability is either:

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

Contingent liabilities and assets have been disclosed in Note 33 to the Core Financial Statements if the sums involved are likely to be material. Where the risk of the contingent liability materialising is high, or where the financial consequences could be very significant, a specific sum may be set aside in the accounts as a provision.

8. STOCK AND WORK IN PROGRESS

Stock and work in progress is included in the Balance Sheet at a valuation which is the lower of cost or net realisable value. Work in progress has only been included if considered material to the accounts (£2,500+) or where a lower amount is material to the accounts.

9. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (such as software development, software licences) is capitalised at cost when it is clear that it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue accounts over the economic life of the investment, usually 4 years but ranging between 3 to 10 years, to reflect the pattern of consumption of benefits. The SORP does not require revaluations, and such would normally only be required where there is a readily ascertainable market value. More detail on intangible fixed assets is to be found in Note 17 to the Core Financial Statements

10. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council, and the services that it provides, for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets, such as repairs and maintenance, has been charged to service revenue accounts.

Fixed Assets are initially included in the accounts at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Subsequently, fixed assets have been valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The valuations have been carried out by Valuation Contractors under instructions from Mr M. Hooton, FRICS, the Council's Head of Valuation and Property Services.

Fixed assets, other than Housing Revenue Account (HRA) operational assets, are revalued on a five year rolling programme, by department.

The Authority has considered the impact of the current economic climate on its asset values and an impairment review has been carried out. Research carried out last year suggested that the authority's housing stock was the asset type most affected by the recent economic downturn and the stock values were impaired as required. Current evidence suggests that further impairment is not required. In respect of other asset types, a sample of assets were valued as part of the Council's annual rolling programme and it was felt that further impairments were not necessary.

The HRA stock has been valued in 2009/10 using, as usual, the Beacon approach. The value of HRA stock disposals is shown in the Note 22 to the Core Financial Statements which shows the movement in assets between 1 April 2009 and 31 March 2010 under the heading “disposals”. They are recorded at the net realisable value in existing use – social housing value.

The basis for the valuation of all types of assets is shown below:

- Buildings (other than schools used for operational purposes) have valuations which take into account market values and the present use of these assets.
- Schools are valued on the basis of depreciated replacement cost as it has not been possible to establish a comparable market value for this type of property.
- Buildings held for investment or non-operational purposes and assets surplus to requirements have been valued at open market value.
- Roads and other infrastructure have been valued at historic cost.
- Vehicles, moveable plant and equipment have been valued at historic cost.
- Community and donated assets are valued at historic cost where appropriate; otherwise they are included at a nominal value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes to the value, but as a minimum, every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains can be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains only gains recognised since 1 April 2008, the date of its formal implementation. Gains arising before that date have been consolidated together with other accounting balances into the Capital Adjustment Account.

11. DEPRECIATION AND IMPAIRMENT

Depreciation is charged to service revenue accounts to reflect the cost of using assets to provide services. Depreciation is based upon opening Balance Sheet asset values, excluding land, and is provided for on the basis of the determined finite life of the asset. The estimated life is determined at the time of acquisition or when the asset has been revalued. Assets are depreciated from the year after their acquisition or completion, and are depreciated in the year of disposal. Depreciation is calculated on a straight line basis with no residual value.

The following depreciation treatment has been adopted for the various categories of assets; the useful lives stated below cover the majority of assets in each category:

- All Buildings (including Council Dwellings), excluding land, are depreciated over periods ranging from 40 to 75 years.
- Vehicles and moveable plant are depreciated over periods ranging from 3 to 25 years.
- Infrastructure is depreciated over periods ranging from 5 to 40 years.
- Community Assets are generally depreciated over a 10 to 20 year period.
- Non-Operational Assets (Assets under Construction, Surplus Assets and Investment Properties) are not depreciated, as they are not being used for the provision of Council services.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated by an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost. This amount is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Any reduction in asset values resulting from impairment has been accounted for in accordance with FRS11. All assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review it is accounted for as follows:

- If the impairment is attributable to the clear consumption of economic benefits it is charged to the relevant service revenue account.
- Otherwise, it is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there are accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to that value has been transferred from the Revaluation Reserve to the Capital Adjustment Account.

12. DISPOSALS OF FIXED ASSETS

Where an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the Gain/Loss on Disposal of Assets. However, this is not a charge against council tax as a corresponding amount has been appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Capital receipts arising from the disposal of assets are credited to the Income and Expenditure Account on an accruals basis. The difference between the value of the capital receipt and the balance sheet carrying value written off to the Income and Expenditure Account is then reported as a gain or loss on the disposal of assets. Any associated revaluation gains in the Valuation Reserve are transferred to the Capital Adjustment Account. Only amounts in excess of £10,000 are categorised as capital receipts; lower amounts received in respect of asset disposals are credited to the service revenue accounts.

The proceeds arising from the sale of HRA assets are split between pooled and useable receipts. Pooled receipts (75% for dwellings and 50% for land and other assets net of allowable deductions) are transferred to central government.

All capital receipts from the disposal of General Fund assets, which are retained by the Council, together with useable housing receipt, are credited to a Useable Capital Receipts Reserve and used to finance new capital investment. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

13. GOVERNMENT GRANTS AND CONTRIBUTIONS DEFERRED

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of grant or contribution is credited to the Government Grants Deferred Account and written off to relevant service revenue account over the useful life of the asset, thereby offsetting the corresponding depreciation charge.

14. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following to reflect the real cost of holding fixed assets during the year:

- ▶ Depreciation attributable to the tangible fixed assets used during the year,
- ▶ Impairment attributable to the clear consumption of economic benefits on tangible fixed assets used where there are no accumulated gains in the Revaluation Reserve against which it can be written off,
- ▶ Amortisation of intangible fixed assets used.

The Council is not required to raise council tax to cover depreciation, impairment or amortisation. However it is required to make an annual provision from revenue (the Minimum Revenue Provision) to contribute towards the reduction in its overall borrowing requirement, generally equal to 4% of its adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account activity. Depreciation, impairment and amortisation are therefore replaced in the Statement of Movement on the General Fund Balance by the Minimum Revenue Provision with the overall difference taken to the Capital Adjustment Account.

15. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

16. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried in the Balance Sheet at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the financial instrument. For almost all of the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal payable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreements.

Gains and losses on the repurchase or early settlement of borrowing are accounted for in the Income and Expenditure Account in the accounting year during which the repurchase or early settlement is made. However, where the repurchase of the borrowing was part of a refinancing or restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account has been spread over the life of the replacement borrowing by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, Capital Finance Regulations allow the impact on the General Fund Balance to be spread over future years. The Council's policy is to spread the gain or loss over the term that was remaining on the loan

against which the premium was payable or the discount was receivable when the loan was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

The Council has been assisted by Sector Treasury Management Services Ltd in the review of its accounting for financial liabilities and assets.

17. FINANCIAL ASSETS

Financial assets are classified into two types; investments and receivables, which are assets that have fixed or determinable payments but are not quoted in an active market, and available for sale assets, which are assets that have a quoted market and/or do not have fixed or determinable payments.

Investments and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the investments that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and that the interest credited to the Income and Expenditure Account is the amount receivable for the year under the investment agreement. The Council has no available for sale financial assets.

The Council made a contribution, several years ago, of £100,000 to the Greater London Enterprise Board repayable only from the yield of its assets on the winding up of the company. This is classified in the Council's Balance Sheet as a Long Term Investment and, in the light of the SORP 2008 provisions on accounting for financial assets, constitutes a "soft loan". When "soft" loans are made, a loss should be recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a higher effective rate of interest than the rate receivable from GLEB (which is nil), with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. However, given that, the GLE is effectively established to continue its business in perpetuity and thus no timescale can be identified as a basis for the calculation of an effective interest rate; that there is ample asset cover in the GLE's 2008 accounts to cover this "loan"; and that the interest foregone is not material to the Council, the Council has decided to use the de minimis provisions of the SORP not to account for this as a "soft" loan.

If any financial assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset would be written down and a charge made to the Income and Expenditure Account.

Any gains/losses that arise on the de-recognition of the asset would be credited/debited to the Income and Expenditure Account.

18. OVERHEADS AND SUPPORT SERVICES

Charges or apportionments covering all support service costs are made on a total absorption costing basis to all who benefit from that supply or service, including; services to the public, divisions of services, trading undertakings, direct service organisations, the Housing Revenue Account, capital accounts, services provided for other bodies and other support services. The costs of service management are in the same way apportioned to the accounts representing the activities managed. The basis of apportionment adopted is consistent for all the cost centres to which apportionments have been made, and is in line with guidance in the Best Value Accounting Code of Practice (BVACOP) 2008 published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The cost of service strategy and regulation of any service to the public is allocated to a separate objective expenditure head within the revenue account of that service.

The costs of the Corporate and Democratic Core (relating to the Council's status as a multi functional democratic organisation) and of un-apportionable central overheads (Non Distributed Costs) are allocated to separate objective expenditure heads in both the General Fund and the Housing Revenue Account and have not been apportioned to other expenditure heads.

19. LEASES

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. It has acquired equipment, buildings and vehicles through finance leases. Finance Leases are treated as follows in the accounts:

- ▶ A charge for the acquisition of the interest in the property recognised as a Deferred Liability matched by a Tangible Fixed Asset in the Balance Sheet. Both are written down as this element of the rental becomes payable.
- ▶ A finance charge that is debited to Net Operating Expenditure in the Income and Expenditure Account.

Fixed assets recognised under finance leases are accounted for using the accounting policies generally applicable to Tangible Fixed Assets, subject to

depreciation being charged over the lease term rather than the estimated life of the asset.

Leases that do not meet the definition of finance leases are accounted for as operating leases. The Council has various capital assets, under operating leases. These assets are not included in the Council's Balance Sheet because the Council does not own the assets acquired under such leases. Rental charges are made to service revenue accounts on a straight line basis over the term of these leases, even if the payments are not made on such a basis.

Where the Council acts as a lessor the leases involved are invariably operating leases. The relevant assets are accounted for in accordance with accounting policies set out in Note 10 of this Statement and the rental income accounted for on the normal accruals basis.

Note 10 to the Core Financial Statements summarises out the total leasing charges included in the 2009/10 accounts. An exercise has been undertaken in 2009/10 to review leases across the Council, to ensure they are fully captured and reflected in the note.

20. GOVERNMENT GRANTS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate.

Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

21. VALUE ADDED TAX

Value Added Tax is only included in the Income and Expenditure Account where it is irrecoverable.

22. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council is required to prepare group accounts if it has interests in subsidiaries, associates and joint ventures. There are a number of criteria by which the Council must determine whether the value of the entity and the Council's interest is significant enough for group accounts to be produced.

After consideration of these criteria, the Council has determined that a full set of Group Accounts should not be produced for 2009/10 as their inclusion does not make a material difference to the usefulness of the Statement of Accounts to readers. Companies in which the Council has an interest are detailed in Note 32 to the Core Financial Statements. This includes details on Hammersmith & Fulham Homes (HFH) and Hammersmith & Fulham Bridge Partnership (HFBP) which in previous years have been included in Group Accounts. It should be noted that the Council still considers HFBP as an Associate and HFH as a subsidiary.

23. PRIVATE FINANCE INITIATIVE

In 2003/04 the Council entered into a 25 year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created new nursing homes, sheltered accommodation and a day care centre. PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. In previous years, the PFI project was not on the Council's balance sheet in accordance with FRS 5. However as a result of Local Government's transition to International Financial Reporting Standards (IFRS) for 2010/11, IFRIC 12 now applies.

As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council shows the fixed assets used under the contracts on the Balance Sheet with effect from 1 April 2009. The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For this scheme, the liability was written down by an initial capital contribution of £2.9m.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as other property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into the following elements:

- fair value of the services received during the year – debited to the Adult Social Care service in the Income and Expenditure Account
- finance cost – an interest charge of between 8-16% on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator

In accordance with the provisions of the SORP, the relevant figures for 2008/09 are restated. Any such entries do not impact on the level of Council Tax.

CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

BALANCE SHEET

CASH FLOW STATEMENT

INCOME AND EXPENDITURE ACCOUNT

	Note	2008/09 (restated)	2009/10		
		Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Central Services to the Public		1,350	31,396	(31,938)	(542)
Court Services		160	1,183	(1,046)	137
Cultural, Environmental and Planning Services		37,773	57,386	(16,344)	38,243
Children's and Education Services	1+3	60,289	248,861	(154,201)	94,660
Highways and Transport Services		(638)	31,951	(32,303)	(352)
Housing Services					
Housing General Fund		13,889	168,937	(158,814)	12,923
Housing Revenue Account		(11,329)	75,851	(84,571)	(8,721)
Adult Social Care		63,198	103,981	(41,605)	62,376
Non Distributed Costs		4,373	7,287	(1,337)	5,950
Corporate and Democratic Core		8,236	8,466	(61)	8,405
Net Cost of Services		177,300	735,298	(522,219)	213,079
(Gain)/Loss on Disposal of Fixed Assets		(7,745)	(6,473)		(6,473)
Levies	4	8,613	9,650		9,650
(Surpluses)/Deficits on Trading Services	5	284	18,605	(18,442)	163
Interest Payable and Similar Charges	16	26,156	27,314		27,314
Amount Payable to Housing Capital Receipts Pool		1,992	2,517		2,517
Interest and Investment Income	16	(4,522)		(1,288)	(1,288)
Other Operating Income		(5,466)		(4,433)	(4,433)
Pensions Interest Cost	6	48,507	45,632		45,632
Expected Return on Pensions Assets	6	(28,955)	(23,061)		(23,061)
Net Operating Expenditure		216,163	809,483	(546,382)	263,101
Demand on the Collection Fund		(67,265)		(65,904)	(65,904)
General Government Grants		(14,315)		(22,345)	(22,345)
General Govt Grants (Other)		(2,416)			
Area Based Grant	18	(10,659)		(11,302)	(11,302)
Contribution from NNDR Pool		(102,834)		(96,808)	(96,808)
(Surplus)/Deficit for the Year		18,674	809,483	(742,740)	66,743

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	Note	2008/09 (restated) £000s	2009/10 £000s
(Surplus)/Deficit for year on the Income and Expenditure Account		18,674	66,743
Net additional amount required by Statute and Non-statutory Proper Practices to be debited or credited to the General Fund Balance for the year	7	(19,399)	(67,892)
(Increase)/Decrease in General Fund Balance for year		(725)	(1,149)
General Fund Balance brought forward		(25,678)	(26,403)
General Fund Balance carried forward		(26,403)	(27,552)
Amount of General Fund Balance held by Governors under Schemes to finance Schools	31	(11,572)	(12,552)
Amount of General Fund Balance generally available for new expenditure	31	(14,831)	(15,000)
General Fund Balance carried forward		(26,403)	(27,552)

The Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value and consumption of fixed assets and the real projected value of retirement benefits earned by employees in the year.

However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when fixed assets are consumed
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure account, but is met from the useable capital receipts balance rather than council tax
- Retirement benefits are charged as amounts become payable to Pension Funds and pensioners rather than as future benefits are earned

The above reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance. Further detail is contained in Note 7 to the Core Financial Statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2008/09 (restated)	2009/10
	£000s	£000s
Deficit for year on the Income and Expenditure Account	18,674	66,743
(Surplus)/Deficit on the Revaluation of Fixed Assets	54,021	(17,606)
Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	(4,970)	227,147
Total Recognised (Gains)/Losses for the year	67,725	276,284

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate reduction in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses on the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

BALANCE SHEET

	Notes	31 March 2009 (restated)		31 March 2010	
		£000s	£000s	£000s	£000s
Fixed Assets					
Intangible Fixed Assets	17	744		830	
Tangible Fixed Assets:	17				
Operational Assets		1,868,254		1,905,939	
Non Operational Assets		55,878		57,862	
Total Fixed Assets			1,924,876	1,964,630	
Long Term Assets					
Long Term Investments		1,619		2,654	
Long Term Debtors	19	814		632	
Total Long Term Assets			1,927,309	1,967,917	
Current Assets					
Stock and Work in Progress	20	279		207	
Debtors	21	72,042		59,994	
Short Term Investments	24	77,452		137,398	
Cash in Hand	22	13,864		14,958	
Total Current Assets			163,637	212,557	
Total Assets			2,090,946	2,180,474	
Current Liabilities					
Creditors	23	(112,516)		(160,139)	
Short Term Borrowing	24	(5,324)		(5,855)	
Cash Balances Overdrawn	22	(30,750)		(14,230)	
Total Current Liabilities			(148,590)	(180,224)	
Total Assets less Current Liabilities			1,942,356	2,000,250	
Long Term Liabilities					
Long Term Borrowing	24	(397,579)		(475,289)	
Long Term Creditor		(100)		(100)	
Government Grants Unapplied		(8,945)		(11,518)	
Provisions	26	(5,193)		(4,565)	
Deferred Liabilities	27	(9,427)		(9,232)	
Government Grants and Contributions Deferred		(92,102)		(101,208)	
Pensions Liability - LBHF	6 (i)	(294,372)		(525,099)	
Pensions Liability - LPFA	6 (ii)	(6,751)		(21,636)	
Total Long Term Liabilities			(814,469)	(1,148,647)	
Total Assets less Liabilities			1,127,887	851,603	
Financed By:					
Capital Adjustment Account	30	(1,249,036)		(1,228,682)	
Financial Instruments Adjustment Account	30	2,807		2,301	
Collection Fund Adjustment Account		371		1,078	
Revaluation Reserve	30	(82,363)		(86,440)	
Capital Reserves	30	(5,380)		(4,042)	
Deferred Credits	28	(375)		(197)	
Pensions Reserve - LBHF	6 (i)	294,372		525,099	
Pensions Reserve - LPFA	6 (ii)	6,751		21,636	
Major Repairs Reserve		(30,673)		(19,633)	
Earmarked Reserves	29	(33,053)		(31,931)	
Revenue Balances	31	(31,308)		(30,793)	
Total Net Worth	35		(1,127,887)	(851,603)	

CASH FLOW STATEMENT

	Note	2008/09 (restated) £000s		2009/10 £000s	
Net Cash Inflow from Revenue Activities	37		(18,590)		(50,831)
Returns in Investments and Servicing of Finance					
Cash Outflows					
Interest Paid		23,925		26,064	
Interest Paid for Finance Leases		1,349		3	
Cash Inflows					
Interest Received		(6,452)		(2,583)	
Net Servicing Costs			18,822		23,484
Net Cash (Inflow)/Outflow			232		(27,347)
Capital Activities					
Cash Outflows					
Expenditure on Fixed Assets		102,690		103,528	
Other Capital Payments		0		0	
Total Cash Outflow			102,690		103,528
Cash Inflows					
Sale of fixed assets		(17,503)		(12,879)	
Capital Grants received		(17,634)		(17,356)	
Other Capital receipts		(12,940)		(11,355)	
Total Cash Inflow			(48,077)		(41,590)
Acquisitions and Disposals					
Cash Outflows					
Investments in associates or joint ventures			1,258		1,035
Cash Inflows					
Sales of investments in associates or joint ventures			0		0
Net Cash (Inflow)/Outflow before Financing	40		56,103		35,626
Net increase in short term deposits		(35,700)		61,000	
Net increase in other liquid resources		7,046		(37,369)	
Management of Liquid Resources	39		(28,654)		23,631
Financing					
Cash Outflows					
Repayments of amounts borrowed		0		0	
Finance lease repayments		205		129	
Cash Inflows					
New Loans raised		(10,000)		(77,000)	
Net Cash Inflows			(9,795)		(76,871)
Net (Increase)/Decrease in Cash	38		17,654		(17,614)

NOTES TO THE CORE FINANCIAL STATEMENTS

1. PRIOR PERIOD ADJUSTMENTS TO 2008/09 STATEMENTS AND OTHER CHANGES

It has been necessary to make prior period adjustments to the 2008/09 Statement of Accounts due to two changes in the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (SORP).

There are also other presentational changes, including the reclassification of unapplied government grants and the accrued interest creditor which are shown in the “other adjustments column” below.

- The accounting requirements for the PFI are no longer based on FRS 5 (UK GAAP) but on IFRIC 12 (International Financial Reporting Standards). Details of the change can be seen in Note 23 of the Statement of Accounting Policies
- The change in the accounting for local taxation now acknowledges that English billing authorities, such as the Council, act as an agent, for the GLA, as a precepting authority for Council Tax and for the Government in terms of National Non-Domestic Rates (NNDR).

Council Tax transactions and balances are now allocated between the Council and the GLA. Previously the Council showed all outstanding debt, prepayments and bad debt provision for Council tax on its balance sheet.

NNDR income does not directly benefit the Council and so should not be included in the Income and Expenditure account. NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and are not recognised on the balance sheet. The difference between cash collected from taxpayers and cash paid to the government are treated as either a debtor or creditor on the balance sheet.

The effect on the 2008/09 main statements is shown below. Other notes to the accounts will also have been adjusted to reflect the changes in the main statements. Any notes will be marked “restated” next to the 2008/09 figures.

RESTATED 2008/09 INCOME & EXPENDITURE ACCOUNT

	Note	2008/09 (published)	PFI (Prior Period Adjustment)	Council Tax (Prior Period Adjustment)	2008/09 (adjusted)
		Net Expenditure £000s	Net Expenditure £000s	Net Expenditure £000s	Net Expenditure £000s
Central Services to the Public		1,350			1,350
Court Services		160			160
Cultural, Environmental and Planning Services		37,773			37,773
Children's and Education Services	1+3	60,289			60,289
Highways and Transport Services		(638)			(638)
Housing Services					
Housing General Fund		13,889			13,889
Housing Revenue Account		(11,329)			(11,329)
Adult Social Care		63,870	(672)		63,198
Non Distributed Costs		4,373			4,373
Corporate and Democratic Core		8,236			8,236
Net Cost of Services		177,972	(672)	0	177,300
(Gain)/Loss on Disposal of Fixed Assets		(7,745)			(7,745)
Levies	4	8,613			8,613
(Surpluses)/Deficits on Trading Services	5	284			284
Interest Payable and Similar Charges	16	24,820	1,336		26,156
Amount Payable to Housing Capital Receipts Pool		1,992			1,992
Interest and Investment Income	16	(4,522)			(4,522)
Other Operating Income		(5,466)			(5,466)
Pensions Interest Cost	6	48,507			48,507
Expected Return on Pensions Assets	6	(28,955)			(28,955)
Net Operating Expenditure		215,500	664	0	216,164
Demand on the Collection Fund		(69,352)		2,087	(67,265)
General Government Grants		(14,315)			(14,315)
General Govt Grants (Other)		(2,416)			(2,416)
Area Based Grant	18	(10,659)			(10,659)
Contribution from NNDR Pool		(102,834)			(102,834)
(Surplus)/Deficit for the Year		15,923	664	2,087	18,674

RESTATED 2008/09 STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	Note	2008/09 (published) £000s	PFI (Prior Period Adjustment) £000s	Council Tax (Prior period adjustment) £000s	2008/09 (adjusted) £000s
(Surplus)/Deficit for year on the Income and Expenditure Account		15,923	664	2,087	18,674
Net additional amount required by Statute and Non-statutory Proper Practices to be debited or credited to the General Fund Balance for the year	7	(16,648)	(664)	(2,087)	(19,399)
(Increase)/Decrease in General Fund Balance for year		(725)			(725)
General Fund Balance brought forward		(25,678)			(25,678)
General Fund Balance carried forward		(26,403)	0	0	(26,403)
Amount of General Fund Balance held by Governors under Schemes to finance Schools	31	(11,572)			(11,572)
Amount of General Fund Balance generally available for new expenditure	31	(14,831)			(14,831)
General Fund Balance carried forward		(26,403)	0	0	(26,403)

RESTATED 2008/09 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2008/09 (published) £000s	PFI (Prior Period Adjustment) £000s	Council Tax (prior period adjustment) £000s	2008/09 (adjusted)
Deficit for year on the Income and Expenditure Account	15,923	664	2,087	18,674
(Surplus)/Deficit on the Revaluation of Fixed Assets	54,021			54,021
Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	(4,970)			(4,970)
(Surplus)/Deficit on LBHF proportion of Collection Fund	2,087		(2,087)	0
Total Recognised (Gains)/Losses for the year	67,061	664	0	67,725

**RESTATED 2008/09 NOTE 7 – RECONCILING ITEMS FOR THE
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

	2008/09 (published) £000s	PFI (Prior period adjustment) £000s	Council Tax (Prior period adjustment) £000s	2008/09 (adjusted) £000s
Amounts included in the Income and Expenditure Account required by statute to be excluded when determining the Movement on the General Fund Balance for the Year				
Amortisation of Intangible Fixed Assets	(323)			(323)
Depreciation and Impairment of Fixed Assets	(21,459)	(744)		(22,203)
Government Grants Deferred Amortisation	6,844			6,844
Revenue Expenditure Funded from Capital under Statute	(1,848)			(1,848)
Transfer of MRA in respect of HRA Depreciation adjustment	(1,492)			(1,492)
Net Gain/(Loss) on Sales of Fixed Assets	7,745			7,745
Net Charges made for Retirement Benefits in accordance with FRS17	(38,032)			(38,032)
Collection Fund Adjustment Account			(2,087)	(2,087)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable relating to premiums and discounts on early repayment of debt	672			672
Sub Total	(47,893)	(744)	(2,087)	(50,724)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year				
Minimum Revenue Provision for Capital Financing	3,531	80		3,611
Capital Expenditure funded from Reserves	0			0
Capital Expenditure charged in-year to General Fund Balance	2,814			2,814
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts	(1,992)			(1,992)
Employer's Contributions payable to the LBHF and LPFA Pension Funds and Retirement Benefits payable direct to Pensioners	22,927			22,927
Sub Total	27,280	80	0	27,360
Transfers to the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year				
Voluntary Repayment of Debt	956			956
Housing Revenue Account Balance	(5,073)			(5,073)
Net transfer to/ (from) Reserves	8,082			8,082
Sub Total	3,965	0	0	3,965
Net additional amount required to be credited to the General Fund Balance for the year	(16,648)	(664)	(2,087)	(19,399)

RESTATED 2008/09 BALANCE SHEET

	Notes	31 March 2009 (published)		PFI (Prior Period Adjustment)	Council Tax & NNDR (Prior Period Adjustment)	Other Adjustments (Restatements)	31 March 2009 (adjusted)	
		£000s	£000s	£000s	£000s	£000s		
Fixed Assets								
Intangible Fixed Assets	17	744					744	
Tangible Fixed Assets:	17							
Operational Assets		1,849,274		18,980			1,868,254	
Non Operational Assets		55,878					55,878	
Total Fixed Assets			1,905,896					1,924,876
Long Term Assets								
Long Term Investments		1,619					1,619	
Long Term Debtors	19	814					814	
Total Long Term Assets			1,908,329					1,927,309
Current Assets								
Stock and Work in Progress	20	279					279	
Debtors	21	77,965			(6,291)	368	72,042	
Short Term Investments	24	77,452					77,452	
Cash in Hand	22	13,864					13,864	
Total Current Assets			169,560					163,637
Total Assets			2,077,889					2,090,946
Current Liabilities								
Creditors	23	(125,193)			6,291	6,386	(112,516)	
Short Term Borrowing	24					(5,324)	(5,324)	
Cash Balances Overdrawn	22	(30,750)					(30,750)	
Total Current Liabilities			(155,943)					(148,590)
Total Assets less Current Liabilities			1,921,946					1,942,356
Long Term Liabilities								
Long Term Borrowing	24	(402,903)				5,324	(397,579)	
Long Term Creditor		(2,293)				2,193	(100)	
Government Grants Unapplied						(8,945)	(8,945)	
Provisions	26	(5,193)					(5,193)	
Deferred Liabilities	27	(112)		(9,315)			(9,427)	
Government Grants and Contributions Deferred		(92,102)					(92,102)	
Pensions Liability - LBHF	6 (i)	(294,372)					(294,372)	
Pensions Liability - LPFA	6 (ii)	(6,751)					(6,751)	
Total Long Term Liabilities			(803,726)					(814,469)
Total Assets less Liabilities			1,118,220					1,127,887
Financed By:								
Capital Adjustment Account	30	(1,247,373)		(1,663)			(1,249,036)	
Financial Instruments Adjustment Account	30	2,807					2,807	
Collection Fund Adjustment Account						371	371	
Revaluation Reserve	30	(74,361)		(8,002)			(82,363)	
Capital Reserves	30	(5,380)					(5,380)	
Deferred Credits	28	(375)					(375)	
Pensions Reserve - LBHF	6 (i)	294,372					294,372	
Pensions Reserve - LPFA	6 (ii)	6,751					6,751	
Major Repairs Reserve		(30,673)					(30,673)	
Earmarked Reserves	29	(33,053)					(33,053)	
Revenue Balances	31	(30,935)			(371)	(2)	(31,308)	
Total Net Worth			(1,118,220)	0	0	0		(1,127,887)

The Cash flow statement has also been restated due to the change in the deficit on the Income & Expenditure account. This can be seen feeding through from Note 37.

2. PRIVATE FINANCE INITIATIVE

In 2003/04, LBHF entered into a 25 year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created new nursing homes, sheltered accommodation and a day care centre. Hammersmith & Fulham PCT also share the services provided at these sites through a back-to-back agreement with the Council.

2009/10 Transition Arrangements

The requirement for Local Government to adopt international accounting standards (IFRIC 12) has meant that properties used to deliver services under the PFI contract are now recognised on the balance sheet. A corresponding liability has also been required for the financing provided by the PFI operator.

To comply with IFRIC 12, it has been necessary to treat the PFI scheme as if it had been on the balance sheet from the day the assets became operational. Modelling has been carried out to replicate the annual accounting treatment to arrive at the 2008/09 comparative figures. In total, a gross asset value of £12.474m was initially recognised on the balance sheet with a corresponding liability. These assets were then subject to the Council's capital accounting policies such as depreciation. Table 1 below summarises the movement in value from the start of the PFI scheme in 2006/07 to the 2009/10 opening position.

Table 1: Summary of movements in asset value (figures in £000's)

	St Vincents	Farm Lane	Queen Charlottes
2006/07 Opening Value	4,552	4,446	3,476
Revaluation	5,079	582	213
Annual Depreciation Charge	(181)	(178)	(139)
2007/08 Opening Value	9,450	4,850	3,550
Annual Depreciation Charge	(394)	(202)	(148)
2008/09 Opening Value	9,056	4,648	3,402
Revaluation	1,138	954	526
Annual Depreciation Charge	(394)	(202)	(148)
2009/10 Opening Value	9,800	5,400	3,780

The corresponding liability for these assets has reduced as part of the Council's annual Unitary Charge payment. The movement in the liability since the inception of the PFI scheme is summarised in table 2. It should be noted that after the initial recognition of the PFI scheme on the balance sheet, it is unlikely that the value of the fixed assets will match the liability held against them. This is because the assets are subject to the Council's capital

accounting policies and their values will fluctuate due to revaluation, impairment and other capital charges. The liability is written down in line with the principal repayment amount inherent within the contract.

Table 2: Movement in the Council's Liability (figures in £000's)

	St Vincents	Farm Lane	Queen Charlottes
Opening Liability	4,552	4,446	3,476
Less:			
Council Prepayment	(900)	(1,015)	(1,030)
2006/07 Payment	(13)	(18)	(33)
2007/08 Payment	(15)	(21)	(35)
2008/09 Payment	(17)	(24)	(38)
2009/10 Opening Liability	3,607	3,368	2,340

2009/10 In Year Movements

The Council has continued to receive services through its PFI contract. The assets are subject to the Council's accounting policies and are depreciated on a straight line basis over the 25 year life of the contract. Table 3 sets out the movement in the value of these assets.

Table 3: Fixed Asset Movements during 2009/10 (figures in £000's)

	St Vincents	Farm Lane	Queen Charlottes
Gross Value at 01/04/09	9,800	5,400	3,780
Impairment	(155)	(57)	0
Gross Value at 31/03/10	9,645	5,343	3,780
Depreciation as 01/04/09	0	0	0
Revaluation	0	0	172
Charge for the Year	(445)	(243)	(172)
Depreciation at 31/03/10	(445)	(243)	0
Net Book Value at 31/03/10	9,200	5,100	3,780

Table 4 below sets out the movement in year of the Council's liability in respect of the assets used under the PFI agreement.

Table 4: Movement in the Council's Liability in 2009/10 (figures in £000's)

	St Vincents	Farm Lane	Queen Charlottes
Opening Liability at 01/04/09	3,607	3,368	2,340
In Year Reduction	(21)	(28)	(42)
Closing Liability at 31/03/10	3,586	3,340	2,298

The annual unitary charge has been split into service charge, liability and interest. A summary of payments due under the PFI contract is set out in table 5 below and is based upon estimates as at 31st March 2010. These are subject to fluctuations in market conditions and inflation.

Table 5: Unitary Charge Profile (all figures in £000's)

	Service Cost	Liability	Interest	Total
Payments due within:				
1 Year	4,407	105	1,310	5,822
2 to 5 years	19,094	578	5,087	24,759
6-10 years	26,342	1,279	5,801	33,422
11-15 years	29,472	2,450	4,631	36,553
16-20 years	32,890	4,788	2,292	39,970

3. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2009/10 are as follows:

		Central	ISB	Total
		£000	£000	£000
A	Final for DSG for 2009/10	8,426	80,376	88,802
B	Brought forward from 2008/09	(43)	0	(43)
C	Carry forward to 2010/11 agreed in advance	0	0	0
D	Agreed budgeted distribution in 2009/10			0
E	Actual Central Expenditure	(8,383)		(8,383)
F	Actual ISB Deployed to Schools		(80,376)	(80,376)
G	Local Authority contribution for 2009/10	0	0	0
H	Carry forward to 2010/11	0	0	0

A: DSG figure as issued by DCSF on 25 June 2009.

B: Figure brought forward from 2008/09 as agreed with DCSF.

C: Any amount which the authority decided after consultation with the schools forum to carry forward to 2010/11 rather than distribute in 2009/10

D: Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.

E: Actual amount of central expenditure items in 2009/10.

F: Amount of ISB actually distributed to schools.

G: Any contribution from the local authority in 2009/10 which will have the effect of substituting for DSG in funding the Schools Budget.

H: Carry forward to 2010/11.

4. COST OF LEVIES

Levies paid by the Council are listed below.

	2008/09 £000s	2009/10 £000s
Environment Agency	159	159
Lee Valley Regional Park	241	245
London Pensions Fund Authority	1,222	1,211
Western Riverside Waste Authority	6,746	7,779
London Councils	15	14
Preparer's Levy	0	2
Transport For London - surface transport	230	241
	8,613	9,650

5. TRADING SERVICES

The following Trading services operated during the year. The table illustrates the surplus or deficit for each service.

Service Type	2008/09	2009/10		
	(Surplus) / Deficit	Expenditure	Income	(Surplus) / Deficit
	£000	£000	£000	£000
Highways Division	(1,262)	1,464	(1,428)	36
Construction & Property Related Services	191	7,718	(7,627)	91
Building Cleaning	396	2,206	(2,193)	13
Catering	772	2,995	(2,675)	320
Home to School Transport	307	2,431	(2,232)	199
Industrial Estates and Misc Properties	(413)	1,070	(1,637)	(567)
Other	292	721	(650)	71
Total: (surplus)/ deficit	284	18,605	(18,442)	163

6. PENSIONS COSTS

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to disclose payments that need to be made at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

- The Local Government Pension Scheme for Council employees, administered by Hammersmith and Fulham Council. This is a funded

scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pensions' liabilities with investment assets.

- The London Pensions Fund Authority Scheme; this is also a Local Government Pension Scheme. It is a funded scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pensions' liabilities with investment assets.
- Teachers employed by the Council are members of the Teachers' Pensions Scheme, administered by Capita on behalf of the Teachers' Pensions Agency. The Scheme provides teachers with defined benefits upon their retirement, and the authority contributes towards the cost by making payments based on a percentage of members' pensionable salaries.

6 (i) London Borough of Hammersmith and Fulham Pension Fund

Retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the cost of retirement benefits is reversed out as a movement on the pension reserve in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during the year:

	2008/09 £000s	2009/10 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	14,370	12,280
Past Service Costs	1,774	0
Settlements and Curtailments	1,698	6,449
Sub total	17,842	18,729
Net Operating Expenditure		
Interest Cost	46,068	43,306
Expected Return on Assets in the Scheme	(27,417)	(21,903)
Sub total	36,493	40,132
Movement on Pensions Reserve	(14,369)	(17,561)
Net Charge to the Income and Expenditure Account	22,124	22,571

In addition to the recognised gains and losses included in the Income & Expenditure Account, actuarial losses of £213.406m (£6.952m gains in 2008/09) were included in the Statement of Total Recognised Gains and Losses.

Assets and Liabilities in relation to Retirement Benefits:

Reconciliation of present value of scheme liabilities:

	2008/09	2009/10
	£000s	£000s
Liabilities in relation to Retirement Benefits at 1st April	(680,440)	(651,744)
Current Service Cost	(14,370)	(12,280)
Interest Cost	(46,068)	(43,306)
Losses on curtailments	(1,698)	(2,283)
Contributions by scheme participants	(5,804)	(6,140)
Actuarial gains and (losses)	72,184	(306,366)
Benefits paid	23,731	26,933
Past service costs	(1,774)	(0)
Unfunded pension payments	2,495	2,450
Liabilities extinguished on settlement	0	4,258
Liabilities in relation to Retirement Benefits at 31st March	(651,744)	(988,478)
Funded liabilities	(621,740)	(959,889)
Unfunded liabilities	(30,004)	(28,589)

Reconciliation of fair value of the scheme assets:

	2008/09	2009/10
	£000s	£000s
Fair Value of the scheme assets at 1st April	393,485	357,372
Expected return on scheme assets	27,417	21,903
Actuarial gains and (losses)	(65,232)	92,960
Contributions by employer	22,124	22,811
Contributions by scheme participants	5,804	6,140
Estimated Benefits paid (net of transfers in) incl bulk transfer value	(26,226)	(37,807)
Fair Value of the scheme assets at 31st March	357,372	463,379

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period. The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The actual return on scheme assets in the year was £114.863m (2008/09 £37.815m)

Scheme history

	2005/06	2006/07 as restated	2007/08 as restated	2008/09	2009/10
	£000s	£000s	£000s	£000s	£000s
Present value of liabilities	(728,390)	(780,140)	(680,440)	(651,744)	(988,478)
Fair value of assets	387,870	407,791	393,485	357,372	463,379
Deficit in the scheme	(340,520)	(372,349)	(286,955)	(294,372)	(525,099)

- The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £525.099m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- The total contributions expected to be made to the pension scheme by the council in the year to 31st March 2011 is £25.4m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method; an estimate of pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The liability has been assessed by Barnett Waddingham an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31st March 2007. The principal assumptions used in their calculation are summarised in the following table:

Assumptions	2008/09	2009/10
Long term expected rate of return on assets		
Equities	7.6%	7.0%
Gilts	4.6%	4.0%
Bonds	6.8%	6.5%
Property	6.6%	6.5%
Cash	6.0%	3.0%
Mortality assumptions		
Life expectancy from age 65 – retiring today		
Men		20.28
Women		22.37
Life expectancy from age 65 – retiring in 20 years		
Men		21.44
Women		23.15
Financial Assumptions		
Rate of Inflation	3.0	3.9
Rate of Increase in Salaries	4.5	5.4
Rate of Increase in Pensions	3.0	3.9
Discount Rate	6.7	5.5
Take up of option to convert annual pension to retirement lump sum	50%	50%

The assets of the scheme consist of the following categories, by proportion of the total assets held by the Fund:

Assets Held	31 March 2009	31 March 2010
	%	%
Equities	49.9	57.0
Gilts	14.1	14.0
Other Bonds	7.4	0
Property	25.6	0
Cash	3.0	1.0
Other	0	28.0
	100.0	100.0

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	2005/06	2006/07 as restated	2007/08 as restated	2008/09	2009/10
	%	%	%	%	%
Differences between the expected and actual return on assets	11.9	(0.96)	(11.3)	(18.3)	20.1
Experience gains and losses on liabilities	0.1	(0.22)	0	0	0.7

6 (ii) London Pensions Fund Authority Pension Fund

Transactions relating to retirement benefits

Retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out as a movement on the pension reserve in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during the year:

	2008/09 £000s	2009/10 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	392	325
Past Service Costs	224	0
Settlements and Curtailments	22	90
Sub total	638	415
Net Operating Expenditure		
Interest Cost	2,439	2,326
Expected Return on Assets	(1,538)	(1,158)
Sub total	1,539	1,583
Movement on Pensions Reserve	(736)	(904)
Net Charge to the Income and Expenditure Account	803	679

In addition to the recognised gains and losses included in the Income & Expenditure Account, actuarial losses of £13.741m (£1.982m losses in 2008/09) were included in the Statement of Total Recognised Gains and Losses.

Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of scheme liabilities

	2008/09	2009/10
	£000s	£000s
1st April	(35,936)	(34,576)
Current Service Cost	(392)	(325)
Interest Cost	(2,439)	(2,326)
Losses on curtailments	(22)	(90)
Contributions by scheme participants	(130)	(118)
Actuarial gains and losses	2,609	(15,758)
Benefits paid	1,920	2,173
Past service costs	(224)	0
Unfunded pension payments	38	39
31st March	(34,576)	(50,981)
Funded liabilities	(34,169)	(50,507)
Unfunded liabilities	(407)	(474)

Reconciliation of fair value of the scheme assets

	2008/09	2009/10
	£000s	£000s
1st April	31,903	27,825
Expected return on scheme assets	1,538	1,158
Actuarial gains and losses	(4,591)	2,017
Contributions by employer	803	439
Contributions by scheme participants	130	118
Benefits paid	(1,958)	(2,212)
31st March	27,825	29,345

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period.

The actual return on scheme assets in the year was £3.175m (2008/09 £2.920m)

Scheme history

	2005/06*	2006/07 as restated	2007/08 as restated	2008/09	2009/10
	£000s	£000s	£000s	£000s	£000s
Present value of liabilities	(40,700)	(39,670)	(35,936)	(34,576)	(50,981)
Fair value of assets	30,440	30,648	31,903	27,825	29,345
Deficit in the scheme	(10,260)	(9,022)	(4,033)	(6,751)	(21,636)

- The council has elected not to restate fair value of scheme assets for 2005/06 as permitted by FRS 17 (as revised).
- The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £21.636m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- The total contributions expected to be made to the pension scheme by the council in the year to 31st March 2011 is £0.469m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method; an estimate of pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The liability has been assessed by Barnett Waddingham, an independent firm of actuaries and based on the latest full valuation of the scheme as at 31st March 2007.

The principal assumptions used in their calculation are summarised in the following table:

Assumptions	2008/09	2009/10
Long term expected rate of return on assets		
Equities	7.0%	7.3%
Cashflow Matching	4.2%	4.5%
Cash	4.0%	3.0%
Mortality assumptions		
Life expectancy from age 65 – retiring 2007		
Men		21.0
Women		23.4
Life expectancy from age 65 – retiring in 2027		
Men		22.0
Women		24.2
Financial Assumptions		
Rate of Inflation	3.1	3.9
Rate of Increase in Salaries	4.6	5.4
Expected Return on Assets	4.4	5.1
Discount Rate	6.9	5.5
Take up of option to convert annual pension to retirement lump sum		50%
membership prior to 1 st April 2008	20%	
membership post 1 st April 2008	68%	

The assets of the scheme consist of the following categories, by proportion of the total assets held by the Fund:

Assets Held	31 March 2009	31 March 2010
	%	%
Equities	8.0	11.0
Cashflow Matching	91.0	38.0
Target Return Portfolio	0	54.0
Cash	1.0	(3.0)
	100.0	100.0

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	2005/06*	2006/07	2007/08	2008/09	2009/10
	%	as restated %	as restated %	%	%
Differences between the expected and actual return on assets	3.74	(0.00)	3.95	(16.50)	6.9
Experience gains and losses on liabilities	(0.10)	(1.26)	(4.22)	0.03	0

6 (iii) Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme. The Scheme provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2009/10, the Council paid £5.3 million to the Teachers Pensions Agency (TPA) in respect of teachers' retirement benefits, representing 14.12% of pensionable pay. The figures for 2008/09 were £5.6 million and 13.72% respectively. There were no contributions remaining payable at the year end.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2009/10 the costs arising from additional benefits amounted to £343,613.

The Scheme is a defined benefit scheme, administered by the TPA. Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the

employers' contribution rate paid by Local Education Authorities. However, it is not possible for the Council to identify its share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

7. NOTE FOR RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2008/09 (restated) £000s	2009/10 £000s
Amounts included in the Income and Expenditure Account required by statute to be excluded when determining the Movement on the General Fund Balance for the Year		
Amortisation of Intangible Fixed Assets	(323)	(215)
Depreciation and Impairment of Fixed Assets	(22,203)	(60,990)
Government Grants Deferred Amortisation	6,844	6,871
Revenue Expenditure Funded from Capital under Statute	(1,848)	(2,411)
Transfer of MRA in respect of HRA Depreciation adjustment	(1,492)	(822)
Net Gain/(Loss) on Sales of Fixed Assets	7,745	7,329
Net Charges made for Retirement Benefits in accordance with FRS17	(38,032)	(41,715)
Collection Fund Adjustment Account	(2,087)	(707)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable relating to premiums and discounts on early repayment of debt	672	506
Sub Total	(50,724)	(92,154)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
Minimum Revenue Provision for Capital Financing	3,611	3,594
Capital Expenditure funded from Reserves	0	75
Capital Expenditure charged in-year to General Fund Balance	2,814	369
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts	(1,992)	(2,517)
Employer's Contributions payable to the LBHF and LPFA Pension Funds and Retirement Benefits payable direct to Pensioners	22,927	23,250
Sub Total	27,360	24,771
Transfers to the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Voluntary Repayment of Debt	956	789
Housing Revenue Account Balance	(5,073)	(1,664)
Net transfer to/ (from) Reserves	8,082	366
Sub Total	3,965	(509)
Net additional amount required to be credited to the General Fund Balance for the year	(19,399)	(67,892)

8. STAFF REMUNERATION

The following table sets out the 2009/10 remuneration disclosures for Senior Officers whose salary is £150,000 or more per year or who are defined as Senior employees as per the audit regulations

Post Holder Information	Note	Salary (including fees & allowances) £	Bonuses £	Expense Allowance £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pensions contributions 2009/10 £	Pensions contributions £	Total remuneration including pensions contributions 2009/10 £
Chief Executive - Geoff Alltimes	Note 1	208,636	10,194	0	0	0	218,830	51,644	270,474
Head Teacher - Phoenix High School - Sir William Atkinson	Note 3	160,640	0	0	0	0	160,640	22,650	183,290
Director of Finance & Corporate Services – Jane West		148,551	16,341	0	0	0	164,892	38,914	203,806
Director of Environment Services – Nigel Pallace		142,404	14,240	0	0	0	156,644	36,968	193,612
Director of Community Services – James Reilly		148,551	11,884	0	0	0	160,435	37,863	198,298
Director of Childrens Services – Andrew Christie		142,404	12,816	340	0	0	155,560	36,632	192,192
Director of Residents Services – Lyn Carpenter		140,000	9,800	0	0	0	149,800	35,353	185,153
Head of Legal Services – Michael Cogher	Note 2	109,770	5,591	0	0	0	115,361	27,225	142,586
Totals		1,200,956	80,866	340	0	0	1,282,162	287,249	1,569,411

Note 1 - The full salary of the Chief Executive is given above, however, it should be noted that from April 2009, a share arrangement was entered into whereby Hammersmith and Fulham Primary Care Trust shared the Chief Executive, contributing to 30% of the salary (62k in 2009/10).

Note 2 - The full salary of the Head of Legal Services is given above, however, it should be noted that from June 2009, a share arrangement was entered into with the Royal Borough of Kensington and Chelsea to share the Head of Legal Services. In 2009/10 53k was received from RBKC at a charge of £100 per hour.

Note 3 - Pay decisions for the head teacher disclosed above rest with the School Governing Body and not the Council.

The following table sets out the 2008/09 remuneration disclosures for Senior Officers whose salary is £150,000 or more per year or who are defined as Senior employees as per audit regulations

Post Holder Information	Note	Salary (including fees & allowances) £	Bonuses £	Expense Allowance £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pensions contributions 2008/09 £	Pensions contributions £	Total remuneration including pensions contributions 2008/09 £
Chief Executive - Geoff Alltimes		208,479	10,194	0	0	0	218,673	48,165	266,838
Director of Finance & Corporate Services – Jane West		148,551	7,428	0	0	0	155,979	35,095	191,074
Director of Environment Services – Nigel Pallace		142,404	7,120	0	0	0	149,524	33,643	183,167
Director of Community Services – James Reilly		148,551	7,428	49	0	0	156,028	35,095	191,123
Director of Childrens Services – Andrew Christie		142,404	7,120	278	0	0	149,802	33,643	183,445
Director of Residents Services – Lyn Carpenter	Note 1	17,917	0	0	0	0	17,917	4,031	21,948
Acting Director of Residents Services – Marianne Locke	Note 1	100,001	4,513	0	0	0	104,514	21,874	126,388
Head of Legal Services – Michael Cogher		99,828	6,988	0	0	0	106,816	24,034	130,850
Totals		1,008,135	50,791	327	0	0	1,059,253	235,580	1,294,833

Note 1 - A permanent Director of Residents Services was appointed from February 2009. The disclosure above represents 1.5 months of an annualised salary of £140,000 per annum. An Acting Director of Residents Services was appointed previous to February 2009 for 6 months on an “acting up” basis from Assistant Director within the department – the disclosure above shows the full salary for 2008/09.

The number of employees whose remuneration, excluding employer's pension contributions and including redundancy payments, was £50,000 or more, in bands of £5,000 were:

(these numbers do not include senior employees shown above)

Remuneration Band	2008/09 Number of Employees	2009/10 Number of Employees
£145,000 - £149,999	1	0
£140,000 - £144,999	1	0
£135,000 - £139,999	0	2
£130,000 - £134,999	0	1
£125,000 - £129,999	2	0
£120,000 - £124,999	0	0
£115,000 - £119,999	1	0
£110,000 - £114,999	2	0
£105,000 - £109,999	3	4
£100,000 - £104,999	1	7
£95,000 - £99,999	4	6
£90,000 - £94,999	5	10
£85,000 - £89,999	7	9
£80,000 - £84,999	13	11
£75,000 - £79,999	16	15
£70,000 - £74,999	22	24
£65,000 - £69,999	13	23
£60,000 - £64,999	49	47
£55,000 - £59,999	50	55
£50,000 - £54,999	94	112
Total	284	326

Of the 326 employees listed above in 2009/10, 114 (35%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2008/09 was 99 (35%)

The number of employees whose remuneration, excluding employer's pension contributions and excluding redundancy payments, was £50,000 or more, in bands of £5,000 were:

(these numbers do not include senior employees shown above)

Remuneration Band	2008/09 Number of Employees	2009/10 Number of Employees
£145,000 - £149,999	1	0
£140,000 - £144,999	1	0
£135,000 - £139,999	0	2
£130,000 - £134,999	0	0
£125,000 - £129,999	1	0
£120,000 - £124,999	0	0
£115,000 - £119,999	0	0
£110,000 - £114,999	2	0
£105,000 - £109,999	2	4
£100,000 - £104,999	1	6
£95,000 - £99,999	5	6
£90,000 - £94,999	5	9
£85,000 - £89,999	7	9
£80,000 - £84,999	12	11
£75,000 - £79,999	14	14
£70,000 - £74,999	23	24
£65,000 - £69,999	11	24
£60,000 - £64,999	48	41
£55,000 - £59,999	46	49
£50,000 - £54,999	94	112
Total	273	311

Of the 311 employees listed above in 2009/10, 115 (37%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2008/09 was 98 (36%)

9. AGENCY INCOME AND EXPENDITURE

The Council acts as agent under agreements with various bodies and receives financial reimbursement for the costs of such services from the bodies concerned. A summary of the expenditure involved is contained in the table below.

The expenditure and income relating to agency services is not included in the Income and Expenditure Account, since it is not incurred as part of the authority's normal responsibilities. However, a deficit of £486,000 has been incurred in relation to Thames Water, for whom collection from tenants is carried out. This deficit is included in the Housing Revenue Account Net Cost of Service. A surplus of £7,000 for Eagle Star was also included in the Housing Revenue Cost of Service.

Summary of expenditure incurred in respect of agency agreements

	2008/09	2009/10
	Expenditure £000s	Expenditure £000s
London Centre of Excellence (now absorbed into Capital Ambition) - Procurement and Efficiency Projects	375	0
Capital Ambition	3,729	8,292
Joint Improvement Programme	294	1,341
Thames Water - Collection from Tenants	4,000	4,051
Eagle Star - Tenants Insurance	45	40
Total	8,443	9,634

10. LEASING CHARGES

Council as Lessee

Operating Leases

The council uses Land & Buildings and Plant, Vehicle & Equipment, which are financed under the terms of operating leases. The amount of operating lease rentals paid to lessors in 2009/10 was £2.882m and the Council is committed to making payments in the future as detailed in the table below of £2.371m in 2010/11, £5.7m between 2011/12 – 2014/15 and nil in 2015/16 and later years.

Asset Classification	Operating Lease Rentals			
	£000s			
	2009/10	2010/11	2011/12 - 2014/15	2015/16 and later years
Land & Buildings	1,807	1,799	5,682	0
Other Leases	1,075	572	9	0
Total	2,882	2,371	5,691	0

Finance Leases

The council uses a number of vehicles which are financed under the terms of Finance leases. The amount paid under the terms of finance leases in 2009/10 was £0.042m.

Asset Classification	Finance Lease Rentals			
	£'000s			
	2009/10	2010/11	2011/12 - 2014/15	2015/16 and later years
Plant, Vehicles & Equipment	42	0	0	0
Total	42	0	0	0

In 2009/10 for the Plant, Vehicles & Equipment rentals payments to lessors of £0.042m was made up of £0.003m interest charged to the Income and Expenditure Account and £0.0039m was applied to the write down of the Deferred Liability.

The value of assets held under finance leases is detailed in the table below:

Asset Classification	Gross Book Value	Accumulative Depreciation	2009/10 Depreciation
Plant, Vehicles & Equipment	348	(348)	(116)
Total	348	(348)	(116)

Council as Lessor

Operating Leases

The council holds various assets that it leases out to third parties for their use. These include Council Dwellings, Investment Property and Land & Buildings. These leases have all been accounted for as operating leases in 2009/10.

The rentals received in 2009/10 were £4.748m. The value of assets held for this use are detailed in the table below:

Asset Classification	Gross Book Value	Accumulative Depreciation	2009/10 Depreciation	2009/10 Rentals Received
	£000s			
Council Dwellings	0	0	0	(25)
Investment Property	38,447	0	0	(4,390)
Land and Buildings	9,854	(440)	(135)	(333)
Total	48,301	(440)	(135)	(4,748)

11. MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

In 2009/10 the Council engaged in the following material transactions with related parties:

- a) Government grants were received as scheduled in Note 36 to the Core Financial Statements. Central government has effective control over the operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.
- b) Transactions with associated companies and other entities took place as summarised in Note 32.

Transactions with the Pension Fund are also required to be disclosed. During the financial year the Pension Fund had an average balance of £0.773 million of surplus cash deposited with the Council. The Council paid the Fund £21,468 for interest on these monies. The Council charged the Fund £0.893 million for expenses incurred in administering the Fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts on pages 102 to 118.

Members of the Council have direct control over the Council's financial and operating policies. Information regarding reportable transactions has been collated by requiring all Members and Chief Officers to declare any related party transactions. A review was also carried out of the Council's Register of Declarations of Interests and of the Register of Pecuniary and Non-Pecuniary Interests of Councillors drawn up from declarations made at Committee and other meetings. During the year, the Council engaged in many transactions with related parties as disclosed in the information provided by Councillors and Chief Officers to the value of £6.2 million. The most significant transactions being with charitable institutions of £2.0 million, legal support in the borough of £0.6 million, transactions with Housing Associations of £0.2 million, development within the borough of £0.9 million, transactions with cultural organisations, particularly the Lyric Theatre, Hammersmith, of £0.8 million, transactions to support environmental concerns of £0.6 million, literacy issues of £0.2 million and transactions to support health care of £0.9 million.

In addition to the above, twenty six Councillors serve as School Governors in the borough's schools.

Three Councillors act as the Council's representatives on the boards of Hammersmith & Fulham Homes and Hammersmith & Fulham Bridge Partnership. The Council has delegated responsibility for overseeing the management and maintenance of its residential stock to Hammersmith & Fulham Homes (HFH). This is in accordance with the management agreement that was signed on 27 May 2004 and was effective from 1 June 2004. This agreement ended on the 31st May 2010. However, members have agreed to an extension of the Management contract until 31st March 2011 to allow for the completion of the Decent Homes programme and internal reorganisations of housing management services. The Council pays HFH a monthly management fee and in 2009/10 the annual fee amounted to £26.6 million.

HFH is a private company limited by guarantee with no share capital. In the event of the company being wound up, the Council undertakes to contribute such amounts as may be required for the payment of debts and liabilities providing this amount does not exceed £1. Any remaining assets, after the satisfaction of all debts and liabilities, would be transferred to the Council's Housing Revenue Account.

Hammersmith & Fulham Bridge Partnership (HFBP) is a joint venture between Agilisys (80.1%) and the Council (19.9%). The contract between HFBP and the Council is for ten years and commenced on 1st November 2006. HFBP provides IT services to the Council and provides significant capital investment in a range of projects. The Council is deemed to have a significant influence over HFBP. This is exerted through active participation in policy decision-making and implementation and by comprising one third of the membership of the Board of Directors.

Five officers are jointly funded by Hammersmith and Fulham PCT and the council; their positions are Joint Head of Commissioning, Joint Head of Learning and Disability Services, Joint Programme Director, Joint Strategy and Performance Officer and Joint Chief Executive. In 2009/10 payments to the PCT totalled £3.2million and income received from the PCT was £20.9m.

12. MEMBERS' ALLOWANCES

The Council is required to disclose all payments relating to the remuneration of members. Under the Local Authorities (Member' Allowances) (England) Regulations 2003, total allowances paid to members in 2009/10, including travel and subsistence allowances, amounted to £855,744 (£868,218 in 2008/09).

13. FEES PAYABLE TO THE AUDIT COMMISSION

The following fees were payable to the Audit Commission:

	2008/09 £000s	2009/10 £000s
External Audit Services	415	432
Statutory Inspection	27	20
Certification of Grant Claims and Returns	145	117
Total	587	569

14. HEALTH ACT 1999 POOLED FUNDS AND SIMILAR ARRANGEMENTS

Under Section 31 of the Health Act 1999, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets.

A Learning Disabilities Service is provided under partnership agreement with National Health Services Hammersmith and Fulham (NHS HF).

The Council acts as the accountable body. The memorandum accounts are summarised below.

	2008/09	2009/10
	£000s	£000s
Original Contributions		
London Borough of Hammersmith & Fulham	(11,039)	(16,214)
National Health Service Hammersmith & Fulham	(9,213)	(4,679)
Total Original Contributions	(20,252)	(20,893)
Total Expenditure	19,793	20,543
Net Overspend/(Under-Spend)	(459)	(350)
(Additional)/Reduced Contributions Required		
London Borough of Hammersmith & Fulham	(131)	(814)
National Health Service Hammersmith & Fulham	590	464
Revised Contributions		
London Borough of Hammersmith & Fulham	(11,170)	(15,400)
National Health Service Hammersmith & Fulham	(8,623)	(5,143)
Total Revised Contributions	(19,793)	(20,543)

15. LOCAL AREA AGREEMENT (LAA GRANT)

Hammersmith & Fulham is one of 150 areas in England with a Local Area Agreement (LAA). The first LAA ran from 2005/06 until 2007/08 and the second is running from 2008/09 until 2010/11.

The LAA is a three-year performance plan agreed by the council and its partners to deliver Hammersmith & Fulham's Community Strategy, the aim of which is to tackle social polarisation by creating a Borough of Opportunity for all local residents. The seven key priorities outlined in the Community Strategy and reflected in the LAA are:

- Tackling crime and anti-social behaviour

- Promoting home ownership and housing opportunities
- A cleaner, greener borough
- A top quality education for all
- Delivering high-quality, value for money public services
- Setting the framework for a healthy borough
- Regenerating the most deprived parts of the borough

How is the Local Area Agreement being delivered?

The LAA is delivered by the Council, PCT, Police, Fire Service and other partners such as Jobcentre Plus, Probation Service and the voluntary and community sector. Each agency has an important role to play in one or more of the priority targets.

For each target there is a delivery plan which sets out the actions being taken and the organisations involved in delivering services that will help meet the target. Many of the delivery plans include running projects that are funded by Area Based Grant (Note 18). Many of these projects are provided by local voluntary and community sector organisations.

Volunteering is also recognised in the Local Area Agreement in H&F and is an effective mechanism for improving local services. Another activity that underpins many of the LAA targets is engagement of service users in the design and review of services and in giving their views on their priorities for improvement, through surveys and events such as the Borough's Crime Summit.

16. FINANCIAL INSTRUMENTS' CHARGES AND INCOME

Interest receivable and payable recognised in the Income and expenditure Account are made up as follows:

	Financial Instruments £000s
Interest Expense	26,604
Premiums and Discounts applied	710
Interest Income	(1,288)
Interest and Investment Income in Income and Expenditure Account	26,026

A net total of £505,689 of premiums and discounts have been written off to the Financial Instruments Adjustment Account. The Statement of Accounting Policies (Notes 16 and 17) gives details of how Financial Assets and Financial Liabilities have been accounted for.

17 (i) FIXED ASSETS MOVEMENTS

	Operational Assets					Non - Operational Assets			Intangible Fixed Assets	Total
	HRA Dwellings	Other Land & Buildings	Infrastructure	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Surplus Assets for Disposal	Investment Properties		
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fixed Asset Cost										
Gross Value at 01/4/2009	1,346,732	403,666	151,902	22,634	8,807	4,117	11,907	39,845	2,595	1,992,205
Additions	74,291	13,276	7,416	232	1,954	113	0	3,967	301	101,550
Other Adjustments	1,999	6	0	0	5	(3,995)	1,199	786	0	0
Revaluations	35,741	5,817	0	0	0	0	0	2,020	0	43,578
Impairment	(46,302)	(33,947)	0	0	0	0	0	(2,097)	0	(82,346)
Disposals	(1,116)	(4,200)	0	0	0	0	0	(392)	0	(5,708)
Gross Value at 31/03/2010	1,411,345	384,618	159,318	22,866	10,766	235	13,106	44,129	2,896	2,049,279
Fixed Asset Depreciation										
Depreciation at 01/04/2009	0	(15,755)	(35,589)	(13,256)	(877)	0	0	0	(1,851)	(67,329)
Adjustments	0	76	0	0	0	0	0	0	0	76
Revaluation	12,646	1,470	0	0	0	0	0	0	0	14,116
Disposals	0	158	0	0	0	0	0	0	0	158
Depreciation for year	(12,646)	(7,212)	(8,392)	(2,853)	(352)	0	0	0	(215)	(31,670)
Depreciation at 31/03/2010	0	(21,263)	(43,981)	(16,109)	(1,229)	0	0	0	(2,066)	(84,649)
Net Book Value at 31/3/2010	1,411,345	363,355	115,337	6,757	9,537	235	13,106	44,129	830	1,964,630

17 (ii) Valuation

The Authority has used the external valuation contractor Lambert Smith & Hampton to carry out the valuations under instruction from the authority's internal Valuation and Property Services. The valuations were carried out by persons who are suitably qualified and experienced for the purposes of the instruction.

The basis of valuing the individual classes of fixed assets owned by the Council is explained in Notes 9 and 10 of the Statement of Accounting Practices and Policies.

The table above summarises the movement of fixed assets in respect of the Housing Revenue Account (HRA) stock and other assets.

Freehold and leasehold property owned by the Council has been valued in accordance with the Statement of Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors as recommended by the Chartered Institute of Public Finance and Accountancy.

The revaluation of assets is carried out over a five year rolling programme. Assets within the Council's property portfolio with a net book value of £169m were subject to a revaluation in February 2010 and these took place with effect from 1st April 2009.

The annual revaluation of the Housing stock in 2009/10 gave a new gross value of £1,202 million. These values took effect from 1st April 2009.

The following table shows the progress of the Council's rolling programme for the revaluation of fixed assets.

	HRA Stock and Other Assets £000s	Other Land and Buildings £000s	Vehicles, Plant and Equipment £000s	Non- Operational Assets £000s	Total £000s
Valued at Historical Cost					
2009/10	0	0	22,634	0	22,634
Valued at Current Value in:					
2009/10	1,201,560	329,893	0	41,632	1,573,085
2008/09	1,400,599	356,725	0	41,709	1,799,033
2007/08	1,310,084	355,985	0	42,443	1,708,512
2006/07	1,204,542	355,985	0	42,443	1,602,970
2005/06	1,074,639	332,269	0	39,365	1,446,273
2004/05	1,237,040	186,898	0	50,756	1,474,694
2003/04	1,146,022	205,260	0	68,315	1,419,597
2002/03	974,608	215,066	0	48,856	1,238,530
2001/02	1,001,678	219,786	0	39,483	1,260,947

17 (iii) Capital Commitments

Capital commitments on major schemes at 31st March 2010 totalled £161.3m across the Council. This figure includes schemes for both the General Fund and Housing Revenue Account (HRA). The table below provides further detail on a departmental basis.

Department	Total £000's
Children's Services	15,083
Community Services	4,169
Environment Services	18,029
Finance & Corporate Services	2,836
Residents Services	8,156
Decent Neighbourhoods	21,402
Housing Revenue Account	91,596
Total	161,271

The planned programme includes schemes such as :

- Fulham Cross School – Construction of state of the art IT language teaching facilities (£1.082m)
- Henry Compton School – Construction of a new performing Arts Building (£0.560m).
- Bishops Park (£6.1m) – Improvements to the park
- Decent Homes Programme (£60m) – This will continue the Council's work to eliminate all non-decent social housing by December 2010 in line with Government targets.

17 (iv) FIXED ASSETS HELD

Fixed assets owned or leased by the Council are shown below:

	31 March 2009 (Numbers)	31 March 2010 (Numbers)
Operational Assets		
Council Dwellings	12,988	12,984
Hostels*	8	7
Town Halls	2	2
Offices	10	10
Cemeteries	4	4
Swimming Pools and Sports Centres	4	4
Libraries	6	6
Play Facilities	12	12
Social Service Establishments*	38	38
Depots	5	4
Secondary Schools	5	5
Primary and Nursery Schools	26	26
Special Schools	6	6
Other Education Premises	20	19
Other Land and Buildings	41	41
Infrastructure Assets		
Bridges	1	1
Community Assets		
Parks and Open Spaces (hectares)	191	191
Non-operational Assets		
Shops*	121	121
Industrial Units	6	6
Other*	58	57

* opening numbers have been restated

17 (v) CAPITAL EXPENDITURE AND FINANCING

	2008/09	2009/10
	£000s	£000s
Opening Financing Requirement *	453,863	501,285
Capital Investment		
Operational Assets	98,205	97,583
Non Operational Assets	4,447	3,967
Non Enhancing Expenditure	0	0
	102,652	101,550
Sources of Finance		
Useable Capital Receipts	(15,469)	(15,537)
Government Grants	(11,544)	(14,107)
Major Repairs Reserve	(11,430)	(22,865)
Planning Agreement Funds	(9,468)	(1,724)
Other Capital Contributions	(2,380)	(349)
Sums set aside from Revenue	(6,697)	(170)
	(56,988)	(54,752)
In Year Borrowing Requirement	45,664	46,798
Adjusted Capital Financing Requirement	490,212	548,083
Revenue Expenditure Funded from Capital Under Statute	8,530	8,301
Funded by :		
Useable Capital Receipts	0	(2,043)
Government Grants	(2,524)	(4,435)
Planning Agreement Funds	(3,601)	(646)
Other Capital Contributions	(37)	(932)
Sums set aside from Revenue	(520)	(28)
Net Movement for Revenue Expenditure Funded from Capital Under Statute	1,848	217
Net Movement in year	47,512	47,015
Adjusted Capital Financing Requirement	492,060	548,300
Explanations of Movements in Year		
Increase in Underlying need for Supported Borrowing	48,467	47,691
Increase in Underlying need for Unsupported Borrowing	(955)	(676)
Increase in Capital Financing Requirement	47,512	47,015

* Figures have been restated

17 (vi) INTANGIBLE ASSETS

All intangible assets are for software licences or for software development. Software is generally amortised over a four year life.

18. AREA BASED GRANT (ABG)

The Area Based Grant (ABG) is a general grant, in the same manner as the Formula Grant, and can be used for any purpose. From 2008/09 it replaced a wide range of specific grant funding streams. For financial reporting purposes, income is reported centrally whilst expenditure is shown within departmental expenditure figures. For this authority the confirmed ABG allocation for 2009/10 was £11.301m (£10.659m in 2008/09).

The table below sets out how the authority's award was made up.

Specific Grant	2008/09 £000s	2009/10 £000s
Cohesion	26	49
Supporting People Administration	231	212
Neighbourhood Renewal Fund	600	240
Preventing Violent Extremism	125	168
Climate Change	23	23
School Development Grant	1,200	1,200
Extended Schools Start Up Grant	261	579
Primary National Strategy - Central Co-Ordination	78	76
Secondary National Strategy - Central Co-Ordination	114	112
Secondary National Strategy - Behaviour & Attendance	68	68
School Improvement Partners	56	56
Education Health Partnerships	81	114
School Travel Advisers	19	19
Choice Advisers	34	34
School Intervention Grant	34	34
14-19 Flexible Funding	25	25
Sustainable Travel - General Duty	11	11
Extended Rights to Free Transport	1	1
Connexions	1,475	1,548
Children's Fund	474	474
Child Trust Fund	5	6
Positive Activities for Young People	408	657
Teenage Pregnancy	109	109
Children's Social Care Workforce	109	110
Care Matters	208	297
Child Death Review Processes	43	45
Young People's Substance Misuse	25	25
Preventing Violent Extremism Toolkit	10	0
Adult Social Care Workforce	536	548
Carers	980	1,046
Child & Adolescent Mental Health	556	594
Learning & Disability Development Fund	212	212
Local Involvement Networks	143	143
Mental Capacity Act & Independent Mental Advocacy services	101	126
Mental Health	677	714
Preserved Rights	1,204	1,164
Stronger Safer Communities	289	289
Young Peoples Substance Misuse Partnership	108	108
Environmental Damage Regulations	0	1
School Gates Employment	0	53

Community Call for Action	0	2
Designated Teacher Funding	0	8
Social Care Checks Funding	0	1
Total ABG	10,659	11,301

19. LONG TERM DEBTORS

	31 March 2009 £000s	31 March 2010 £000s
House Purchase	163	152
Sale of Council Dwellings	647	480
Car Loans	4	0
Total	814	632

20. STOCK

	31 March 2009 £000s	31 March 2010 £000s
Stock - Trading	104	70
Stock - Other	175	137
Total	279	207

21. DEBTORS

	31 March 2009 £000s (restated)	31 March 2010 £000s
Government Depts	23,724	18,599
Other Public Bodies	840	3,677
Housing Rents	3,702	3,812
Business Rates	273	282
Council Tax	8,771	9,182
Sundry Debtors	108,456	47,030
Car and other employee loans	124	158
Payments in advance	3,840	3,584
Subtotal	149,730	86,324
Less:		
Provision for doubtful debts	(77,688)	(26,330)
Total	72,042	59,994

22. CASH BALANCES

	31 March 2009 £000s	31 March 2010 £000s
Bank/Petty Cash Balances	2,070	2,381
School Bank Accounts	11,794	12,577
Sub-total	13,864	14,958
Less:		
Cash Balances Overdrawn	(30,750)	(14,230)
Total	(16,885)	728

23. CREDITORS

	31 March 2009 £000s (restated)	31 March 2010 £000s
Government Departments	(11,330)	(46,019)
Other Public Bodies	(21,356)	(32,416)
Housing Rents	(1,167)	(1,238)
Business Rates	(0)	0
Council Tax	(3,575)	(4,279)
Sundry Creditors	(75,088)	(76,187)
Total	(112,516)	(160,139)

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

Financial liabilities and assets represented by loans and investments are carried in the Balance Sheet at amortised cost. Re-scheduled loans are matched with any consequential premiums and discounts with an effective interest rate applied. This results in an interest rate charge to the Income and Expenditure Account which is different from the cash actually payable. The following assumptions also apply:

- No early payment or impairment is recognised
- The fair value of trade and other receivables is taken to be the invoiced or billed amount, with any provision for bad or doubtful debts assessed as disclosed in Note 21.

	31 March 2010	
	Carrying Amount £000s	Fair Value £000s
Financial Liabilities	(481,144)	(509,105)
Financial Assets	137,398	139,711

The carrying amount of financial liabilities includes the balance of premiums and discounts to be charged or credited to the Income and Expenditure Account in future years plus accrued interest payable. The carrying value of investments is their cash value plus accrued interest receivable. The fair values of the financial instruments above have been calculated on the basis of the interest rates applicable in the market on 31 March 2010 for an instrument of the same duration, i.e. valuation date to maturity, by the Council's treasury management advisors.

No borrowings are carried at fair value.

25. FINANCIAL INSTRUMENTS' RISK EXPOSURE

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

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

The authority has adopted CIPFA "Treasury Management in the Public Services: Code of Practice" and sets treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code. The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in accordance with the above Codes of Practice. There are documented principles for overall risk management, and written policies covering specific areas such as interest rate risk and investment of surplus cash risk.

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks and other financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and building societies unless they are rated independently using all three credit rating agencies below. The minimum score required by the Council for long term rating is A- from Fitch; A3 from Moody's and A- from S&P. the minimum score required for short term ratings is F2 from Fitch; P2 from Moody's and A-3 from S&P. Limits are also placed on the total amount deposited with any single institution.

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in Note 21 which also shows a prudent provision for their impairment. The authority does not normally allow credit for its customers. The age profile of the Council's debtors is summarised as follows:

Age Profile of debtors	Amount at 31 March 2009 (restated) £000s	Amount at 31 March 2010 £000s
Less than 3 months	36,314	48,236
3 months to 6 months	3,346	4,965
6 months to 1 year	9,198	10,795
More than 1 year	80,302	10,930
Total	129,160	74,926

Payments in advance of £3.584 million; accruals of £7.532 million and Business Rates debtor of £0.282 million have been excluded from this analysis as they do not represent debt to be recovered.

There are bad debt provisions of £26.33 million held against the debt outstanding above. The Council has a debt recovery and write off policy and these debts will be considered for write off in line with that policy.

The following table summarises the authority's potential maximum exposure to credit risk, including the authority's historic experience of default over the past five years:

	Amount at 31 March 2010 £000s	Historic Experience of Default %	Estimated maximum Exposure to Default £000s
Deposits with Banks and Financial Institutions	137,000	0	0

No credit limits were exceeded in the period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. Deposits are not made with banks unless they are rated independently with a minimum score of A and are not made with building societies unless they are rated with a minimum score of A2. Limits are also place on the total amount deposited with any single institution.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The authority's Short and Long Term Borrowing are summarised in the following tables at their adjusted face value:

	31 March 2009 £000s	31 March 2010 £000s
Public Works Loan Board	(398,520)	(475,520)
Total	(398,520)	(475,520)

The risk is that the authority may be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy adopted is to ensure that not more than 30% of loans are due to mature within a rolling three year period through a combination of planning of new loans taken out and the re-scheduling of existing loans. The maturity analysis of financial liabilities is as follows:

	31 March 2009 £000s	31 March 2010 £000s
One to two years	0	16,000
Between two and five years	36,430	25,534
Between five and ten years	66,026	77,922
More than ten years	296,064	356,064
Total	398,520	475,520

All trade and other payables (creditors as disclosed in Note 23) are due to be paid in less than one year.

Market Risk

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

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account would rise.
- Borrowings at fixed rates – the fair value of the liabilities would fall
- Investments at variable rates – the interest credited to the Income and Expenditure Account would rise.
- Investments at fixed rates – the fair value of assets would fall.

The authority has a number of strategies for managing interest rate risk. Its policy is to set a maximum of 20% to its borrowing of variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and capital programme and which is used to update the regular monitoring of the budget during the year. This allows any adverse changes to be accommodated. The analysis also assists in determining whether any new borrowing is at fixed or variable rates.

The sensitivity of the authority's finances to interest rate changes may be analysed as follows. If interest rates had been 1% higher with all other variables held constant in 2009/10, the financial effect would have been:

	£000s
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Increase in Government Grant receivable for financing costs	0
Impact on Income and Expenditure Account	0
Share of overall impact on HRA	0

All of the authority's investments and loans are at fixed interest rates so that the existing portfolio has no short term sensitivity to either upward or downward interest rate changes.

26. PROVISIONS

	1 April 2009 £000s	Movement in Year £000s	31 March 2010 £000s
Insurance	(4,225)	0	(4,225)
Section 117	(568)	325	(243)
TEK House Dilapidations	0	(23)	(23)
1-15 King St	(150)	150	0
LD Placement	(250)	250	0
Specific Childcare	0	(75)	(75)
Total	(5,193)	627	(4,566)

The Authority maintains an Insurance provision (balance at 31 March 2010 £4.225 million) for known future insurance claims resulting from the Authority's self-insurance of liability risks and fire damage. The Authority self-insures against part of its risk (i.e. public, employers and fire) by meeting up to the first £100,000 of every claim.

The House of Lords ruled in August 2002 that local authorities have no power to charge for care provided under Section 117 (Mental Health Act 1983). The Authority had charged for this service for some ten years and stopped doing so in March 2002. The Authority established a provision to meet the liabilities for repayment of these charges. Measures are taken to ensure that Section 117 applies in each case and determine the period for which it applies. Formal reporting takes place within Community Services to monitor repayments made.

A provision was made in 2008/09 for the legal costs of a dilapidations claim made by the freeholder of 1-15 King St, W6, against the Authority as lessee. Settlement for the dilapidations costs was reached at £650,000 in January 2008. Settlement for the reimbursement of legal costs was reached for £135,000 in September 2009 and the remaining £15,000 was written back to the Income & Expenditure account.

A provision was made in 2008/09 for Learning & Disabilities care home placement of £250,000. Liability for the cost of the placement was disputed with Sutton & Merton

Primary Care Trust. Settlement was reached at no cost to the Authority on 17 Dec 2010 and the whole provision was written back to the Income & Expenditure Account.

A provision has been set up in 2009/10 for a dilapidations claim at TEK House from the landlord for £22,760. The Council vacated the building in February 2009. It is hoped that the the liability will be resolved in 2010/11.

27. DEFERRED LIABILITIES

	(Restated) 31 March 2009 £000s	31 March 2010 £000s
Finance Leases	(104)	0
Property Leases	(9,315)	(9,225)
Frozen Holiday Pay	(8)	(7)
Total	(9,427)	(9,232)

In 2004/05, the Council entered into three finance leases for IT equipment. Two of the leases were for a duration of three years, whilst the third lease was for four years. In 2009/10 the remaining deferred liability was written down.

In 2003/04 the Council entered into a 25 year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. As the council is deemed to control the services provided and as ownership of the fixed assets will revert to the council at the end of the contract, the council is required to report the fixed assets on the Balance Sheet. The original recognition of these fixed assets was balanced by the recognition of a liability for a corresponding amount. This liability is written down over the life of the contract through apportionment from unitary charge.

The liability for frozen holiday pay resulted from changes in the conditions of manual workers some years ago. In most instances, payment takes place when individual employees leave the Council's service.

28. DEFERRED CREDITS

Deferred credits are amounts derived from the sale of assets that will be repaid to the Council by instalments over an agreed number of years. They have arisen from mortgages provided by the Council for the sale of Council dwellings

29. EARMARKED RESERVES

The Council maintains a number of reserves for specific purposes under the Local Government & Housing Act 1989.

	1 April 2009 £000s	Transfers In £000s	Transfers Out £000s	Movement Between Reserves £000s	31 March 2010 £000s
Insurance Fund	(3,089)	(354)	0	0	(3,443)
Controlled Parking Fund	0	(223)	0	0	(223)
Computer Replacement Fund	(861)	(122)	185	0	(798)
Efficiency Projects Reserve	(5,399)	(703)	2,367	(1,325)	(5,060)
Economic Downturn Reserve	(2,121)	(799)	2,132	0	(788)
Debtors/Creditors Review	(117)	(66)	1	0	(182)
PCT Integration Reserve	(150)	0	0	0	(150)
Dilapidations/Office Moves	(790)	(1,636)	425	0	(2,001)
Housing Benefit	(2,462)	0	253	1,000	(1,209)
Income System Enhancement	(355)	(136)	0	0	(491)
Planning Inquiries	(169)	0	50	0	(120)
LPFA Sub Fund	0	(379)	0	0	(379)
Single Status	(1,761)	(17)	0	0	(1,778)
Bishops Park	(1,000)	0	0	(200)	(1,200)
Performance Reward Grant	(2,296)	0	1,346	0	(950)
Imperial Wharf	(1,000)	0	0	200	(800)
No Recourse to Public Funds	(200)	0	0	100	(100)
24/7 Policing	(3,327)	0	1,263	0	(2,064)
Civic Accommodation Reserve	(988)	0	47	0	(940)
PFI Reserve	(432)	(133)	0	0	(565)
Online Housing Application	(300)	0	0	0	(300)
Temporary Accommodation	0	(164)	0	(377)	(541)
S117 Reserve	(200)	0	78	0	(122)
Major Works	(130)	0	130	0	0
Continuing Care Pressures	(1,476)	(197)	776	0	(897)
LPFA Top-up	(22)	0	0	22	0
Other Funds	(4,407)	(3,486)	482	580	(6,832)
Total	(33,053)	(8,414)	9,537	0	(31,931)

The main purpose of each earmarked reserve is explained below:

- i). **Insurance Fund** – this was established to underwrite a proportion of the Council's insurable risks.
- ii). **Controlled Parking Fund** – the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past,

this reserve had to be used to meet expenditure on transport and highways related activities

- iii). **Computer Replacement Fund** – this reserve has been set up to provide for the replacement of equipment and to fund future computer development work.
- iv). **Efficiency Projects Reserve** – this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
- v). **Economic Downturn Reserve** – this reserve has been set up to deal with any effects of the current worldwide economic downturn.
- vi). **Debtors & Creditors Review Reserve** – this reserve is set aside to meet the cost of a review of all balance sheet debtors and creditors held by the Council and to meet any costs of adjusting those balances.
- vii). **PCT Integration Reserve** – this reserve has been set up to fund any potential costs of the integration of Hammersmith & Fulham Primary Care Trust.
- viii). **Dilapidations & Office Moves** – this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
- ix). **Housing Benefit Reserve** – the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve is used to meet the cost of any adjustments.
- x). **Income System Enhancement Reserve** – this reserve has been set up to fund the replacement or upgrade of the Council's cash collection IT system.
- xi). **Planning Inquiries Reserve** – this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
- xii). **London Pensions Fund Authority Sub-Fund** – this reserve has been set aside to cover a potential pensions liability to the LPFA.
- xiii). **Single Status Reserve** – this reserve has been created to meet the costs of the implementation of Single Status. Local Authorities were required to introduce harmonised pay and conditions for staff by 31 March 2007.
- xiv). **Bishops Park Reserve** – this reserve has been set aside as part of the Bishops Park lottery funded development scheme.
- xv). **Performance Reward Grant** – this is a reserve set up to hold funds from the Reward Grant passed to the Council by the Department of Communities & Local Government.
- xvi). **Imperial Wharf Reserve** – this reserve has been set up to under write the construction of Imperial Wharf Overground station.
- xvii). **No Recourse to Public Funds Reserve** – this reserve was established to provide services to people who have no recourse to public funds.

- xviii). **24/7 Policing** – this reserve has been set up to fund the extension of the Safer Neighbourhood Teams 24/7 policing scheme.
- xix). **Civic Accommodation Reserve** – this reserve is set aside to meet the preliminary costs that are emerging in connection with the Council's Civic Accommodation project.
- xx). **PFI Reserve** – this reserve has been set up to meet the future indexations costs of the Council's Private Finance Initiative.
- xxi). **On-line Housing Application System Reserve** – set up to fund the development of an on-line Housing applications register
- xxii). **Temporary Accommodation** – this reserve has been set up to deal with possible shortfalls arising out of the introduction of a cap on rental income received for temporary accommodation.
- xxiii). **S117 Reserve** – this money was set aside to meet the costs of any new cases arising out of charging for care under Section 117 of the Mental Health Act, 1983, that come to light.
- xxiv). **Major Works Charges** – this reserve has been set aside to assist leaseholders in paying for major works from the Decent Homes programme.
- xxv). **Continuing Care Pressures Reserve** – this reserve has been set up to meet the demands of a potential future increase of cost related to social care.
- xxvi). **London Pensions Fund Authority Top-up reserve** – this reserve was set up to cover past service adjustments. The residual amount was transferred to the Efficiency Projects reserve in year.
- xxvii). **Other Funds** – these comprise a number of other reserves held by various departments of the Council.

30. CAPITAL ACCOUNTS AND RESERVES

Reserve	1 April 2009 (restated) £000's	Transfers In £000's	Transfers Out £000's	Movement between Reserves £000's	31 March 2010 £000's
Revaluation Reserve	(82,363)	(43,750)	39,150	522	(86,441)
Capital Adjustment Account	(1,249,036)	(45,081)	80,415	(14,980)	(1,228,682)
Usable Capital Receipts	(3,864)	(16,113)	3,165	13,286	(3,526)
Capital Reserve	(1,516)	(171)	0	1,172	(515)
Financial Instruments Adjustment Account	2,807	(728)	222	0	2,301
	(1,333,972)	(105,843)	122,952	0	(1,316,863)

The main purpose of the Capital Accounts and Reserves is as follows:

- **Revaluation Reserve** – this is a store of the gains on revaluation of Fixed Assets not realised through sales since 1 April 2007.
- **Capital Adjustment Account** – this is a store of capital resources set aside to meet past expenditure.
- **Useable Capital Receipts** – these are the proceeds of Fixed Asset sales available to meet capital expenditure and the voluntary redemption of debt.
- **Capital Reserves** – these comprise revenue contributions earmarked for the future funding of capital expenditure.
- **Financial Instruments Adjustment Account** – this is a balancing account to allow for differences between statutory requirements and proper accounting practices in the treatment of borrowings and investments.

The Revaluation Reserve

General Fund and HRA Non Dwelling Assets

In 2009/10, the authority revalued a proportion of its general fund fixed assets according to its five year rolling programme. Of those assets revalued, the valuation report required a total of £35.5m to be charged to revenue as an impairment. This did not pass through the Revaluation Reserve as there was no previous gain against which to offset the impairment charge. This charge does not have an impact on the level of council tax. A number of assets required an upward revaluation in their net book value. This totalled £9.1m, which was included within the Revaluation Reserve.

HRA Dwellings

The Authority also revalued its housing stock, using the beacon approach and has also carried out a detailed impairment review to assess the potential impact of the current economic climate. Although there was a reduction in stock value as at 1st April 2009, subsequent evidence has suggested a rise in the value of the housing stock. Appropriate adjustments have been made to reflect this position.

The table below sets out the movement on the Revaluation Reserve:

	£000's	£000's
Opening Balance		(83,073)
Impairment	38,789	
Revaluation	(43,750)	
Disposals	522	
Other Adjustments	1,071	
In Year Movement		(3,368)
Closing Balance		(86,441)

31. REVENUE RESERVES AND BALANCES

The Council has a number of revenue reserves and balances as follows:

	1 April 2009 £000s	31 March 2010 £000s
General Fund	(14,831)	(15,000)
Housing Revenue Account	(4,905)	(3,241)
Education Establishment Account	(11,572)	(12,552)
Total	(31,307)	(30,793)

- i). **General Fund** – this fund includes any surplus after meeting net expenditure on Council Services
- ii). **Housing Revenue Account** – this reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act, 1989.
- iii). **Education Establishments Account** – this balance is comprised of unspent revenue balances of schools and other educational establishments at the year-end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.

32. INTEREST IN COMPANIES

The Council has an involvement with a number of associated companies which are set out below. The assets and liabilities of these companies are not included in the Council's accounts as the materiality of the relationship does not justify such consolidation. Information is provided as to the general purpose of the company, its financial position, and any other material financial issues affecting the Council.

(i) **Lyric Theatre Hammersmith Limited**

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of the lively arts and theatre management. The Council supplies funding under a funding agreement to enable the company to carry out its charitable objectives. The contributions were £365,200 in 2009/10 and £352,000 in 2008/09. The latest audited accounts available, those relating to 2008/09, show net assets of £2,739,455 (£2,763,220 in 2007/08) and a deficit on its activities in that year of £23,765 (deficit of £150,005 in 2007/08). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council.

Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

(ii) **Hammersmith and Fulham Urban Studies Centre**

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are the advancement of environmental education at all levels, particularly in the London Borough of Hammersmith and Fulham. The Council is the main source of grant funding for the charity. The charity's latest audited accounts available, those relating to 2008/9 show net assets worth £53,706 (£41,786 in 2007/8). A surplus of £11,920 has been reported for 2008/09 (£6,962 deficit in 2007/08). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) **Hammersmith & Fulham Bridge Partnership (HFBP)**

HFBP is a joint venture between Agilisys (80.1%) and the council (19.9%). The contract between HFBP and the Council is for ten years and commenced on 1st November 2006. During this period HFBP will provide IT services to the Council and provide significant capital investment in a range of projects. Although HFBP has been included in the Group Accounts of the Council as an Associate of the Council in previous years, the issue of materiality was considered and the conclusion was that inclusion would not make a material difference to the usefulness of the Statement of Accounts for readers. The unaudited accounts for the year 2009/10 showed total net liabilities of £2.779million (£2.627million in 2008/09 audited accounts) with a loss before tax of £0.157million (£0.562million loss in 2008/09 audited accounts) of which 19.9% would apply to the Council's Group accounts.

Copies of HFBP accounts may be obtained from HFBP, 2nd Floor, 26-28 Hammersmith Grove, Hammersmith, London, W6 7AW

(iv) **Hammersmith & Fulham Homes (HFH)**

HFH is a company limited by guarantee and does not have any share capital. The company was set up as an Arms Length Management Organisation (ALMO) in June 2004 to provide housing management services in relation to the Council's housing stock. This agreement ended on the 31st May 2010. However, members have agreed to an extension of the ALMO Management contract until 31st March 2011 to allow for the completion of the Decent Homes programme and internal reorganisations of housing management services. There are nineteen Board Members of which five are appointed by the Council. Board members have equal voting rights. In the event of the company being wound up, any assets or surplus shall be transferred to the Council (Housing Revenue Account). The Council is liable to pay liabilities up to a maximum of £1. Although HFH has been included in the Group Accounts of the Council as a subsidiary in previous years, the issue of materiality was considered and the conclusion was that inclusion would not make a material difference to the usefulness of the Statement of Accounts for readers. The unaudited accounts for the year 2009/10 showed total net assets of £11.245 million (£0.209 million in 2008/9 audited accounts) with a loss before tax of £1.136 million, (£0.248 million loss in 2008/09 audited accounts).

Copies of H&F Homes accounts may be obtained from H&F Homes, Riverview House, Beavor Lane, Hammersmith, London W6 9AR.

33. CONTINGENT ASSETS AND LIABILITIES

Contingent Assets:

Imperial Wharf: Discounted Market Sale Units

The Council has received a 30% equity share on 25 properties sold, at discount, at Imperial Wharf. At the time of sale, the estimated value of the Council's equity share was £2.552m – though this is subject to market fluctuations. At any time the owners of such properties can request that they buy the remaining 30% share. Such a purchase would realise additional capital resources for the Council which can be invested in affordable housing projects, but the level and timing of such resources is uncertain.

Contingent Liabilities:

The Council may have a potentially significant liability for the issue set out below. However, uncertainty exists as to the likelihood, amount and timing of expenditure.

Single Status

In accordance with the National Single Status agreement on local government conditions of service and pay scales, the Council has undertaken an equal pay audit. The Council has largely implemented Single Status but the Unions still assert that the Council has an equal pay risk. The Council established an earmarked reserve of £2.545m to fund equal pay claims in 2007/08 and settled the majority of cases in 2008/09. However some specific areas are still under negotiation and the Council's earmarked reserve to fund equal pay claims stands at £1.778m at 31 March 2010.

34. WORMWOOD SCRUBS CHARITABLE TRUST

The Mayor and Burgesses of the council are the trustees of the Wormwood Scrubs Charitable Trust. The trust's objective is to hold Wormwood Scrubs Open Space "upon trust for the perpetual use thereof the inhabitants of the Metropolis for exercise and recreation" as defined by the Wormwood Scrubs Act of 1879. The table below shows the operating costs and income of the Trust

	2008/09 £000s	2009/10 £000s
Balance at 1 st April	(5,697)	(5,748)
Income	(751)	(735)
Sub total	(6,448)	(6,484)
Less:		
Expenditure and Transfers	700	785
Balance at 31st March	(5,748)	(5,698)

The trust owns assets valued at £5 million. Specifically these are car parks that are classified as investment assets and are valued on an existing use basis.

35. ANALYSIS OF NET ASSETS EMPLOYED

	2008/09 (Restated)	2009/10
General Fund	111,724	(165,043)
Housing Revenue Account	1,016,163	1,016,646
Total	1,127,885	851,603

36. GOVERNMENT GRANTS

An analysis of grants shown in the Cashflow Statement is shown below:

Grants	2008/09 (Restated) £000s	2009/10 £000s
AIDS & HIV	331	345
Area Based Grant	10,659	11,301
Asylum	2,263	1,960
Capital Ambition	4,023	8,293
Council Tax Benefit Subsidy	16,790	17,274
Drugs Intervention Programme	0	1,135
DSG	84,844	92,768
Education Standards Fund	17,531	16,815
Family and Learning Grant	0	1,822
Funding for 6th Forms	8,402	8,212
Housing	2,202	1,960
Housing Benefit Admin	2,537	2,785
Housing Subsidy	12,999	14,554
Joint Improvement Programme	0	38
Mental Health	0	143
NDC & SRB	4,544	3,767
NNDR Collection Allowance	485	0
Other Education Grants	3,605	4,607
Other Grants	2,529	2,730
Other Social Services Grants	2,198	2,266
Performance Reward Grant	2,171	2,661
PFI Credits	1,094	1,094
Regional Housing Capital Grant	0	2,822
Rent Allowances & Rent Rebates Subsidy	114,743	138,158
Supporting People	12,669	12,035
Surestart	5,650	6,372
Surface Transport & TfL	0	5,742
Transport Asset Management	0	50
Youth Offending Team	904	361
Total	313,173	362,072

Note 18 provides a breakdown of how the Council's Area Based Grant is made up.

37. RECONCILIATION OF THE DEFICIT ON THE INCOME AND EXPENDITURE ACCOUNT TO THE REVENUE ACTIVITIES NET CASHFLOW

	2008/09 (restated)		2009/10	
	£000s	£000s	£000s	£000s
Net Deficit on Income and Expenditure Account		18,674		66,743
Remove non cash transactions:				
Pensions	(15,105)		(18,465)	
Depreciation and Impairment	(22,526)		(61,205)	
Government Grants Deferred	6,844		6,871	
Revenue Expenditure funded from capital	(1,849)		(2,411)	
Transfer to MRA	(1,492)		(822)	
Provisions	10		628	
Other Adjustments	(2,115)		(326)	
Sub Total		(36,233)		(75,730)
Remove accrued items:				
Increase/(Decrease) in Debtors	19,281		(9,506)	
(Increase)/Decrease in Creditors	(10,526)		(17,450)	
Increase/(Decrease) in Stocks	34		(72)	
Sub Total		8,789		(27,028)
Items shown later In Cash Flow Statement		(9,820)		(14,816)
Net Cash Inflow from Revenue Activities		(18,590)		(50,831)

38. MOVEMENTS IN CASH AND CASH EQUIVALENTS

The actual 2009/10 movements in cash and cash equivalent balances are shown in the following table:

	Balance 1 April 2009 £000s	Balance 31 March 2010 £000s	Net Movement in Year £000s
Petty Cash Imprests	2,070	2,381	311
Cash Overdrawn	(30,750)	(14,230)	16,519
Education Establishments	11,794	12,577	783
Totals	(16,885)	728	17,613

39. RECONCILIATION OF ITEMS UNDER FINANCING AND MANAGEMENT OF LIQUID RESOURCES TO THE OPENING AND CLOSING BALANCE SHEETS

	Restated Balance 1 April 2009 £000s	Balance 31 March 2010 £000s	Net Movement in Year £000s
Short Term Investments	76,000	137,000	61,000
Other Liquid Investments	7,121	-30,248	-37,369
Total	83,121	106,752	23,631

40. RECONCILIATION OF THE MOVEMENT IN CASH TO THE MOVEMENT IN NET DEBT

	Note	Balance 31 March 2009 (Restated) £000s	Balance 31 March 2010 £000s
(Decrease)/Increase in cash for the period	22	(17,654)	17,614
Cash (inflow)/outflow from movement in debt financing		(9,795)	(76,871)
Cash (inflow)/outflow from movement in liquid resources		(28,654)	23,631
Movement in net debt in the period		(56,103)	(35,626)
Net debt at 1 April		(287,535)	(344,736)
Net Debt at 31 March		(344,736)	(382,590)
Movement in net debt in the period		(57,201)	(37,854)
Remove non cash items		(1,098)	(2,228)
Movement in net debt in the period		(56,103)	(35,626)

41. EVENTS AFTER THE BALANCE SHEET DATE

As at 29 June 2010 when the accounts were authorised for publication and audit by the Council's Audit Committee there were no material adjusting or non adjusting events after the balance sheet date to report.

42. AUTHORISED FOR ISSUE DATE

Under the Accounts and Audit Regulations 2003, on 17 June 2010, Jane West, Director of Finance and Corporate Services certified that this Statement of Accounts presents a 'true and fair view' of the financial position of the London Borough of Hammersmith and Fulham for the year 2009/10.

SUPPLEMENTARY FINANCIAL STATEMENTS

COLLECTION FUND ACCOUNT

HOUSING REVENUE ACCOUNT

PENSION FUND ACCOUNT

COLLECTION FUND ACCOUNT

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to precepting authorities and to the authority's own General Fund. The Collection Fund is consolidated into the accounts of the billing authority.

	Note	2008/09 £000s	2009/10 £000s
Income			
Income from Council Tax	1	(76,547)	(74,621)
Transfers from General Fund:			
Council Tax Benefit		(16,608)	(17,029)
Non-Domestic Rate Income		(115,170)	(159,293)
Total Income		(208,325)	(250,943)
Expenditure			
Precepts and Demands	3	92,363	90,795
Non-Domestic Rates			
Payment to National Pool	2	114,685	158,800
Cost of Collection		485	493
Bad and Doubtful Debts/Appeals			
- Write Offs		840	944
-Provisions		930	415
Distribution of previous year's Collection Fund Surplus		1,832	466
Total Expenditure		211,135	251,913
Change in Fund Balance in year		2,810	970
(Surplus)/Deficit as at 1 April		(2,298)	512
(Surplus)/Deficit as at 31 March		512	1,482

NOTES TO THE COLLECTION FUND ACCOUNT

1. INCOME FROM COUNCIL TAX

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2009/10 it was calculated as follows:

Band	Estimated Number of Taxable Properties after Discounts and Exemptions	Ratio to Band D	Band D Equivalent Dwellings
A	2,482	6/9	1,655
B	4,338	7/9	3,374
C	11,024	8/9	9,799
D	19,301	1	19,301
E	12,412	11/9	15,171
F	7,855	13/9	11,346
G	9,557	15/9	15,928
H	1,809	18/9	3,618
	68,778		80,192

2. NATIONAL NON-DOMESTIC RATES

NNDR is organised and administered on a national basis. The government specifies an amount (48.5 pence in the £ in 2009/10) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of the population.

The NNDR income (after reliefs and provisions) was £159.293 million for 2009/10 (£115.082 million for 2008/09). The rateable value at 31st March 2010 was £358.263 million (£291 million at 31st March 2009).

3. PRECEPTS AND DEMANDS

The Greater London Authority (GLA) levies a precept upon the Council's Collection Fund based upon the Council's tax base for the year. In addition, the Council's own requirement is charged to the Collection Fund and credited to the General Fund. The GLA precept includes elements for the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, Transport for London, the London Development Agency and the core GLA functions.

	2008/09 £000s	2009/10 £000s
London Borough of Hammersmith and Fulham	67,959	66,264
Greater London Authority	24,404	24,531
	92,363	90,795

4. COLLECTION FUND BALANCE

A proportion of the Collection Fund balance above is properly attributable to the Greater London Authority and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Only an element calculated pro rata to the precepts above therefore appears as a balance in the net worth section of the Balance with the remainder treated as a debtor.

	2008/09 £000s	2009/10 £000s
London Borough of Hammersmith and Fulham	371	1,078
Greater London Authority	141	404
	512	1,482

HOUSING REVENUE ACCOUNT

Housing Revenue Account 2009/10 Income and Expenditure Account

		2008/09	2009/10
Income	Notes	£000s	£000s
Dwelling Rents		(54,981)	(56,561)
Non Dwelling rents		(2,386)	(2,284)
Charges for Services and Facilities		(10,192)	(12,126)
Contributions towards expenditure		(551)	(554)
HRA Subsidy Receivable	7	(11,245)	(13,046)
Total Income		(79,356)	(84,571)
Expenditure			
Repairs, Maintenance & Management			
Repairs and Maintenance		16,830	14,765
General Management		26,309	28,952
Special Services		9,384	7,274
Rents Rates Taxes and other charges		1,504	1,383
Increase/(Decrease) in Provision for bad or doubtful debts		(261)	610
Depreciation and Impairment of Fixed Assets	6	14,140	22,525
Deferred Charges		0	216
Debt Management Expenses		120	125
Net cost of HRA Services included in the whole authority Income and Expenditure Account		(11,330)	(8,721)
HRA Services Share of Corporate and Democratic Core		497	497
Net Cost of HRA Services		(10,833)	(8,224)
HRA Share of the Operating Income and Expenditure included in the whole authority Income and Expenditure Account			
(Gain)/Loss on Disposal of HRA fixed assets		(4,558)	(1,088)
Interest payable and similar charges		19,252	20,543
Amortisation of Premiums and Discounts		860	707
Interest and Investment Income		(1,914)	(512)
Pensions Interest Costs and Expected Return on Pension Assets		382	396
Other Operating Income			(3,189)
Deficit for the Year		3,189	8,633

Statement of Movement on the Housing Revenue Account Balance

		2008/09	2009/10
		£000s	£000s
Deficit for the year on the HRA Income and Expenditure Account		3,189	8,633
Net additional amount required by statute to be debited/(credited) to the HRA balance for the year		1,884	(6,969)
Decrease in the Housing Revenue Account Balance for the year		5,073	1,664
Housing Revenue Account Balance Brought Forward		(9,977)	(4,905)
Housing Revenue Account Balance Carried Forward		(4,905)	(3,241)

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for housing provision. It shows the major elements of housing expenditure – management, maintenance, rent rebates, and capital financing costs and how these are met from rents, subsidy and other income. The account is required to be self-financing, and cannot be subsidised by the General Fund.

The HRA Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account, comprising amounts included in the whole authority Net Cost of Services for the HRA and the HRA's share of Operating Income and Expenditure such as Pensions Interest Costs and Expected Return on Pensions Assets.

The Statement of Movement on the Housing Revenue Account Balance shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

The Council has overall responsibility for managing the housing stock. The day to day management is carried out on behalf of the Council by Hammersmith and Fulham Homes. The average number of dwellings during 2009/10 was 13,074. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents; for this purpose three bed spaces equals one dwelling.

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2009	12,988	114	14	13,116
Adjust to opening balance	(41)	3	0	(38)
Sub-Total	12,947	117	14	13,078
Right to Buy Sales	(2)	0	0	(2)
Hostel Sales	0	(6)	0	(6)
Non Right to Buy	0	0	0	0
Number at 31 March 2010	12,945	111	14	13,070

2. STOCK VALUATION

The net Balance Sheet value of the land, houses and other assets within the HRA is as follows:

	1 April 2009 £000s	31 March 2010 £000s
Operational Assets		
Housing Dwellings	1,346,732	1,411,346
Other Land and Buildings	12,790	12,511
Non Operational Assets		
Other Land and Buildings	23,922	27,478
Vehicles, Plant, Equipment and Intangible Assets	1,324	1,098
Total	1,384,768	1,452,433

The open market, vacant possession value of hostels, houses and flats within the HRA as at 1 April 2009 was £3,247 million. This compares to the balance sheet value of £1,201 million for the Council's hostels, houses and flats as at 1 April 2009. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

3. MAJOR REPAIRS RESERVE

This reserve is credited with the depreciation charged to the HRA each year plus an adjustment to ensure the net credit in the year equals the Major Repairs Allowance which forms part of the overall Housing Subsidy arrangements. The reserve is only available for financing major repairs carried out to the housing stock. Any sums unspent are carried forward for use in future years.

	2008/09 £000s	2009/10 £000s
Balance as at 1 April	(30,862)	(30,673)
Depreciation Charges to HRA	(13,235)	(13,151)
Adjusting Transfer from HRA:		
Depreciation on Non-Dwellings	502	505
Excess / (Shortfall) of Depreciation on Dwellings over MRA	1,492	822
Funding of Capital Expenditure	11,430	22,865
Balance as at 31 March	(30,673)	(19,632)

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure, mainly on dwellings, amounted to £78.475 million (£72.787 million in 2008/09) in the year. The following summary shows how this was funded:

	2008/09 £000s	2009/10 £000s
Borrowing	59,741	51,195
Major Repairs Reserve	11,332	22,865
Other Grants and Contributions	1,714	448
Capital Receipts	0	3,967
Total	72,787	78,475

5. CAPITAL RECEIPTS

During the year the following capital receipts from disposals were received:

	2008/09 £000s	2009/10 £000s
Dwellings & Hostels	10,613	5,785
Total	10,613	5,785

6. DEPRECIATION AND IMPAIRMENT

The total charge for depreciation within the authority's HRA is shown below:

	2008/09 £000s	2009/10 £000s
Operational Assets		
Dwellings	12,733	12,646
Impairment	996	9,461
Other Land and Buildings	278	279
Non Operational Assets		
Other Land and Buildings	0	0
Vehicle, Plant, Equipment and Intangible Assets	224	226
Government Grants Deferred	(91)	(88)
Total	14,140	22,524

7. HRA SUBSIDY

The calculation of HRA subsidy for the year, in line with the subsidy determination is set out below:

	2008/09 £000s	2009/10 £000s
Allowance for Management	13,333	13,265
Allowance for Maintenance	20,369	20,186
Allowance for Major Repairs	11,241	11,824
Charges for Capital	23,104	23,596
Admissible Allowance	0	0
Other Items	1,204	1,148
Rent	(57,941)	(56,900)
Interest on Receipts	(72)	(47)
Anti Social Behaviour Allowance	0	0
Sub Total - Housing Element	11,238	13,072
Adjustment for Previous Year	7	(26)
Sub Total – Adjusted Housing Element	11,245	13,046
Rent Rebate Element	0	0
Total	11,245	13,046

8. RENT ARREARS AND BAD DEBT PROVISIONS

Gross rent arrears were as follows:

	1 April 2009 £000s	31 March 2010 £000s	Change £000s
Main Council Stock	3,392	3,435	43
Hostels	310	375	66
Total	3,702	3,810	109

Bad debt provisions at 31 March 2010 were:

	Total 2008/09 £000s	Ring-fenced (HRA) £000s	Total 2009/10 £000s
Main Council Stock	2,017	2,063	2,063
Hostels	300	359	359
Total	2,317	2,422	2,422

9. FRS17 RETIREMENT BENEFITS

The authority considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs, interest costs and expected return on assets. To ensure that there is no net effect on the HRA, these entries are reversed out and replaced by employers' contributions payable by means of an appropriation to the Pensions Reserve in the Statement of Movement on the HRA Balance (see Note 10).

Note 6 to the Core Financial Statements provides further details.

10. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2008/09 £000s	2009/10 £000s
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year		
Government Grants Deferred Amortisation	91	88
Gain/(Loss) on Sale of HRA Fixed Assets	4,558	1,088
Deferred Charges	0	(217)
HRA Share of Contributions (to)/from the Pensions Reserve	(294)	(276)
Impairment of Fixed Assets	(996)	(9,461)
Depreciation on non dwellings	(502)	(505)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable relating to premiums and discounts on early repayment of debt	465	77
Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Balance for the year		
Transfer to/(from) the Major Repairs Reserve	(1,492)	(822)
Capital Expenditure funded by the HRA	0	0
Net Transfers to/(from) Earmarked Reserves	54	3,059
Net additional amount required by statute to be debited/credited to the HRA Balance for the year	1,884	(6,969)

PENSION FUND ACCOUNTS 2009/2010

FUND ACCOUNT

	2008/2009		2009/2010	
	£000s	£000s	£000s	£000s
<u>Dealings with members, employers and others directly involved in the scheme</u>				
Contributions				
From Employers	23,577		24,425	
From Members	7,527	31,104	7,576	32,001
Individual Transfers In		1,961		3,267
Other Income		35		29
Benefits				
Pensions	(14,151)		(15,238)	
Pension Increases	(5,677)		(6,514)	
Lump Sum Retirement Benefits	(4,281)		(6,146)	
Lump Sum Death Benefits	(518)	(24,627)	(855)	(28,753)
Payments to and on account of leavers				
Individual Transfers Out		(3,345)		(4,985)
Refund of Contributions		(8)		(2)
State Scheme Premiums		(2)		2
Administration Expenses		(970)		(947)
Net Additions (Withdrawals) from dealings with members		4,148		612
<u>Returns on Investments</u>				
Investment Income		11,586		9,039
Taxation (Irrecoverable Withholding Tax)		(125)		(170)
Change in Market Value of Investments				
Realised		26,134		14,378

Unrealised		(78,962)		113,286
Investment Management Expenses		(2,355)		(3,702)
Net Returns on Investments		(43,722)		132,831
Net Increase (Decrease) in the Fund during the Year		(39,574)		133,443
Opening Net Assets of the Scheme		460,445		420,871
Closing Net Assets of the Scheme		420,871		554,314

NET ASSETS STATEMENT

	31 st March 2009	31 st March 2010
	£000s	£000s
Investment Assets		
Fixed Interest Securities – Public Sector	3,384	0
Fixed Interest Securities – Private Sector	6,884	0
Index Linked Securities – Public Sector	8,189	12,708
Index Linked Securities – Private Sector	116	0
Equities – UK	69,599	90,968
Equities – Overseas	108,275	155,973
Pooled Investment Vehicles		
Managed Funds – UK Fixed Interest	54,644	61,005
Managed Funds – UK Equities	28,871	56,232
Managed Funds – Overseas Equities	0	904
Managed Funds – Libor Plus 1 Fund	39,073	58,095
Managed Funds – Cash Fund	125	0
Managed Funds – Illiquid Strategies Fund of Funds	0	1,399
Managed Funds – Dynamic Asset Allocation Fund	79,841	102,112
Managed Funds – Real Return Fund	1,409	1,486
Managed Funds – Ruffer Baker Steel Gold Fund	1,469	1,768
Managed Funds – Private Equity	7,913	9,199
Cash Deposits	13,054	4,570
Other Investment Balances		
Amounts Outstanding on Sale of Investments	2,012	530
Investment Income Due	1,713	1,072
Investment Liabilities		
Amounts Outstanding on Purchase of Investments	(6,634)	(1,190)
Total Investment Assets	419,937	556,831

Current Assets		
Contributions due from Employers	273	209
Combined Benefits	34	31
Current Liabilities		
Cash Balances	1,780	(370)
Unpaid Benefits	(768)	(1,030)
Investment Management Expenses	(375)	(1,339)
Administration Expenses	(10)	(3)
Other	0	(15)
Total Assets	420,871	554,314

The objective of the fund's accounts is to provide information about the financial position of the fund. The accounts summarise the transactions of the fund and show the net assets of the fund at the end of the financial year. They do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial position of the fund, which does take account of such obligations, is set out in note 3 below.

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Pension Fund is a funded, defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted bodies in the fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The fund is financed by contributions from employees, the Council, the admitted bodies and from interest and dividends on the fund's investments. The benefits payable are based on an employee's final salary and the number of years of eligible service. Pensions are increased each year in line with the Retail Price Index.

The regulations governing the administration of the pension scheme and those regarding scheme benefits, membership and contributions are updated on a regular basis by central government. A revised scheme came in to effect from 1st April 2008.

The Council delegated the investment arrangements of the scheme to the Pensions Fund Investment Panel ("The Panel") who decided on the investment policy most suitable to meet the liabilities of the fund and have the ultimate responsibility for the investment policy. The Panel was made up of eight elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the Panel meetings but have no voting rights.

The Panel reported to the full Council and had full delegated authority to make investment decisions. The Panel obtains and considers advice from the Director of Finance and Corporate Services, and as necessary from the fund's appointed actuary, investment managers and advisor.

The Panel delegated the management of the fund's investments to professional investment managers, appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

At the 31st March 2010 there were 4,027 employees (4,297 at 31st March 2009) who were contributing to the scheme, 4,071 pensioners (3,903 at 31st March 2009) receiving benefits and 4,924 deferred pensioners (4,714 at 31st March 2009). A number of external bodies have been admitted to the Fund by admission agreements. Details of these admitted bodies are shown in notes 13 and 14 below.

2. ACCOUNTING POLICIES

(a) General Principles

The accounts have been prepared in accordance with the requirements of Section 2: Recommended Accounting Practice of the Pension SORP 2007 and the Code of Practice on Local Authority Accounting in the UK issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA"). The accounts have been prepared on an

accrual basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis.

(b) **Valuation of Investment Assets**

Quoted securities and pooled investment vehicles have been valued at the bid price at the balance sheet date. Quoted securities are valued by Northern Trust, the fund's custodian and Pooled Investment Vehicles at the bid prices quoted by their managers.

Where appropriate, market values and cash deposits listed in overseas currencies are converted into sterling at the rates of exchange ruling at the balance sheet date. Unquoted investments are valued at an approximation of their current market value having regard to fair value, latest dealings, professional valuations and other appropriate financial information.

There are no significant restrictions affecting the ability of the scheme to realise its investments at the accounting date or at the value at which they are included in the accounts apart from the investments in private equity which, by their nature, will be realised over a long period of time.

(c) **Investment Management Expenses**

The Panel appointed external investment managers to manage the investments of the Fund. These managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

3. STATEMENT OF ACTUARY

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith & Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997

Actuarial Position

Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.

The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date of £457.1m (£317.1m at 31 March 2004) covering 70% (66% at 31 March 2004) of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay. The shortfall in assets relative to the value of liabilities was £196.1m (£170.9m at 31 March 2004).

The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:

- 13.9% (13.1% at 31 March 2004) of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 8.3% (8.2% at 31 March 2004) of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report, and in particular allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme was put in place with effect from 1 April 2008. All existing members transferred to the new scheme as at that date.

The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008.

If the actuarial assumptions are borne out in practice, the rate of contribution for each Employer would continue at the 2010/11 level for the balance of the recovery period used for that Employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which will be carried out as at 31 March 2010. The result of the valuation will be known in late 2010.

The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

The main actuarial assumptions were as follows:

Discount rate for periods		
In service	Admitted Bodies	6.20% a year
	Scheduled Bodies	6.45% a year
Left service	Admitted Bodies:	5.20% a year
	Scheduled Bodies:	6.45% a year
Rate of general pay increases		4.70% a year
Rate of increases to pensions in payment		3.20% a year
Valuation of assets		market value

This statement has been prepared by the Actuary to the Fund at the 31st March 2007, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of the London Borough of Hammersmith & Fulham. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the London Borough of Hammersmith & Fulham, in respect of this statement.

4. MANAGEMENT OF INVESTMENTS

During 2007 the Panel, after advice from P-Solve, the Fund's advisor, agreed a new investment strategy consisting of having four main portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). Each portfolio represents approximately 25% of the total Fund.

The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk. The strategy was implemented during 2007/2008 and 2008/2009 and completed in early 2009/2010.

Within the four portfolios the Panel appointed external investment managers with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The UK Equity portfolio is managed by Majedie Asset Management, the Global (ex UK) portfolio by MFS International (UK) Ltd, the Dynamic Asset Allocation portfolio is split 75% to Baring Asset Management Ltd and 25% to Ruffer LLP and the Matching Fund is split equally between Goldman Sachs Asset Management and Legal and General Investment Management.

Additionally, the Panel agreed to invest up to £15 million in four private equity fund of funds. Two are managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two are managed by Unigestion which are invested almost entirely in Europe.

The market value and proportion of the investments managed by each fund manager at 31st March is as follows:

	31 st March 2009		31 st March 2010	
	MARKET VALUE £000s	TOTAL %	MARKET VALUE £000s	TOTAL %
Majedie Asset Management	96,107	22.9	143,787	25.8
MFS International	100,740	24.0	147,747	26.5
Baring Asset Management	79,841	19.0	102,112	18.3
Ruffer LLP	27,194	6.5	34,882	6.3
Goldman Sachs	52,630	12.5	58,099	10.4
Legal and General	54,778	13.0	61,006	11.0
Invesco Private Equity	4,682	1.1	5,201	0.9
Unigestion Private Equity	3,812	0.9	3,904	0.7
Barings English Growth Fund	153	0.1	93	0.1
	419,937	100.0	556,831	100.0

The Panel appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions.

5. FUND PERFORMANCE

Northern Trust is also employed to monitor the investment performance of the fund. Performance is measured on a financial year basis against a customised benchmark. Until 31st December 2008, the benchmark was calculated based on the split between Equities, UK Gilts, UK Index-Linked gilts and UK Corporate Bonds. From 1st January 2009, following the implementation of the new investment strategy, the benchmark was changed to more reflect the performance against the Fund's liabilities. The benchmark was defined as a portfolio of index-linked gilts with an average duration of 18 years in line with the Fund's liabilities with an outperformance target of the benchmark of 1.75% per annum.

The performance compared to the benchmark is as follows:

	2008/2009 %	2009/2010 %	3 Years % pa	5 Years % pa
Fund	-9.0	33.1	6.5	9.6
Benchmark + 1.75% per annum	-14.0	14.0	-1.5	4.4
Difference	5.0	19.1	8.0	5.2

6. INVESTMENT ASSETS - MOVEMENTS IN YEAR

The table below shows a reconciliation of the movement in the total investment assets of the fund for 2008/2009 and 2009/2010.

	2008/2009 £000s	2009/2010 £000s
Market Value of Investment Assets at 1st April	460,234	419,937
Movements in Year		
Purchase of Investments	317,353	176,563
Sale of Investments	(308,127)	(162,170)
Realised Profit/(Loss) on Sales	26,134	14,378
Unrealised Profit/(Loss) in Market Value	(78,962)	113,286
Change in Cash Deposits	7,724	(8,484)
Change in Debtors and Creditors	(4,419)	3,321
Market Value of Investment Assets At 31st March	<u>419,937</u>	<u>556,831</u>

The table below shows a reconciliation of the movement by major asset class of the fund in 2009/2010.

	Equities	Fixed Income	Pooled Investment Vehicles	Private Equity	Cash	Debtors & Creditors	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Value at 31st March 2009	<u>177,874</u>	<u>18,573</u>	<u>205,432</u>	<u>7,913</u>	<u>13,054</u>	<u>(2,909)</u>	<u>419,937</u>
Movements in Year							
Purchase of Investments	61,600	13,405	100,454	1,104			176,563
Sale of Investments	(68,000)	(19,830)	(74,339)	(1)			(162,170)
Realised Profit/(Loss) on Sales	9,527	(1,464)	6,315				14,378
Unrealised Profit/(Loss) in Market Value	65,939	2,023	45,140	184			113,286
Change in Cash Deposits					(8,484)		(8,484)
Change in Debtors and Creditors						3,321	3,321
Value at 31st March 2010	<u>246,940</u>	<u>12,707</u>	<u>283,002</u>	<u>9,200</u>	<u>4,570</u>	<u>412</u>	<u>556,831</u>

The total amount of direct transaction costs incurred in the purchase and sale of investments in 2009/2010 was £350,122 (£511,736 in 2008/2009).

7. INVESTMENT ASSETS (All investments are quoted unless stated)

	<u>31st March 2009</u>		<u>31st March 2010</u>	
	£'000	£'000	£'000	£'000
United Kingdom				
Fixed Interest – Private Sector		6,175		0
Index Linked Securities – Public Sector		4,243		4,885
Index Linked Securities – Private Sector		116		0
Equities		69,599		90,968
Pooled Investment Vehicles				
Managed Funds – Majedie UK Equity Funds	28,871		56,232	
Managed Fund - Corporate Bonds – Over 10 years	10,436		0	
Managed Fund – L & G 2055 Index Linked Gilt	0		61,005	
Managed Fund - Over 5 years Index Linked Gilt	44,208		0	
Managed Fund – Ruffer Real Return Fund	1,409		1,486	
Managed Fund – Goldman Sachs Libor Plus 1 Fund	39,073		58,095	
Managed Fund – Baring Dynamic Asset Allocation Fund	79,841		102,112	
Managed Fund - Ruffer Illiquid Fund of Funds	0		1,399	
Managed Fund - Money Market Cash Fund	125		0	
Managed Fund - Ruffer Baker Steel Gold Fund	1,469	205,432	1,768	282,097
Managed Fund – Private Equity (Unquoted)		154		93
Total United Kingdom		285,719		378,043
Overseas				
Fixed Interest – Public Sector		3,384		0
Fixed Interest – Private Sector		708		0
Index Linked Securities – Public Sector		3,947		7,823
Equities				
North America	47,272		73,016	
Japan	12,279		14,335	
Europe (ex UK)	45,388		64,751	

Pacific Basin	3,034		3,148	
Other	302	108,275	723	155,973
Pooled Investment Vehicles				
Managed Fund - Ruffer Japanese Fund		0		904
Managed Funds – Private Equity (Unquoted)				
Invesco - North America	4,371		5,199	
Unigestion - Europe	3,388	7,759	3,907	9,106
Total Overseas		124,073		173,806
Cash Deposits		13,054		4,570
Other Investment Balances				
Amounts outstanding on Sale of Investments		2,012		530
Amounts outstanding on Purchase of Investments		(6,634)		(1,190)
Investment Income Due		1,713		1,072
Total Value of Investments		419,937		556,831

8. INVESTMENT INCOME

The table below shows a breakdown of the investment income for the year.

	2008/2009 £000s	2009/2010 £000s
Income from Fixed Interest Securities	3,022	124
Dividends from Equities	6,846	7,876
Income from Index-Linked Securities	324	173
Interest on Cash Deposits	340	148
Currency profit/(loss)	14	671
Derivatives Income	235	0
Other	805	47
Total	11,586	9,039

9. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2010, the fund had a commitment to invest a further £8.3million in the four private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next five years.

10. RELATED PARTIES

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 to the Pension Fund Accounts. In accordance with the regulations the Council's expenses in administering the scheme are charged to the Fund. The amount charged by the Council for 2009/2010 was £861,449.

During 2009/2010 any surplus pension fund monies as a result of the day to day administration of the fund were invested internally with the Council. The pension fund received £13,552 in interest from the Council during 2009/2010 on the internally invested cash. At 31st March 2010 the pension fund owed the Council £369,627.

Some of the elected representatives and senior officers of the Council who attended the Pensions Fund Investment Panel were members of the Pension Fund and made contributions to the fund in accordance with the regulations. No other material transactions with related parties of the fund during 2009/2010 were identified

11. STOCK LENDING AGREEMENTS

We do not participate in stock lending or underwriting.

12. STATEMENT OF INVESTMENT PRINCIPLES

The Panel approved a Statement of Investment Principles on 16th March 2010 and this is available in the Pension Fund Annual Report on the Council's Internet site. The Statement shows the Authority's compliance with the Myner's principles of investment management.

13. CONTRIBUTIONS RECEIVABLE

From 1st April 2008 a new scheme came in to effect and employee's contributions are now calculated on a sliding scale based on a percentage of their gross pay.

The Council, scheduled and admitted bodies are required to make balancing contributions determined by the fund's actuary to maintain the solvency of the fund.

The table below shows a breakdown of the total amount of employers' and employees' contributions made during the year by the Council and each admitted body.

	Employers' 2008/09 £000s	Employers' 2009/10 £000s	Employees' 2008/09 £000s	Employees' 2009/10 £000s
LB Hammersmith and Fulham	19,624	20,241	6,036	6,039
H & F Homes	1,508	1,485	677	666
LBHF Councillors	49	60	13	15
Mortlake Crematorium Board	57	59	15	15
London Oratory School	75	90	42	40
Burlington Danes Academy	82	109	38	50
F M Conway Ltd	0	86	0	26
Urban Partnership Group	58	69	17	19
H&F Community Law Centre	32	27	12	8
Family Mosaic	218	148	69	44
Disabilities Trust	5	5	1	1
Thames Reach	0	12	0	4
Medequip Assistive	21	14	7	3

Technology				
Eden Food Service	0	110	0	35
Family Mosaic Supporting People	0	15	0	6
Glencross Cleaning Ltd	2	3	2	2
Inspace Partnerships Ltd	82	62	21	18
H & F Bridge Partnership	588	486	255	205
Keir	156	146	40	43
Keir – Non HR Contract	0	4	0	1
P H Jones Ltd	4	6	2	2
Irish Cultural Centre	13	6	3	1
Quadron	220	259	56	67
Serco	725	737	203	209
Tendis	17	25	5	7
Turners	41	161	13	50
GRAND TOTALS	23,577	24,425	7,527	7,576

14. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2009/2010.

	2008/2009 Pensions	2009/2010 Pensions	2008/2009 Pension Increases	2009/2010 Pension Increases
	£000s	£000s	£000s	£000s
LB Hammersmith and Fulham	13,591	14,388	5,626	6,423
H & F Homes	336	505	33	62
Mortlake Crematorium Board	23	21	4	5
H&F Community Law Centre	10	10	2	2
H&F Police Consultative Group	5	5	1	1
ROOM the National Council	5	5	1	1
Family Mosaic	86	86	7	13
Greenwich Leisure Ltd	2	2		
Blythe Neighbourhood Council	1	1		1
Inspace Partnerships Ltd	21	36	1	1
Turners	0	2		
Urban Partnership Group	0	2		
H & F Bridge Partnership	61	148	2	5
Quadron	5	11		
Serco	5	16		
GRAND TOTALS	14,151	15,238	5,677	6,514

	2008/2009 Lump Sum Retirement Benefits	2009/2010 Lump Sum Retirement Benefits	2008/2009 Lump Sum Death Benefits	2009/2010 Lump Sum Death Benefits
	£000s	£000s	£000s	£000s
LB Hammersmith and Fulham	3,607	4,430	467	614
H & F Homes	276	1,282	51	241
Mortlake Crematorium Board	7	8		
Burlington Danes Academy		6		
Family Mosaic	66	17		
Inspace Partnerships Ltd	78	64		
H & F Bridge Partnership	171	240		
Keir		4		
P H Jones		41		
Quadron	31			
Turners		37		
Urban Partnership Group		17		
Serco	45			
GRAND TOTALS	4,281	6,146	518	855

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although no employees are currently contributing to the Equitable Life scheme except for death-in-service cover.

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts. The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC providers.

16. POST BALANCE SHEET EVENTS

At the 31st May 2010 the market value of the investments of the Fund had decreased to approximately £537.84 million. This was due to the fall in global stock markets since the date of the balance sheet.

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

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

The Council has an approved and adopted code of corporate governance embedded in its Financial Regulations, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the code and Financial Regulations is contained in the Councils constitution and is available on the Council website. This statement explains how Hammersmith & Fulham Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) [England] Regulations 2006 in relation to the publication of a statement of internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31st March 2010 and up to the date of approval of the annual report and statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the authority’s governance arrangements are:

- ◆ Identifying and communicating the authority’s vision of its purpose and intended outcomes for citizens and service users

The Council approves its objectives and strategy through its executive (known as the Cabinet and through decisions of the full Council in respect of certain defined matters such as the Council's budget. The meetings are open to the public except where personal, confidential or exempt matters (within a limited number of categories set out in legislation) are being discussed.

The principal publicly available documents setting out the Council's key objectives are the Borough's Community Strategy, the Council's Corporate Plan, and the Borough's Local Area Agreement and these can be accessed via the Council website.

- ◆ reviewing the authority's vision and its implications for the authority's governance arrangements

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements are presented to the Executive Management Team Cabinet, and Full Council for approval as required.

- ◆ measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

The authority continues to produce a range of national and operational performance indicators. These are reported to senior management as well as appropriate Member committees for review, which makes the information available to the general public.

- ◆ defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and cabinet members, chief officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). Key decisions are set out in a Forward Plan and decisions are taken in public unless certain statutory 'exempt' subject matter is being discussed. Decisions, which are not classified as key, are taken either by Cabinet members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the relevant cabinet member. Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a committee that reflects the political balance of the council or officers as set out in the constitution.

Policies other than those decided by the full Council under the Budget and Policy Framework are decided by the Cabinet. The Cabinet is responsible for all executive functions. Non-executive functions which are set out in regulations must be dealt with by committees of members or individual officers e.g. planning applications.

- ◆ developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members (a national code, overseen by the Standards Board for England and the Council's own Standards Committee) and various additional local protocols governing Members and officers.

The Council has an approved Anti-Fraud and Corruption Strategy that incorporates a Code of Conduct for Members and Officers. The strategy incorporates appropriate reporting procedures. Staff are provided with a copy of the officers' code of conduct upon taking up post with the council. Standards of conduct of councillors are overseen by the Standards Committee.

- ◆ reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Standing Orders and Standing Financial Instructions form part of the Constitution. As such they are reviewed and approved annually. There is a framework of regular financial management information and reporting to all levels of management and to Members. In addition there are Financial Regulations and financial procedures in place, which are regularly reviewed, including the Contracts Standing Orders and a structure of Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.

- ◆ undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Council has an established Audit Committee for the purposes of approving its accounts and considering audit and risk management matters generally. Its terms of reference form part of the Council's overall constitution. These are fully compliant with the CIPFA guidance.

- ◆ ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Regular reports are produced by the authority in compliance with current initiatives and external requirements e.g. reporting on statutory Performance Indicators.

Services are delivered by suitably experienced staff. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation. There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control. The Internal Audit Service has been subject to an independent annual review since financial year 2006/7.

All Cabinet reports are cleared by the Head of Legal Services and by the Director of Finance & Corporate Services. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

The Council has an established Standards Committee. The Standards Committee comprises 10 members (5 Councilor members and 5 independent persons drawn from outside the Council). The Committee will always be chaired by one of the independent members, and oversee the Council's ethical framework of codes and processes designed to ensure policy probity and high standards of conduct in respect of councillors. This committee meets regularly.

- ◆ whistle-blowing and for receiving and investigating complaints from the public

The Council has a whistle blowing (confidential reporting) procedure in place and this has been communicated to all staff via the corporate Intranet.

Complaints procedures are clearly signposted on the Council's internet site. This 3 step protocol is managed by the Corporate Complaints Officer based in the Finance and Corporate Services Department.

The Council also has a Monitoring Officer whose role and responsibilities are clearly defined in legislation and in the Council's constitution. This officer is ably supported by the authority's Legal Services Division.

- ◆ identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

All members are offered training on the members' code of conduct and must sign a declaration that they will be bound by it. Members who are to sit on the planning and licensing committees are required to undertake specialist training before they are allowed to sit. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit Committee receives training before each of its meetings. The Leader undertakes appraisal meetings with cabinet Members and Chief Officers annually from which additional training programmes may arise.

- ◆ establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Many forms of consultation take place across council policy and budget and council tax setting and from the compilation of the Community Strategy and Corporate Plan. The Council also uses a web based consultation package, Citizen Space, available through the Council's Internet. Added to these are the public forums for local issues such as the third Heathrow runway, Building Schools for the Future, tackling crime and the Leader Listens. Each year a Borough Residents Survey takes place that acts as a test of satisfaction in relation to the council's overall performance. The Council also produces its own newspaper distributed to residents called H & F News and performance and finance related material is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

- ◆ incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements

In its wider community leadership role, the Council established the Borough Partnership. This is now accredited as a Local Strategic Partnership (LSP), by the DCLG and Government Office of London. It is responsible for overseeing and updating the local community strategy, as a 10 year strategic vision for the area. The Borough Partnership has established a local public services board, to prepare and deliver the Local Area Agreement for Hammersmith and Fulham. Where services are delivered through significant partners such as the Primary Care Trust, H & F Bridge Partnership for Information and communication technology, or H & F Homes for Housing services, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

The Council's Group Accounts include two other organisations that have a material impact on the accounts. These are H and F Homes Ltd and H and F Bridge Partnership Ltd. Their governance arrangements are outlined below.

H and F Homes

For H and F Homes the Board of Directors acknowledges its responsibility to establish and maintain systems of internal financial control. These include having formal policies and procedures in place relating to financial systems and letting of contracts, plus formal delegation of authorities. The Company has experienced and suitably qualified staff to take responsibility for important business functions supported by annual development review procedures. There is a risk management framework that is reviewed by the Chief Executive and the Executive team, plus internal audit and external audit services who report to the Company's Finance, Audit and Risk Committee which has the responsibilities of an audit committee. Forecasts and budgets are prepared that are then monitored by the Board of Directors and management, plus regular management accounts are prepared. All significant new initiatives, major commitments, and investment projects are subject to formal authorisation by the Board of Directors and officers of the Company. A full range of insurance including Fidelity Guarantee has been put in place to safeguard assets.

H and F Bridge Partnership

For H and F Bridge Partnership the Board is responsible for the effectiveness of the system of internal control and has established a continuous process for identifying, evaluating, and managing significant risks. Key business issues and risks are reviewed weekly by the Operations Executive and monthly by the Board. Where areas of improvement are brought to the Board's attention, steps are taken to embed internal control and risk management into the operations of the business. Objectives are captured in regular reviews of corporate strategy carried out by the executive directors with the involvement of senior managers and reported to the Board. The reviews of corporate strategy form the basis for establishing business objectives which are then fully reflected in business strategies and financial objectives. Key policies, processes and control procedures are communicated throughout the organisation. Non-compliance is reviewed and any weaknesses identified and addressed promptly by the Board. Continuing actions are taken throughout the year to embed risk management and internal control in day to day operations. Authorisations and approvals are a key area of

focus and significant investment has been made in work flow systems. Third party spend is significant. To minimise fraud risk and ensure necessary approvals are obtained all third party spend is controlled through the Agilisys Procurement Tool (APT) which is a web-based tool routing procurement requests automatically to appropriate managers and directors using a centrally set matrix of approved limits. It is policy to continue to strengthen the effectiveness of the system of internal control by recruiting, developing and managing employees of the highest calibre and matching their skills to the appropriate disciplines.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. A review of the main elements of the Council's entire governance framework has been completed and no significant issues found which is to be reported to the Council's Executive Management Team.

Control Assurances and Group Accounts

The Council has reviewed in detail the control assurances across the authority and of its significant partners and advice on the implications of the result of the review of the effectiveness of the Internal Control environment to the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place. Assurances have been sought of entities that form part of the Group Accounts and these have been included as part of this review. Matters pertaining to H & F Homes and H & F Bridge Partnership in which the council has an interest are disclosed as part of the following list. In completing this review the following governance issues were identified:

1. Budget Estimation

Corporate Capital and Revenue monitoring identified variances to budgets during the 2009/10 year. These were brought to the attention of the council's Financial Strategy Board as part of the standard monitoring process. Consequently departmental procedures have been strengthened through more explicit standard setting by Corporate Finance complimented with written guidance. Financial Regulations were updated and republished in 2009. An Internal Audit review of the process will be undertaken during the 2010/11 year to gain an assurance on the effectiveness of the process improvements.

2. Reconciliation of financial systems

The Council has progressed well in redeveloping financial systems and processes over the past few years and acknowledges the project to move towards World Class Financial Management. However there are outstanding recommendations from External Audit relating to reconciliations that remain to be fully resolved.

3. Business Continuity IT

A paper has been submitted to Cabinet, and approved, recommending the implementation of a Business Continuity project to increase IT resilience. This will take some time to complete however it is anticipated that once in place arrangements should prove robust in the event of an IT service interruption.


4. Frameworki

Control issues emerging from the use of the Frameworki system were reported to Cabinet and the position updated in January 2010. Supporting Social Workers is key to safeguarding clients and the system has provided a number of challenges in what is a very complex case recording system. There is a good multi working arrangement across agencies that contribute to mitigating the risks plus developments made throughout the year to improve control with more planned improvements, these actions are sufficient to resolve this as a significant control issue.

5. Contract Management of Consultants

The Audit Committee has received a report that identifies a number of weaknesses in managing these contracts that need to be addressed. The corporate Procurement team are leading a piece of work across departments to strengthen the management of consultants and the area will be re-audited in the 2010/11 audit programme.

The Council propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:..........

Chief Executive

Signed:..........

Leading Member

On behalf of Hammersmith & Fulham Council

GLOSSARY OF FINANCIAL TERMS

ACCOUNTING PERIOD

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1st April to 31st March.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in financial statements.

ACCOUNTING STANDARDS

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Act of Parliament and in professional codes and statements of recommended practice.

ACCRUALS

An accounting principle where income and expenditure are taken into account in the year in which they are earned or incurred, rather than when monies are received and/or invoices are actually paid.

ACQUISITIONS

The Council spends funds from the capital programme to buy assets such as land and buildings.

ACTUARIAL VALUATION

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

AGENCY SERVICES

Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

ARMS LENGTH MANAGEMENT ORGANISATIONS (ALMOs)

An ALMO is a not-for-profit housing management company that is wholly owned and controlled by a local authority – Hammersmith & Fulham Homes (HFH). The aim of an ALMO is to ensure that Councils invest their housing resources efficiently, economically and strategically to provide 'Decent Homes' for tenants.

APPROPRIATION

The transfer of ownership of an asset, from one Service Area to another at an agreed (usually market or outstanding debt) value.

ASSET REGISTER

A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

AUDIT COMMISSION

The body responsible for the appointment of external auditors to local authorities, coordinating audits throughout the country, setting standards and monitoring performance.

BALANCES

The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. They comprise of the General Fund balance, the Collection Fund balance, the Housing Revenue Account balance and the Education Establishment Account balance.

BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

BVACOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the SORP), by establishing practice for consistent reporting. It provides guidance in three key areas:

- The definition of total cost
- Good Practice Guidance
- Service expenditure analysis

CAPITAL EXPENDITURE

Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

CAPITAL FINANCING

This term describes the method of financing capital expenditure, the principal methods now being loan financing, leasing, capital receipts and Capital Resource Funds.

CAPITAL FINANCING REQUIREMENT

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CAPITAL RECEIPTS

Monies received from the sale of the Council's assets such as land and buildings. These receipts are used to pay for additional capital expenditure.

COLLECTION FUND

The Collection Fund is a separate account kept by every billing authority into which Council Tax and Business rates are paid.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITIES

Possible losses that arise from past events which will only be confirmed by one or more uncertain future events not wholly within the council's control.

CREDITORS

Sums owed by the Authority for goods and/or services received, but for which payment has not been made by the end of the accounting period.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

DEBTORS

Sums due to the Authority but not received by the end of the accounting period.

DEFERRED CREDITS

This is the term applied to deferred capital receipts and represents capital income still to be received. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

DEFERRED LIABILITIES

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. The main example of this is outstanding finance lease obligations.

DEPRECIATION

A provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to service revenue accounts.

EARMARKED RESERVES

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

FINANCE & OPERATING LEASES

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FIXED ASSETS

These are tangible and intangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

GENERAL FUND

The council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

HISTORIC COST

The actual cost of an asset in terms of past consideration as opposed to its current value.

HOUSING REVENUE ACCOUNT

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

HOUSING SUBSIDY

The grant payable by central government to local authorities to subsidise the cost of providing Council housing and the management and maintenance of that housing. The grant is paid into the Housing Revenue Account.

LEVIES

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by a continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities will be required to produce “shadow” accounts for 2009/10 using IFRS and will be required to produce full accounts in 2010/11 using IFRS.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm’s length.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount that the Council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

NATIONAL NON-DOMESTIC RATE (NNDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Inland Revenue multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of relevant population.

NET REALISABLE VALUE

The open market value of the asset less the expenses to be incurred in realising the asset.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility of for the service or strategic objectives of the authority.

OUTTURN

Actual income and expenditure in a financial year.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 1st April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

POST BALANCE SHEET EVENTS

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

PROVISIONS

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified. FRS 12 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC WORKS LOAN BOARD (PWLB)

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

RESERVES

The amounts held by way of balances and funds that are free from specific liabilities or commitments. The council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, RSG, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REFCUS

Revenue Expenditure funded from Capital under Statute.

REVENUE SUPPORT GRANT (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and Council Tax. Revenue Support Grant is distributed as part of Formula Grant.

RIGHT TO BUY

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

STOCKS

The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE

This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

WRITE-OFFS

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted