



London Borough of Hammersmith & Fulham

Audit and Pensions Committee

Agenda

WEDNESDAY 22 SEPTEMBER 2010

7.00 pm

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

Administration:	Opposition	Co-opted Member
Councillor Michael Adam (Chairman) Councillor Nicholas Botterill Councillor Marcus Ginn Councillor Robert Iggulden	Councillor Michael Cartwright Councillor PJ Murphy	Eugenie White

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Members of the Public are welcome to attend.

Issue Date: 13 September 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 29TH JUNE 2010	1 - 9
<p>(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Pension and Audit Committee held on the 29th June 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. PENSION VALUE AND INVESTMENT PERFORMANCE	10 - 28
<p>This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30th June 2010.</p>	
5. REBALANCING THE INVESTMENT STRATEGY	29 - 33
<p>This report prepared by P-Solve, discusses possible ways of regularly rebalancing the investment strategy.</p>	

6.	MATCHING FUND STRATEGY	34 - 45
	This report prepared by P-Solve, reviews the Matching Fund Strategy and the Legal & General investment mandate.	
7.	CIPFA NEW KNOWLEDGE AND SKILLS FRAMEWORK	46 - 57
	This report sets out the Knowledge and Skills Framework developed by CIPFA.	
8.	TREASURY MANAGEMENT OUTTURN REPORT	58 - 64
	This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31 st March 2010.	
9.	ANNUAL GOVERNANCE REPORTS 2009/10 – STATEMENT OF ACCOUNTS & PENSION FUND	65 - 257
	This report provides an overview of the issues arising from the audit of the Council's annual Statement of Accounts for 2009/10, prior to the publication of the Audit Commission's formal opinion on those accounts.	
	The covering report sets out the Council's response to the Audit Commission's Annual Governance Reports 2009/10, which is attached, along with the revised Statement of Accounts for approval.	
10.	AUDIT COMMISSION RECOMMENDATIONS UPDATE	258 - 261
	This report updates the Committee on progress towards meeting Audit Commission recommendations	
11.	ANNUAL GOVERNANCE STATEMENT 2010 ACTION PLAN	262 - 265
	This report presents an update to the action plan arising from the 2010 Annual Governance Statement.	
12.	CORPORATE ANTI-FRAUD SERVICE Q1 PROGRESS REPORT	266 - 279
	This is the first quarter report on the progress made in delivering the 2010-11 year service plans; key results of the work undertaken; and the performance achieved.	
13.	COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- OPEN ASPECTS	280 - 303
	This report updates the Committee of the risks, controls, assurances and management action orientated to manage organisational level risks.	
	A separate report on the exempt part of the agenda contains the exempt appendix 2.	

**14. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1
APRIL TO 30 JUNE 2010**

304 - 396

This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2010, as well as reporting on the performance of the Internal Audit service.

15. 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 paragraph 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.

16. EMERGING MARKETS (E)

**17. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- EXEMPT
ASPECTS (E)**

London Borough of Hammersmith & Fulham



Audit and Pensions Committee Minutes

Tuesday 29 June 2010

PRESENT

Committee members: Councillors Michael Adam (Chairman), Michael Cartwright (Vice-Chairman), Nicholas Botterill, Marcus Ginn, Robert Iggulden, and PJ Murphy

Co-opted Member: Mrs Eugenie White

Other Attendees:

Henry Ubovu, Unison representative

Jon Hayes, District Auditor

Julian McGowan, Audit Manager, Audit Commission

Simon Jones and Helen Smith, P-Solve

Officers:

Jane West, Director of Finance and Corporate Services

Jim Mearns, Interim Deputy Director of Finance

Pat Gough, Assistant Director of Finance

Gary Hannaway, Assistant Director of Finance

Geoff Drake, Chief Internal Auditor

Kelly Gooch, Head of Finance- Residents Services

Jill Lecznar, Corporate Accountancy Services Manager

Bob Pearce, Group Accountant (Technical)

Michael Sloniowski, Principal Risk Consultant

Owen Rees, Assistant Committee Coordinator

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

RESOLVED THAT

- (i) The minutes of the Audit Committee held on the 23rd March 2010 and the Pension Fund Investment Panel held on the 16th March 2010 agreed as true and accurate, and;
- (ii) The outstanding actions be noted.

2. APOLOGIES FOR ABSENCE

There were none.

3. DECLARATIONS OF INTEREST

Councillor Michael Cartwright and Councillor PJ Murphy declared an interest in respect of all relevant items as members of the Hammersmith and Fulham Pension Fund. As the interest was personal but not prejudicial, they remained in the meeting during the debate on all items.

4. MEMBERSHIP AND TERMS OF REFERENCE

Councillor Cartwright and Councillor Murphy said that they opposed the appointment of Mrs. Eugenie White as a co-opted member. Councillor Cartwright said that the Opposition had opposed the merger of the Pension Fund Panel and Audit Committee, and did not believe that a co-opted member was appropriate to the Committee's audit functions. He also questioned the value for money of appointing a co-opted member, given that an allowance was payable.

Councillor Murphy also expressed his concern about cost, and questioned whether further specialist advice was needed. He also expressed concerns about the way that the co-opted member had been selected, given her status as a former Councillor.

Councillor Botterill said that the authority had a tradition of appointing co-opted members to committees where it was felt that they could add value. He said that Eugenie White's contribution to the work of the Pension Fund Panel had been highly valuable, and good grounds for her co-option to the new Committee.

Henry Obuvu, Unison Representative, said that he was concerned that there was no nameplate for him and no mention of him on the agenda.

Owen Rees, Committee Coordinator, said that any change from previous practice at the Pension Fund Panel was unintentional and would be rectified for the Committee's next meeting.

RESOLVED

- (i) That the terms of reference be noted, and that;
- (ii) Mrs Eugenie White be co-opted as an independent non-voting member.

Resolution (ii) was subject to a vote, the results of which are as follows

FOR 4
AGAINST 2

Councillor Cartwright moved, that under provision 16 (d) of the Part 4 of the Council's constitution, the vote be recorded. The voting was as follows

FOR: Councillors Adam, Botterill, Ginn and Iggulden.
AGAINST: Councillors Cartwright and Murphy.

5. WORMWOOD SCRUBS CHARITABLE TRUST ACCOUNTS 2009/10

Gary Hannaway, Assistant Director of Residents Services, presented the report, which had been moved forward from its position on the agenda.

Councillor Iggulden asked what the mechanism for agreeing the contribution to the Linford Christie Stadium was. Councillor Botterill said that the Cabinet Member had effective sign-off on how the Trust's expenditure was apportioned.

RESOLVED THAT

- (i) The Wormwood Scrubs Charitable Trust's 2009/10 statement of accounts and Trustee's report be approved, subject to any changes that may emerge from the audit of the accounts, and;
- (ii) That a contribution of £115, 500 towards running costs at the Linford Christie Stadium be agreed.

6. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith and Simon Jones, P-Solve, introduced the report, which set out the performance of the Council's Pension Fund in the quarter ending 31st March 2010. Helen Smith explained the structure of the report, and the way in which it reflected the overall strategy for the fund, and the performance of the four different elements within it.

Councillor Botterill asked whether the element of the fund mandated to Legal and General could be considered to be underperforming. Simon Jones said that the original planned hedging strategy had not been fully implemented, as the cost of implementation had risen to be prohibitively high; what had been put in its place was largely a passive holding in long-term gilts. The position was under assessment, and a more detailed evaluation would be available by the next meeting of the Committee.

Councillor Cartwright asked to what extent the Pension Fund was exposed to the consequences of the BP leak in the Gulf of Mexico. Bob Pearce, Group Accountant (Technical), said that the Fund's exposure had been fractional, with only Majedie having a large holding. Of this, they had sold a large proportion on the day of the explosion

Councillor Murphy asked whether the Fund had any potential exposure to the legal problems faced by Goldman Sachs. Simon Jones said that funds such as the Council's were held in a different organisation to those of Goldman Sachs' proprietary trading business, meaning that they were protected from the kind of exposure described.

In response to a question from Eugenie White about inflation expectations in the Matching Fund, Simon Jones said that while short-term inflation expectations might be higher, the longer term- expressed as forty to fifty years- was more stable.

Committee Members asked what were the triggers for corrective action in rebalancing the fund into 25 percent holdings, should one element outperform or underperform the rest. Simon Jones said that around ten percent of the target amount allocated (or 2.5 percent of the fund) would be an appropriate trigger. He said that P-Solve and officers would discuss and report to the Committee's next meeting on how such triggers might be introduced. Bob Pearce noted that the current market volatility made ensuring an even split more difficult.

With regard to strategy for emerging market equities, Simon Jones said that there had been changes at MFS who held the Fund's mandate in that area. P-Solve were scheduled to meet with the new fund manager at MFS dealing with Global Growth Strategy, and would be able to report outcomes to the September meeting of the Committee.

Eugenie White said that the inception dates for the Barings and Ruffer's mandates needed to be corrected.

RESOLVED THAT

The report be noted.

7. EXTERNAL AUDIT PROGRESS REPORT

Julian McGowan, Audit Manager, Audit Commission, introduced the report, which set out the work undertaken by the Audit Commission as the Council's external auditors since the last meeting of the Audit Committee. He noted that, in the light of the abolition of the Comprehensive Area Assessment, the Use Of Resources assessment had not been produced, as was normal for the time of year.

Councillor Iggulden drew attention to the Audit Commission's recent publication on severance payments to Council Chief Executives and asked how and what severance packages the Council gave. Jane West, Director of Finance and Corporate Services, said that the terms offered to staff being made redundant or offered early retirement were subject to review by the Adjudication Panel, which she chaired under delegated powers. She said that she was not aware of any unusual severance packages awarded recently and that the Council did not have a policy of offering additional years for pensions, offering early retirement only where the rules allowed; she agreed to report to the next Committee on what packages had been offered, with anonymity preserved where necessary for Data Protection reasons.

RESOLVED THAT

The report be noted.

8. 2010/11 EXTERNAL AUDIT FEE LETTERS

Jon Hayes, District Auditor, Audit Commission, introduced the report, which set out the fees to be levied for the 2010/11 external audit of the Council's accounts and pension fund accounts. He said that further work was needed to ascertain the impact of the abolition of the Comprehensive Area Assessment, together with whatever was to replace it, before the final fee was set.

In response to a question from the Chairman regarding the baseline level of fee, Jon Hayes said that the Council was now producing better quality information and this was reducing the time spent on the audit. In response to a further question regarding the pension fund fee, Jon Hayes said that when separate audits were introduced, the accounts audit fee had been reduced to reflect the separate pension fund audit fee.

Councillor Murphy asked what had caused the improvement in the material supplied by the Council, and whether the reduced amount of work needed by the auditor reflected an increased amount of work and cost for the Council. Jon Hayes said that the improvement was common across London councils, with the fall in costs typical. Jane West, Director of Finance and Corporate Services, said that there had been no increase in staffing resource, but that the new finance system, introduced during the period under discussion, required considerably less human intervention to accurately produce the information required by the auditors.

RESOLVED THAT

The report be noted.

9. AUDIT COMMISSION RECOMMENDATIONS UPDATE

Councillor Iggulden asked for an update on Recommendation 10 on Payroll and Recommendation 9 on New Deals for Communities, both of which were past their target

date for implementation. Geoff Drake, Chief Internal Auditor, said that he would write to the Committee, giving an update on both items.

RESOLVED THAT

The report was noted

10. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS FOR 2009/10

Jim Mearns, Interim Deputy Director of Finance, introduced the report, which set out the draft 2009/10 accounts for the London Borough of Hammersmith and Fulham, including the Pension Fund accounts. He said that, following the training session held with the Committee, a breakdown between General Fund and Housing Revenue Account (HRA) debt had been prepared and tabled; it included the increase in HRA debt included for the Decent Homes programme.

Eugenie White asked what was the implication for the treatment of debt of the sale of assets. Jim Mearns said that the Council waited for receipt of cash before showing this on its accounts. A certain level of receipts was required to finance planned spending and above that the receipts could be used for debt reduction

Councillor Murphy drew attention to the explanation of the underspend in Community Services and the overspend in Housing and Regeneration. Noting that these were attributed respectively to underspent client budgets and staff vacancies, and to redundancies and dilapidations, he asked for a breakdown between the constituent elements of each.

The Chairman noted the management fee payable by the Council to H & F Homes, and, given its size, asked for a further breakdown of the fee paid.

Councillor Iggulden asked why the interest payable by the Council was increasing. Officers explained that this was a consequence of the Decent Homes debt as shown in the HRA.

Councillor Iggulden asked how the figures on valuation of assets were arrived at. Jim Mearns said that a valuation was made on the 1st April of each financial year, with the valuer reviewing these figures at year end; he said that the fluctuation of asset values between years accounted for the losses and gains shown. With regard to FRS17 pension interest cost shown on page 17, Jill Lecznar, Corporate Accountancy Services Manager, said that this reflected the cost of the expected increase in the present value of liabilities. Councillor Iggulden also requested an update on the status of the Council's PFI projects, clarifying which were in use.

Councillor Murphy asked what the figures under Other Operating Income- Asset Disposal Receipts related to. Jill Lecznar said that these related to the sale of assets which were not on the Council's register of assets. Councillor Murphy asked for a breakdown of the sale of fixed assets as shown on page 34 of the accounts.

Councillor Murphy asked about the bonuses awarded to the Council's senior officers as set out on page 55 of the accounts; he asked who set the bonuses and on what scale were they based. Jane West clarified that they were divided between a percentage allocated to each target set, and a discretionary element, and based on a scale developed by a consultant employed some time before. The bonuses were moderated through the Financial Strategy Board and Executive Management Team and agreed by the Chief Executive and Leader as appropriate. With regard to the Assistant Director of Legal and Democratic Services, it was clarified that his salary had increased as a result of his having gained responsibility for legal services at Kensington and Chelsea. She confirmed that the

information was in the public domain as part of the accounts. Having noted that the Head Teacher of Phoenix High School now appeared as a Senior Employee, the Committee requested that the information on page 57 be further broken down to show non-teaching staff by department.

With regard to the sum set aside for improvements to Bishops Park on page 68, it was clarified that this included Heritage Lottery Fund funding, with some of the Council's match funding coming in services in kind. With regard to the sum repayable from the sale of Discounted Market Units at Imperial Wharf, it was confirmed that the Council could refuse to sell its share in properties, but that it was both unlikely to be asked, and unlikely to do so.

With regard to the earmarked reserve for single status claims, Jane West said that the Council had believed it had resolved that it had resolved all claims, only to receive a further 39 9 months ago. She believed that issues and claims would continue to arise, even as historical issues were settled.

Councillor Murphy asked about the elements of the Annual Governance Statement (AGS) relating to yearly appraisal by the Leader of senior officers and Cabinet Members, and how the process was evidenced. Councillor Botterill and Jane West confirmed that meetings took place, and that the Leader would document their outcomes. Councillor Iggulden noted that the Leader was a signatory to the statement, meaning that assurance had been given of its contents. Councillor Murphy expressed concern about the audit trail, given that this appeared in the Council's AGS; the Chairman suggested that the issue should be checked with the Leader.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) The Statement Of Accounts for 2009/10 be approved.

11. ANNUAL GOVERNANCE STATEMENT AND REVIEW OF INTERNAL AUDIT

Michael Sloniowski, Principal Risk Consultant, introduced the report, which set out the Annual Governance Statement, which, as part of an annual process, assessed the appropriateness of internal operations and controls, which were then outlined in the Statement itself.

With regards to questions regarding Business Continuity, Michael Sloniowski said that the planning and procedure elements had now been completed, but the implementation of technical solutions- better mirroring systems, for example- would take longer to implement. Jane West agreed to circulate to the Committee the detailed timetable.

RESOLVED THAT

The contents of the statement be agreed.

12. HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2009/10

Geoff Drake, Chief Internal Auditor, introduced the report, which summarised all audit work undertaken by internal audit in the 2009/10 year, as well as providing assurances on the systems of internal control, corporate governance and risk management. He noted that the percentage delivery of the audit plan was the highest it had ever been at year-end.

Eugenie White asked why the Use of Consultants had both nil and substantial assurance. Geoff Drake said that the corporate process had received substantial assurance, while departmental employment of consultants had received nil assurance.

Eugenie White also asked about progress towards retendering the Internal Audit contract, with reference to a potential joint arrangement with the PCT. Jane West, Director of Finance and Corporate Services, said that the PCT was facing a considerable reduction in its budget and change in role as a result of changes in Government policy, and that plans for integration would need to be reviewed in light of this.

Councillor Cartwright asked what was the cause of problems in relation to Core Financials-Parking (PCN's) as he had understood the new system to be designed to resolve past issues. Jane West said that the issues lay with reconciliation to the general fund.

Councillor Murphy asked about the Performance Management audit, noting the issues with data quality identified. Geoff Drake said that the audit had primarily addressed the documentation of appraisals, but had not found that the Council's performance management was ineffective, insofar as it had assessed it.

Councillor Murphy also asked about the number of chip and pin machines in the Council. Geoff Drake said that this reflected the fact that, at the time of the audit, no central register existed. The register had now been created, though assuring PCI compliance was a large task.

RESOLVED THAT

The report be noted.

13. RISK MANAGEMENT PROGRESS REPORT

Michael Sloniowski, Principal Risk Consultant, introduced the report, which set out progress made on Risk Management since the last meeting of the Audit Committee. The principal focus during that time had been compiling and verifying the Annual Governance Statement. The report also contained the latest iteration of the Corporate Risk Register, and also drew attention to the recent data outage and its consequences, which highlighted the need for increased data resilience.

Work had been concentrated on improving the quality of risk management, concentrating on reaching appropriate levels of control, with a value for money focus.

Councillor Murphy expressed concern at the poor quality of supporting documentation identified in the audit of Directors' annual assurance statements. Michael Sloniowski said that he had discussed the issue with the Director of Finance and Corporate Services and the Chief Internal Auditor and that the issue would also be discussed by the Executive Management Team. Jane West said that ease of access to documentation for the auditors was the chief issue, and noted that there had been less intervention to ensure easy access than in previous years. As such, the most appropriate way for Directors to supply their supporting documentation needed to be agreed.

Councillor Murphy also asked about progress towards meeting Health and Safety Executive Standard HSG65 Management, and what were the risks of non-compliance. Michael Sloniowski said that HSG65 set standards above those demanded as a minimum by the law, and its implementation was seen as a move towards an even more rigorous safety culture. There was no risk associated with non-compliance, as the risk was that of an accident taking place.

RESOLVED THAT

The report, and the latest iteration of the Corporate Risk Register, be approved.

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

Geoff Drake, Chief Internal Auditor, introduced the Annual Report of the Corporate Anti-Fraud Service (CAFS) for the 2009-10 financial year. He said that the Service had had a very successful year, both in terms of the quantity of outcomes and the value of those outcomes. He cited examples of successful prosecutions, including the "ghost employees" case, and noted new methods of recovery identified, such as recovery via the London Pension Fund Authority.

Councillor Botterill asked whether CAFS had any involvement in the Blue Badge fraud prevention project. Geoff Drake said that it did not.

The Chairman noted that the Service was not fully self-financing, and asked whether the split between closing cases and cash recoverable had been considered with a view to this.

Geoff Drake said that there was no expectation of the service being self-financing, and elements of the service such as the team dealing with corporate fraud had limited opportunities to recover monies. A view was taken on the proportionality of an investigation, with CAFS unable to investigate all complaints referred to it. In addition, work was ongoing to model the full cost of recovering monies; once this is better understood the Service could examine the true value to the council of its recoveries

Eugenie White asked whether any research had been undertaken into whether the success of a service translated into increased referrals meaning more fraud was detected, or into reduced levels of fraud. Geoff Drake said that there had been no study on the question to his knowledge, though said that it was axiomatic that fraud increased during periods of economic difficulty. He noted that, when Councils did benchmarking exercises, they were usually based on volumes of referrals and sanctions rather than values.

Councillor Ginn noted that there was both a deterrent effect and justice element to CAFS' work which added value. Geoff Drake agreed, noting that it was hard to put a precise monetary value on work like CAFS' tenancy team results of 37 sanctions representing either recovered properties or people removed from the Housing Register, the latter potentially preventing properties from being turned into illegal sublets at a later date. The Chairman noted that the bounty payable on Housing Benefit fraud was not fully reflected as income generated by CAFS officers. Geoff Drake clarified that while this money is received through Housing Benefit subsidy elsewhere in the council the sums are identified in the financial benefits table (figure 4) in the appendix to this report.

Councillor Botterill suggested that the Committee could receive a presentation on the work of CAFS prior to its next meeting, which could also be opened to other Councillors to allow them a sense of the work the Service undertook.

RESOLVED THAT

The report be noted.

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

Geoff Drake, Chief Internal Auditor introduced the report, which summarised internal audit activity for the quarter to 31 March 2010. He said that there were 2 outstanding reports, and 7 outstanding recommendations. The report also contained the Limited Assurance

report issued on the Use of Consultants by the Council; all recommendations have been reported as implemented and as a result a follow up audit report will have been undertaken by the end of July.

With regard to the audit's findings, Geoff Drake said that the chief concerns were about audit trails documenting appointment, rather than the appointments themselves. He added that the follow-up audit will focus would be made on effective implementation of audit recommendations, with enforced process changes likely if the problems were not resolved. A further update would be available at the Committee's next meeting.

RESOLVED THAT

The report be noted.

16. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

That, 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 item 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

RESOLVED THAT

The Exempt Minutes of the meeting of the Pension Fund Panel held on 16th March 2010 be agreed as true and accurate.

18. DATE OF NEXT MEETING

22 September 2010

Meeting started: 7.00 pm
Meeting ended: 9.53 pm

Chairman

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AUDIT AND PENSIONS COMMITTEE

22nd September 2010

CONTRIBUTORS

PENSION FUND VALUE AND INVESTMENT PERFORMANCE

**WARDS
All**

DF

This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30th June 2010.

RECOMMENDATION:

1. To note the report.

**LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	P-Solve quarterly fund manager reports	P.Gough Extn 2542	FCS, Room 42, Town Hall



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2010

August 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 30th June 2010

Fund Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	3 year return (%)
Total Fund	512,753	100.0	100.0	(6.3)	17.1	3.3
<i>Liability Benchmark + 1.75% p.a.</i>				2.0	11.3	(1.5)
<i>Difference</i>				(8.3)	5.8	4.8
UK Equities	128,914	25.1	25.0			
Majedie				(10.5)	18.6	0.1
<i>FTSE All Share + 2% p.a.</i>				(11.4)	23.5	(3.9)
<i>Difference</i>				0.9	(4.9)	4.0
Overseas Equities	131,846	25.7	25.0			
MFS				(10.9)	26.6	4.3
<i>FTSE World ex UK + 2% p.a.</i>				(10.7)	25.6	1.6
<i>Difference</i>				(0.2)	1.0	2.7
Dynamic Asset Allocation Mandates	133,264	26.0	25.0	(2.2)	17.9	
Barings (note 2)	98,930	19.3	18.8	(3.1)	16.4	-
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.7	-
<i>Difference</i>				(4.3)	11.7	-
Ruffer (note 2)	34,334	6.7	6.2	0.4	22.4	-
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.7	-
<i>Difference</i>				(0.8)	17.7	-
Matching Fund	118,728	23.2	25.0	(0.5)	6.0	
<i>Liability Benchmark + 1% p.a.</i>				1.8	10.5	-
<i>Difference</i>				(2.3)	(4.5)	-
Goldman Sachs	58,116	11.3	12.5	0.0	6.3	1.4
<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	2.7	(1.1)
<i>Difference</i>				(0.7)	3.6	2.5
Legal & General (note 3)	60,612	11.8	12.5	(1.0)	5.7	1.3
<i>2 x FTSE + 15yr IL Gilts - LIBOR p.a.</i>				0.4	10.5	(3.3)
<i>Difference</i>				(1.4)	(4.8)	4.6

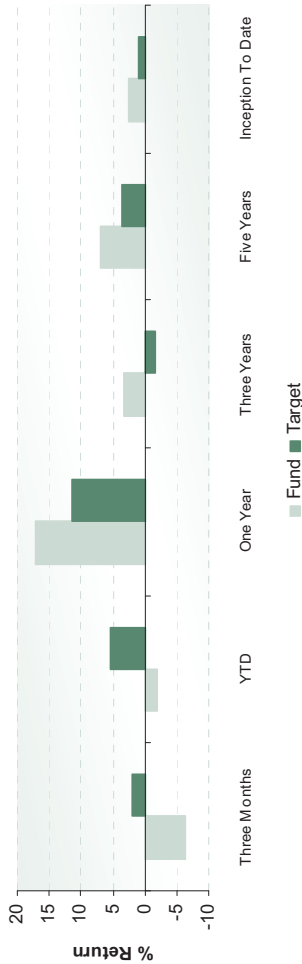
Notes:

- 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.

Fund	Manager	Opening Market Value as at 31st March 2010 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Closing Market Value as at 30th June 2010 £000	% of Total Fund	Target % of Total Fund
Total Fund		548,224	100.0	(732)	(37,985)	3,246	512,753	100.0	100.0
UK Equities	Majedie	143,998	26.3	-	(16,081)	997	128,914	25.1	25.0
Overseas Equities	MFS	147,894	27.0	-	(17,318)	1,270	131,846	25.7	25.0
Dynamic Asset Allocation Mandates		137,032	25.0	(732)	(4,014)	979	133,264	26.0	25.0
	Barings	102,112	18.6	-	(3,206)	25	98,930	19.3	18.75
	Ruffer	34,920	6.4	(732)	(808)	954	34,334	6.7	6.25
Matching Fund		119,299	21.8	-	(572)	1	118,728	23.2	25.0
	Goldman Sachs	58,098	10.6	-	18	0	58,116	11.3	12.5
	Legal & General	61,201	11.2	-	(590)	1	60,612	11.8	12.5

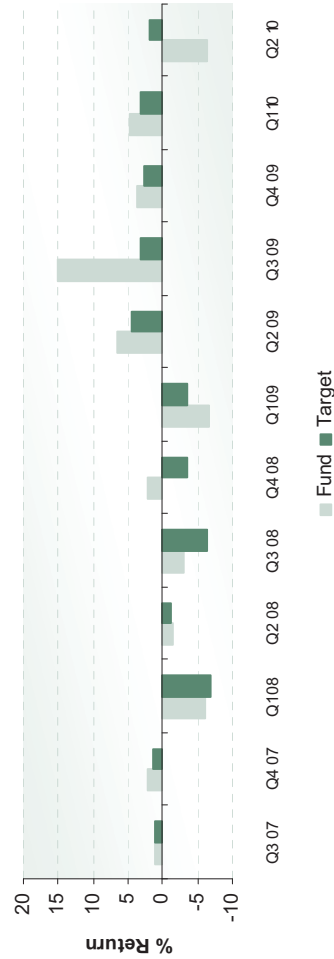
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-6.34	-18.9	17.10	3.25	6.94	2.65
Target	2.00	5.28	11.32	-1.54	3.63	0.99

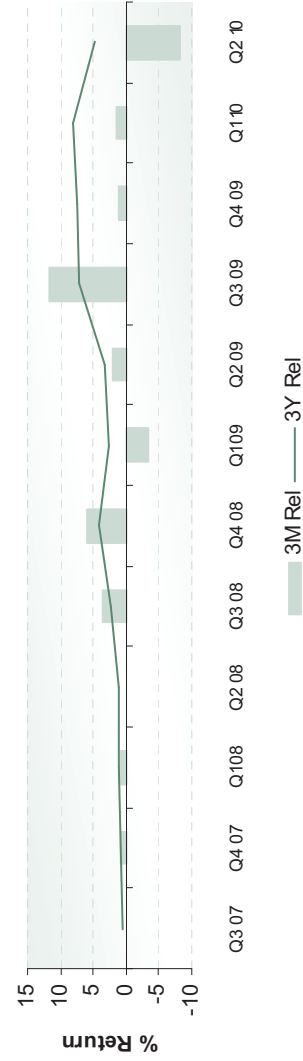
Three Years Rolling Quarterly Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	1.09	2.28	-6.13	-1.39	-3.11	2.03	-6.68	6.46	5.21	3.59	4.75	-6.34
Target	1.05	1.36	-6.85	-1.23	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00

The Scheme underperformed against its liability benchmark over the quarter, returning -6.3% compared to the target of +2.0%. With the exception of the Ruffer DAA fund and Goldman Sachs bond fund, all mandates yielded negative returns over the quarter but the equity funds were the worst performers. There was again outperformance over the last 12 months, of 5.8%. The outperformance can primarily be attributed to the equity and DAA funds due to the strong rebound of equity markets over the year despite disappointing returns this quarter. Overall the Scheme has also performed well on a 3 and 5 year basis.

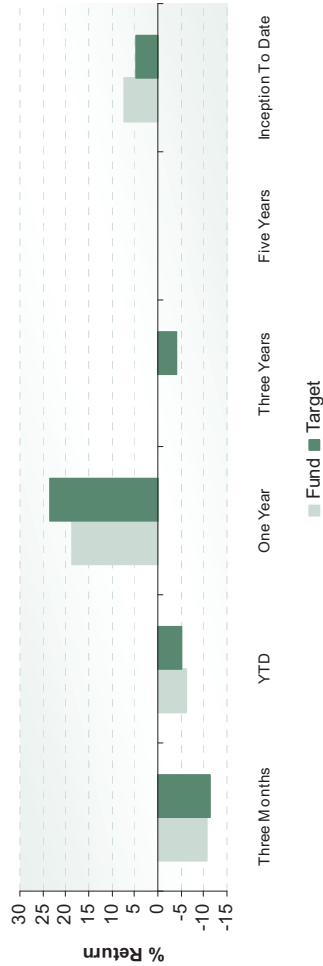
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	0.04	0.91	0.78	-0.16	3.45	5.85	-3.29	1.90	11.76	100	149	-8.18
3Y Rel	0.58	0.95	1.08	1.03	2.21	4.13	2.79	3.37	7.14	7.52	8.10	4.86

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

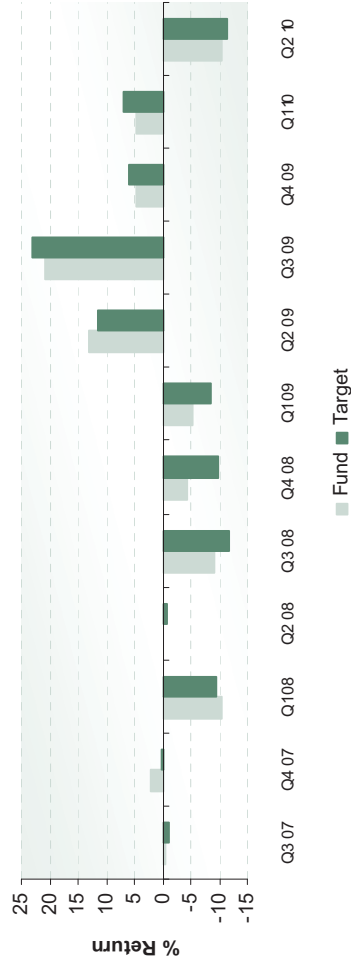


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-10.47	-6.24	18.62	0.09	-	7.35
Target	-11.35	-5.20	23.53	-3.86	-	4.69

Quarterly Manager update

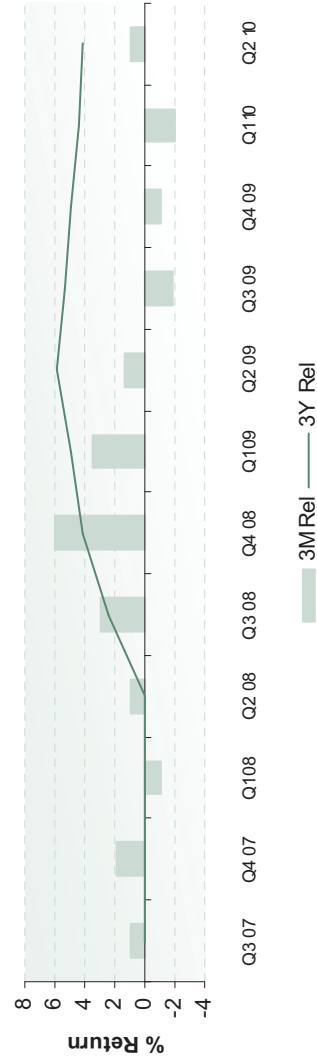
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -10.5% over the quarter, 0.9% ahead of its target. Over 12 months, the portfolio was 4.9% below its target. The defensive characteristics of the portfolio benefited performance as risk appetite waned. The portfolio's holdings in defensive UK multinationals helped to limit losses as the wider index fell sharply. This cautious stance helped the portfolio outperform against its target over the quarter. However, the benefit of this defensive stance was limited by the impact of BP, a stock which the portfolio held for its characteristics of low valuation, a sound balance sheet and high quality assets.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	-0.38	2.03	-0.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73	-10.47
Target	-1.27	0.15	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35

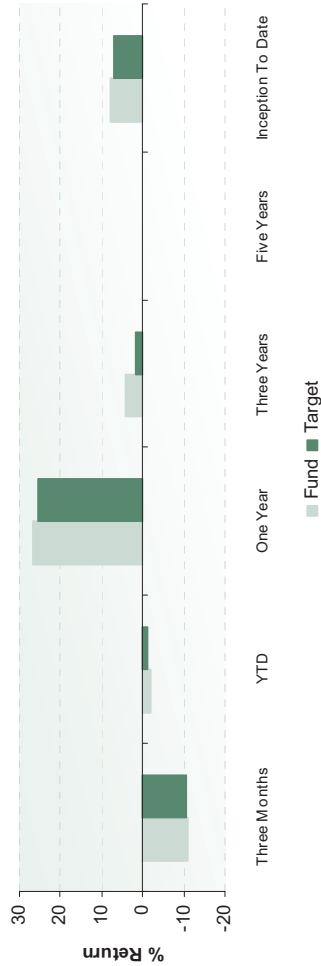
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	0.91	1.88	-1.05	0.96	2.96	5.94	3.46	1.38	-1.81	4.96	4.35	4.11
3Y Rel	-	-	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35	4.11

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.

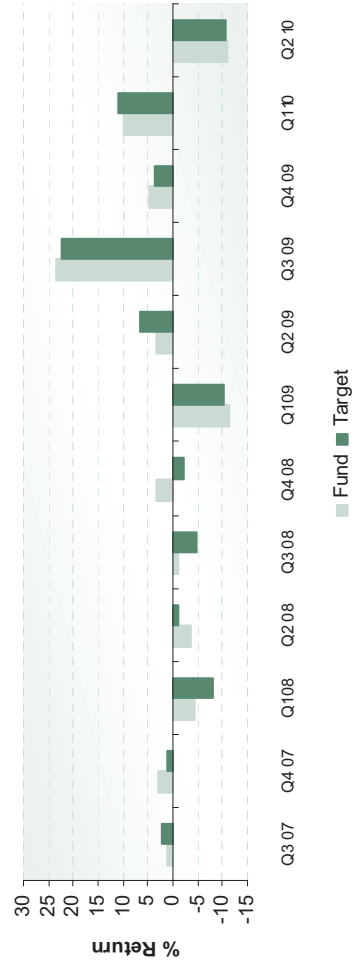
Historical Plan Performance



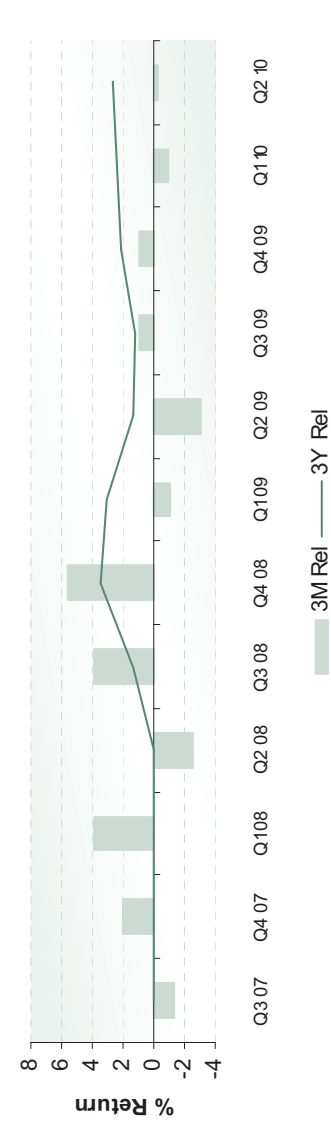
Quarterly Manager update

Organisation	During the quarter, MFS announced the appointment of Robert J Manning to chairman, effective 1 July 2010, succeeding Robert C Pozen, who has announced his plans to retire on 31 December 2011. Manning will continue in his role as CEO.
Product	No significant changes over the quarter.
Performance	The fund performance was -10.9% over the quarter, 0.2% below its target. Over 12 months, the fund was 1.0% ahead of its target. Currency effects were again adverse, due to the overweight to euro-denominated stocks as the euro depreciated relative to other currencies during the quarter. Stock selection in financial services, technology and utilities & communications as well as individual holdings in Walgreen, Inpex and Medtronic also detracted from performance. However, the overweight position and stock selection in consumer staples along with stock selection in basic materials, along with individual holdings in LVMH, Canadian National Railway, Waters Corp and Legrand added to the performance of the fund over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

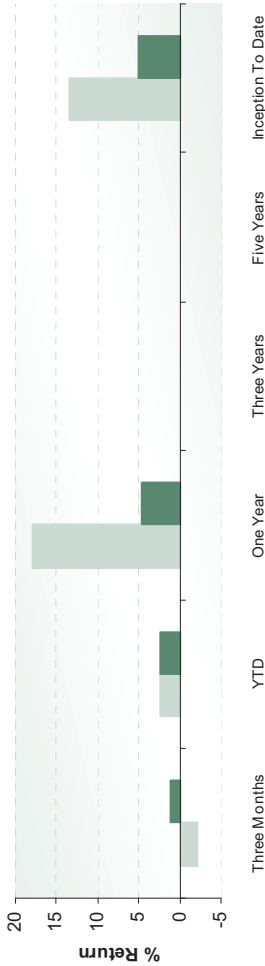


Three Years Rolling Relative Returns



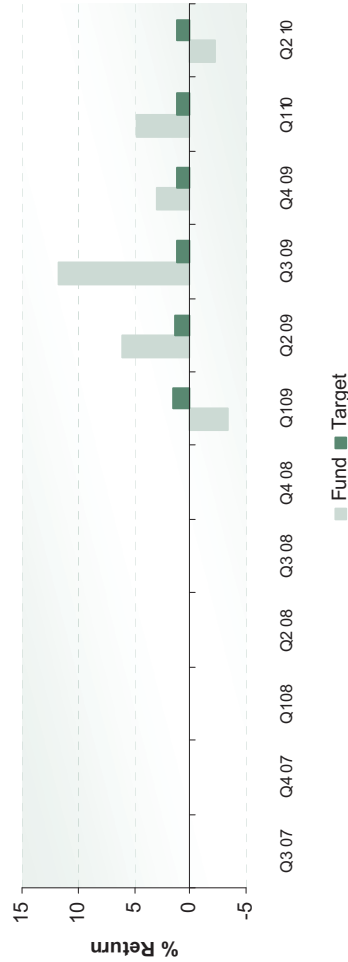
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-2.22	2.40	7.92	-	-	13.48
Target	1.6	2.31	4.71	-	-	5.07

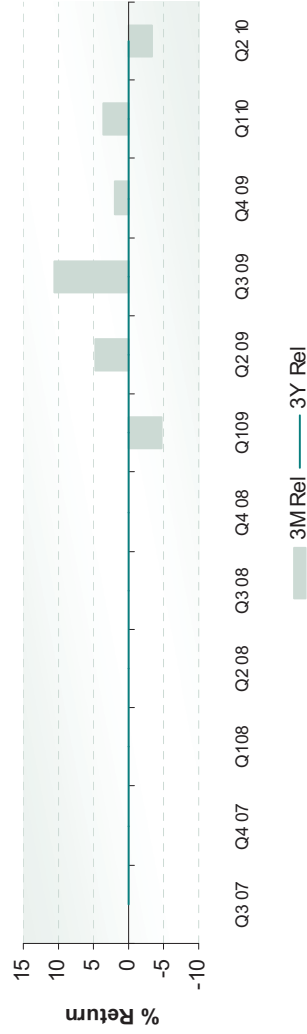
Three Years Rolling Quarterly Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	-	-	-	-	-	-	-3.38	6.70	1182	2.99	4.73	-2.22
Target	-	-	-	-	-	-	150	133	119	1.14	1.14	1.16

The group has returned -2.2% over the quarter compared to its LIBOR-based target of 1.2%, due to a weak performance from Barings in particular. The Dynamic Asset Allocation group in general has suffered from the poor performance from the equity components of their portfolios over the quarter. However, over the past 12 months, performance has been above target, as both Barings and Ruffer have significantly outperformed the target.

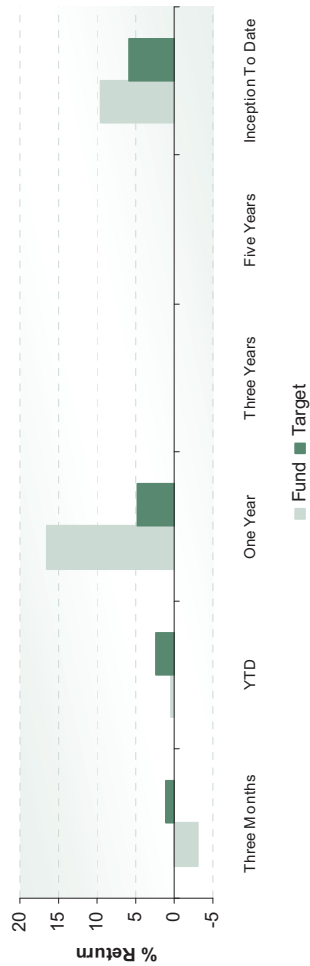
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	-	-	-	-	-	-	-4.81	4.71	10.51	183	3.54	-3.34
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 August 2008.

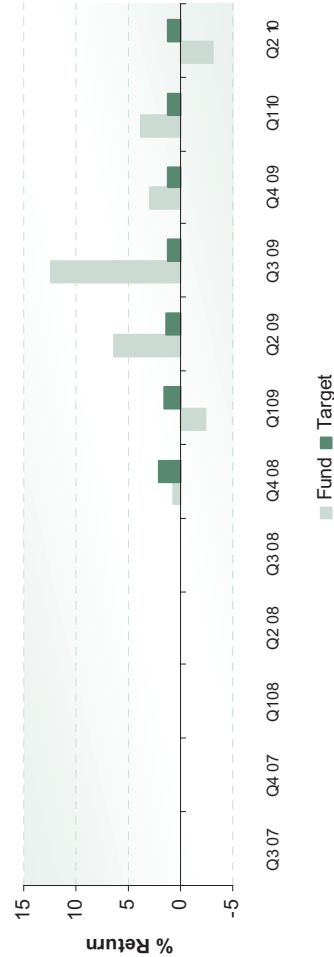
Historical Plan Performance



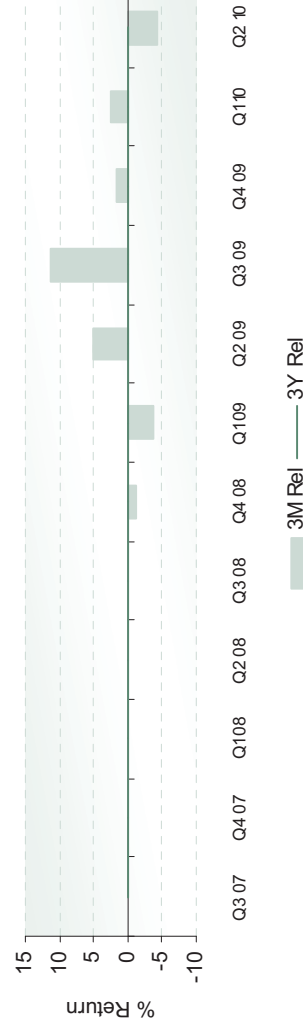
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	Barings compensated clients earlier this year by granting additional units for the price adjustment that arose from backdating their fee policy.
Performance	The fund performance was -3.1% over the quarter, 4.3% behind its target. Over 12 months, they are 11.7% ahead of target. The equity holdings provided the largest detractor over the quarter with UK equities falling 11.8% (in line with the market) and the overseas equity falling 13.2%. A fall in the overseas market was compounded by poor stock selection with too much exposure to cyclical industries. Performance was buoyed slightly by the portfolio's holdings in Gold bullion and bonds, a Structured product and the equity hedging instrument employed.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns

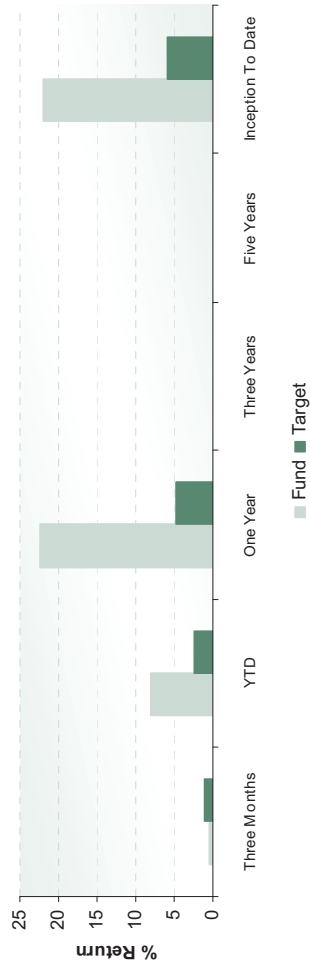


	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	-	-	-	-	0.67	-2.42	6.42	1.50	1.8	1.14	3.77	-3.12
Target	-	-	-	-	2.01	150	133	1.8	1.8	1.14	1.14	1.6

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	-	-	-	-	-	-132	-3.86	5.02	11.8	178	2.59	-423
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 August 2008.

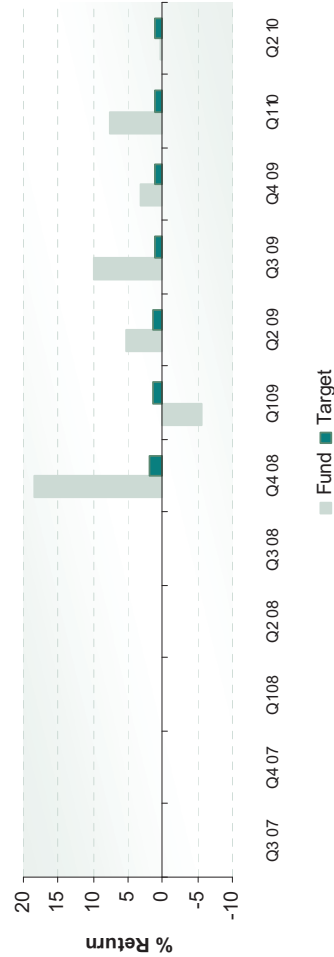
Historical Plan Performance



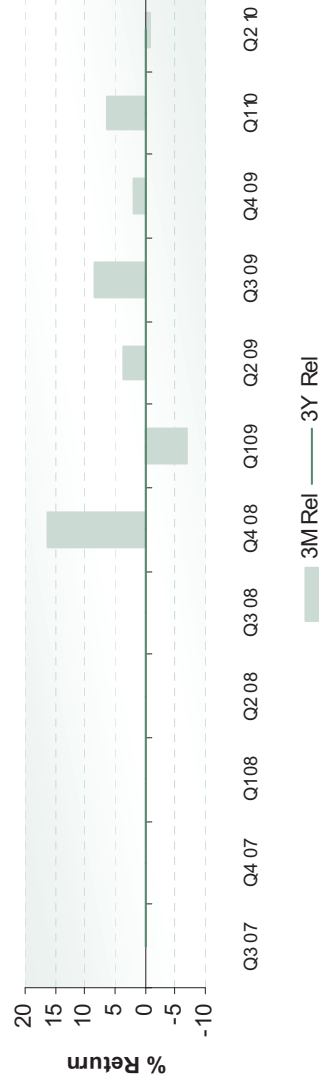
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.4% over the quarter, 0.8% behind its target. Over 12 months, the fund was 17.7% ahead of target. Weak equity returns particularly in Japan, due to a reversal of the trends which saw strong performance in the Japanese markets in the first quarter and the 49% fall in BP shares over the quarter were the main detractors in performance. Holdings in Gold and the telecoms company Ericsson as well as the portfolio's US dollar exposure meant a positive return was salvaged over the quarter despite difficult market conditions.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns

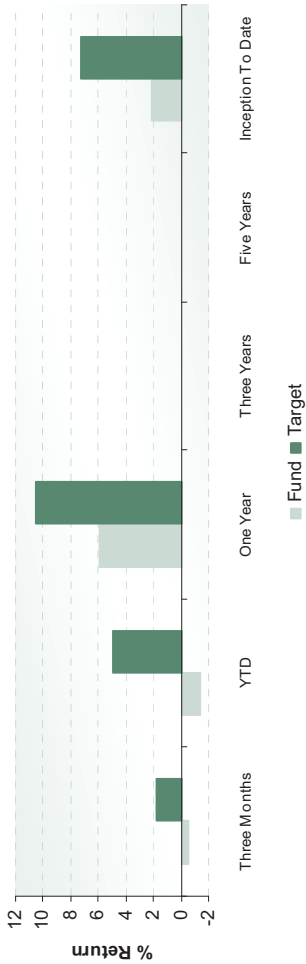


	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	-	-	-	-	-	18.47	-5.49	5.77	9.81	3.2	7.64	0.41
Target	-	-	-	-	-	2.01	150	133	119	1.4	1.4	1.6

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	-	-	-	-	-	16.14	-6.90	3.79	8.52	1.96	6.42	-0.74
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

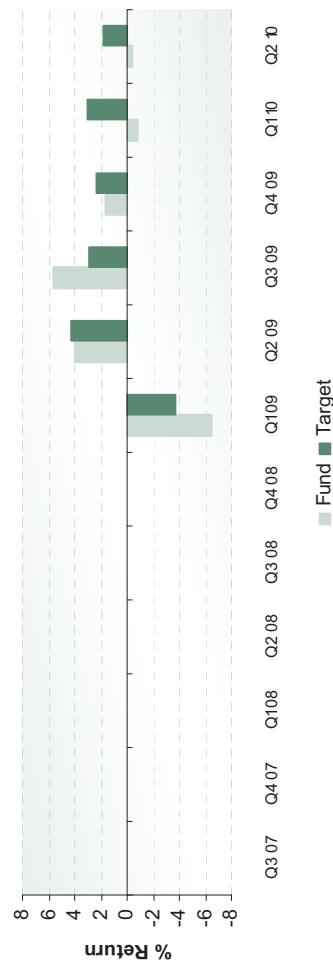
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.

Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-0.48	-1.35	5.96	-	-	2.08
Target	1.81	4.89	10.50	-	-	7.20

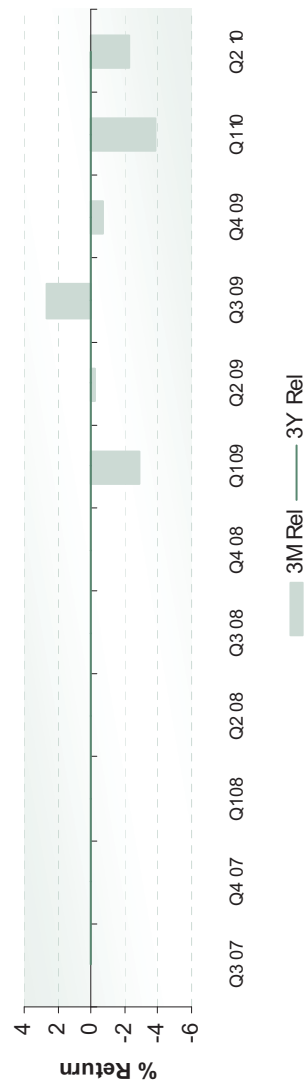
Three Years Rolling Quarterly Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	-	-	-	-	-	-	-6.45	4.04	5.66	1.67	-0.88	-0.48
Target	-	-	-	-	-	-	-3.68	4.28	2.90	2.38	3.02	1.81

The performance of the Matching Fund over the quarter of -0.5% is below its gilts-based liability benchmark. This can be attributed to relative underperformance of both Legal & General and Goldman Sachs.

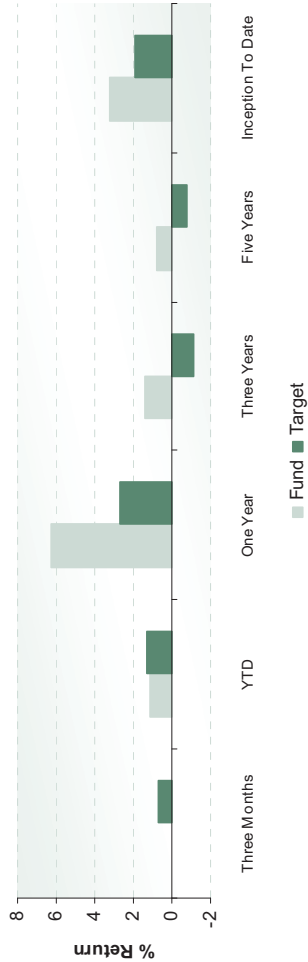
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	-	-	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25
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.

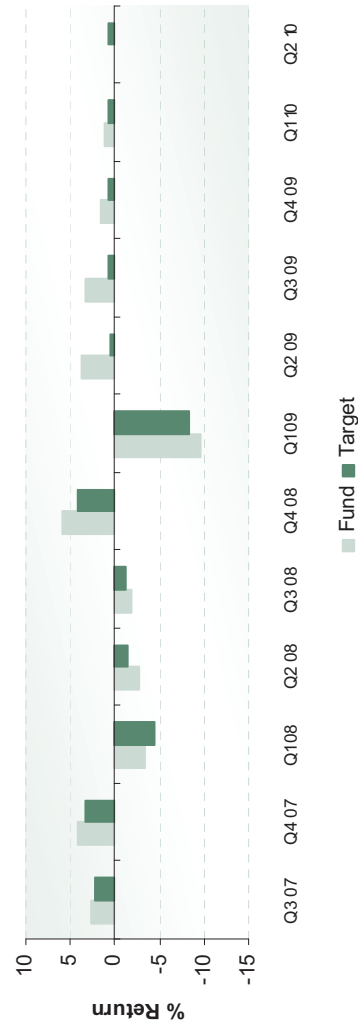
Historical Plan Performance



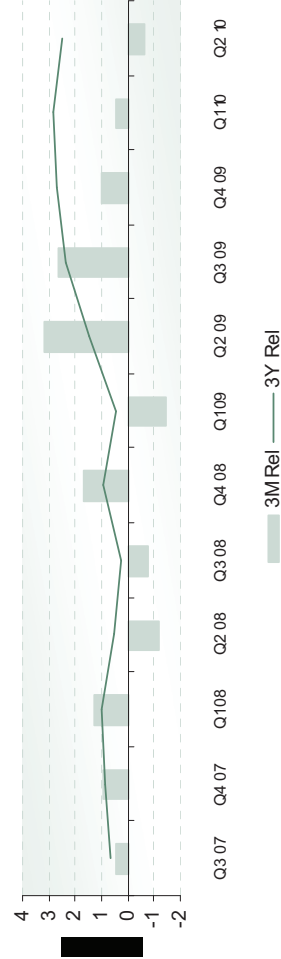
Quarterly Manager update

Organisation	As reported in the previous report, during 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 0.0% over the quarter, 0.6% behind its target. Over 12 months, performance was 3.6% ahead of their target. The fund's duration and cross-sector strategies were the main sources of underperformance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



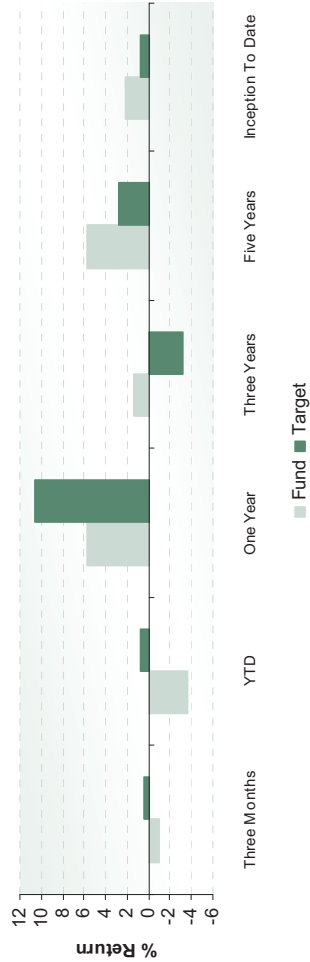
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
Fund	2.60	4.24	-3.27	-2.67	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10	0.03
Target	2.15	3.29	-4.46	-4.46	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65	0.67

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Rel	0.44	0.91	1.24	-1.21	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64
3Y Rel	0.67	0.89	1.00	0.54	0.27	0.90	0.47	1.48	2.37	2.68	2.86	2.51

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.

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.

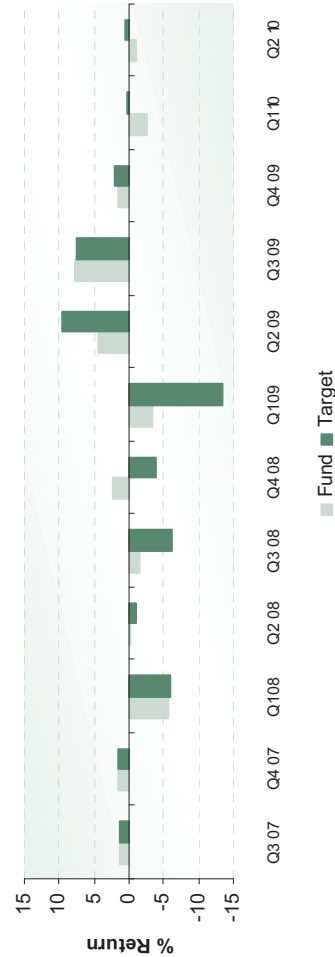
Historical Plan Performance



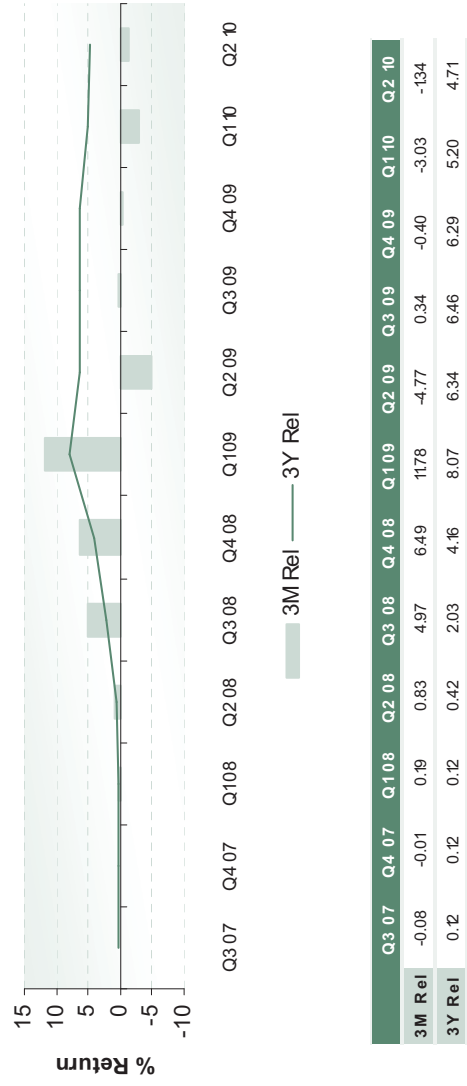
Quarterly Manager update

Organisation	Chief Executive Peter Chambers has announced that he will retire in September 2010. His replacement has not yet been announced.
Product	No significant changes over the quarter.
Performance	The fund performance was -1.0% over the quarter, 1.4% below its target. Over 12 months, performance is 4.9% behind 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.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



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 Q2 2010.

After 4 consecutive quarters of growth, Quarter 2 2010 saw a reversal in equity markets, which gave up all the ground gained since the start of the year. Heightened investor concern over the global fiscal debt situation and slowing growth in a number of European countries was the dominant feature impacting both on currencies and capital markets.

The most significant fall was in Europe (ex UK) equities which declined by -14.4% though this was in part due to continuing weakness of the Euro against sterling.

UK equities fell by 11.8% with similar declines seen elsewhere. Even Emerging Markets equities, the top performing area over the previous 12 months, were not immune, declining a more modest -2.3% over the quarter.

The euro-area debt crisis, particularly in Greece but including Portugal, Italy, Ireland and Spain, was considered sufficiently serious to force Member States to agree a coordinated international support package to stem the risk of contagion and underpin market liquidity. Signs of strain within the Euro-zone were apparent at one point when French president Nicolas Sarkozy reportedly threatened to pull out of the euro unless a rescue package was agreed.

Eventually, Member States agreed to a three-year loan facility for Greece. This was followed by a broader official support package. On 2 May, the EU and IMF agreed to provide emergency loans to Greece worth €110 billion and the European Central Bank (ECB) suspended its minimum credit rating criteria for Greek government debt allowable as collateral in its operations. On 10 May this was extended to an emergency funding facility of €720 billion available to all euro-area countries, and the ECB announced that it would intervene in euro-area public and private debt securities markets to 'ensure depth and liquidity in those market segments which are dysfunctional'.

S&P subsequently downgraded their credit ratings for both Ireland and Portugal and reduced Greece's rating to junk status.

Against the backdrop of increased investor concerns about fiscal sustainability in some European countries, government bond markets, including the gilt market, experienced sharp price changes. Spreads between yields on certain countries' government bonds and German bunds widened sharply and sovereign Credit Default Swap (CDS) premiums increased.

Whilst most European Bond markets generally remained out of favour, the UK Gilt market saw strong inflows from overseas buyers.

Coincident with this, sentiment was improved by the new UK coalition government promising a drastic deficit reduction program as their prime objective. Government Bonds, which until recently had been overshadowed by corporate alternatives, provided the best return of +4.5% whilst Corporates themselves produced a return of +2.0%.

Overseas, Emerging Markets debt, the strongest performer within fixed interest over the last year eased back but still delivered a return of +2.8%. Global High Yield Debt however just fell into negative territory returning -0.7%.

Despite generally positive macroeconomic data, short to medium-term market interest rates in the major currencies fell. This reflected perceptions that monetary policies in the major economies would remain accommodative for longer in order to help support the global economic recovery.

The Japanese yen continued to appreciate against Sterling by 7.1% as did the \$US which rose by 1.4%. Meantime the Euro as a consequence of the deepening fiscal crisis within the Euro zone, declined by 8.2% relative to Sterling over the period.

In the UK the main development was the first Budget from the coalition government. The broad thrust was similar in direction to the proposals set out in general terms by Labour pre-election, but went further and faster in its attempt to cut the deficit by means of an unprecedented level of spending cuts extending over several years.

Reactions to the package from financial markets were mixed; sterling strengthened and gilts improved on the prospect of lower debt, but equity investors were more cautious, concerned that the effect of spending cuts and the increase of VAT to 20% could be sufficient to stop and possibly reverse the modest uptrend in economic activity.

Official forecasts, though reduced, still predicted growth post Budget of 1.2% for this year and 2.3% and 2.8% over the following 2 years.

Figures just released show the British economy actually demonstrated unexpected signs of vigour. In the second quarter alone it soared ahead by 1.1% compared to the first 3 months.

This represents the fastest rate of growth for 4 years, though it should be noted that initial figures have become somewhat unreliable and subject to change. If correct, this would be well ahead of the expected quarterly growth rate of 0.6% and represents an annualised growth rate of 4.5%.

This unexpectedly strong figure may have led to the somewhat surprising decision (at the time) of one member of the monetary policy committee, Andrew Sentence voting for an increase in interest rates at the last policy meeting of the Bank of England.

The dominant company story over the period, overtaking Prudentials failure to win shareholder support for its bid for the Asian assets of AIG, was the deepening crisis which BP faced over the explosion of its Macondo well in the Gulf of Mexico and the resultant oil spill.

It came under huge pressure from the US authorities and agreed to create a \$20 billion fund to provide compensation to those affected by the oil pollution. The company will still be liable for any penalties levied by the US authorities which will be separate from any claims for compensation. The BP share price fell 50% over the quarter as speculation arose that the scale of compensation and the cost of environmental restitution would exceed estimates. In addition BP has temporarily suspended dividend payments and is looking to sell off assets to help cover the overall costs. At the time of writing the share price has improved modestly from its low at the end of June, following the apparently successful capping of the spill but concerns remain.

Market volatility remains a feature of investment markets. The severe nature of the austerity measures being imposed on countries such as Greece in exchange for bail-out cash has caused a crisis of confidence about future growth levels and the risk is that could well precipitate the debt defaults it was designed to avoid. Further credit rating downgrades are a distinct possibility.

Sources: Reuters; Datastream; Bank of England; Office for National Statistics, Financial Times.

During the height of the credit crisis, one of the most remarkable features was that some seemingly healthy companies disappeared overnight, as a result of the rapidly changing economic, operating and financial conditions. In recognition of this, the Pensions Regulator issued a statement in 2009 specifying the need for prudence through the economic cycle, whilst taking account of economic affordability.

This has been followed in June this year with a consultation document covering proposed guidance on monitoring employer support: covenant, contingent assets and other security. Whilst it will be a while before the final guidance is available, it is clear that the Regulator is keen to ensure that reviewing the employer covenant is a vital component of good governance and is seeking to strengthen the way this is implemented.

The proposed guidance sets out the standard practice in which it expects trustees to assess, monitor and take action on the employer covenant.

What does this mean in practice?

Well, the first port of call is inevitably to understand the strength of the employer covenant. This must be from both a legal perspective, to establish what the employer is committed to, and from a financial perspective in terms of what it can afford. This can only be achieved if there is relevant and up to date information and the trustees should work with the employer to ensure there is clear communication between the parties.

Whilst the current financial health of the employer is a factor in the covenant assessment, this is largely a backward looking metric and hence there is also emphasis on the need for the trustees to focus on more forward looking measures, which should include “the point in the economic cycle of the employer’s industry and of the employer’s position within its economic cycle”, and to critically evaluate “the employer’s ability to recover if at a low point”.

Covenant assessments are demanding and if the trustees do not have the suitable skills necessary, the Regulator makes clear professional advice should be considered. Indeed, the more complex the relationships, the more likely this will be. Group or intra-company arrangements with differing levels of security and commitments are a particularly good example of this.

Effectively assessing the employer covenant and arranging for its ongoing monitoring will, however, help the trustees in numerous areas. These will include the trustees’ approach to scheme funding and the level of caution required, whether the recovery plan should be accelerated in the event of improved cashflow, identification of events that have led to the need to crystallise calls over contingent assets and the level of risk the scheme can accept on investment grounds.

Where there is a strong covenant, the suggestion is that trustees will be able to sustain greater exposure to higher return seeking assets and the higher level of risk that this entails. However, there is no definition of how risk is measured or calculated and most investment consultants would argue that the benefits of a widely diversified portfolio considerably reduce the total level of risk.

For a very weak (or negligible) employer covenant, the expectation is that trustees would need to be able to demonstrate why significant exposure to higher risk investments complied with the best interest of the scheme members. Relying on the Pension Protection Fund in the event of the strategy being unsuccessful would not be acceptable justification.

There are no formal benchmarks to assess covenant strength, but the guidance does intimate grouping into broad categories encompassing “very strong, strong or very weak” for example. However, what it does make clear is that the Regulator’s “initial view on covenant strength will inform” their “initial analysis of the prudence of scheme funding assumptions, and is one of the factors that help identify which funding plans to subject to greater scrutiny”.

Pledging additional security to the scheme may help to strengthen the employer covenant and allow greater flexibility on funding and recovery plans, which in turn may provide an incentive for both the trustees and the employer. Whilst not exhaustive, the options highlighted include agreements to abide by certain performance thresholds and notifying the Trustees when these are breached, providing the same priority alongside other creditors, negative pledges where the consent of the trustees are required prior to implementation of specified events, increased funding on certain developments and the provision of contingent assets.

Where additional security is provided, the trustees will need to establish whether this has any implications for the Scheme on a day to day basis where for example lower initial contributions are agreed but increasing over time as employer profitability improves. In the short term, this approach may require the realisation of assets to accommodate the lower level of contributions. The ongoing management of the security also needs to be considered and steps taken to ensure that it is appropriately maintained.

What does this mean for trustees?

Whilst the trustees should always be mindful of the costs in assessing the employer covenant and there is a stated intention not to incur costs disproportionate to the perceived benefits that provides some latitude especially for smaller schemes, it is clear the Regulator is becoming increasingly keen to raise standards. Given the guidance has not yet been finalised, a degree of caution is still warranted, but there are a number of steps that the trustees may wish to consider immediately including:

- Adopting a pro-active approach.
- Maintaining an emphasis on the prospective covenant with annual monitoring once the financial results are released and a full covenant evaluation prior to each scheme specific funding triennial valuation.

- Including a fixed agenda item at trustee meetings to review any company developments including a review against pre-specified trigger points to ensure any deterioration in the covenant can be addressed at the outset. This may ultimately result in calling in security or realigning the investment portfolio for example.
- Considering an increase to the strength of the employer covenant, if appropriate.
- Ensuring there is a positive relationship with the employer to help the flow of information and signing confidentiality agreements to facilitate.
- Carrying out a proper selection process if there is a requirement for external advice. As part of this, the perceived benefits should outweigh the expected costs.

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

IMPORTANT INFORMATION

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AUDIT AND PENSIONS COMMITTEE

22nd September 2010

CONTRIBUTORS

REBALANCING THE INVESTMENT STRATEGY

**WARDS
All**

DF

This report prepared by P-Solve, discusses possible ways of regularly rebalancing the investment strategy.

RECOMMENDATION:

1. To note the report and take no further action.

**LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	P-Solve File	P.Gough Extn 2542	FCS, Room 42, Town Hall

Approach to Rebalancing the Investment Strategy

At the last meeting of the Audit and Pensions Committee, the question of how the Fund’s assets were rebalanced and an appropriate approach to take, was raised. At present, the Officers use cashflows to rebalance to the extent deemed necessary, depending on considerations such as market outlook, manager performance and any relevant strategic developments. The purpose of this note is to consider the merits of a more systematic approach to rebalancing between the various mandates employed within the Fund.

Current Position

At present, the investment strategy for the Fund is as follows:

Mandate	Allocation
UK Equities	25%
Overseas Equities	25%
Dynamic Asset Allocation	25%
Matching Fund: Global Bonds	12.5%
Matching Fund: Index Linked Gilts	12.5%

The strategic allocations are managed on a passive basis in that, as markets move, the allocation to respective mandates is allowed to drift (without correction at specific points back towards the strategic benchmark). This could result in significant discrepancies between the actual and strategic asset allocation, although cashflow can be (and has been) used to rebalance the strategy in the past.

Consideration of a New Approach

It has been proposed by the Committee that consideration be given to more systematically managing the balance between the respective mandates in order to “take profits” as they arise. Such a process would create upper and lower boundaries within which the asset allocation is allowed to vary.

In the event of the boundary being breached, the strategy would be rebalanced with the overweight position being reduced back to its strategic weighting and underweight positions being increased accordingly. This approach may be expected to add value during volatile market conditions, but in markets which are demonstrating persistent rises or falls, the approach should not add value.

We have provided some analysis, based on the last decade, to help put the approach taken to rebalancing into some context. However, we also discuss several other issues that must be considered when exploring such an approach, including the practicalities and associated costs.

Analysis of a Ten Year Backtest

Within the current strategy, the principal consideration for any rebalancing policy should be controlling the percentage of on-risk and off-risk assets (currently, the Fund has 75% of assets “on-risk” and 25% “off-risk” in the Matching Fund). In order to consider the merits of such an approach historically, we have backtested a simplified strategy to illustrate whether a purely mechanical rebalancing policy can add value. The following strategy has been used:

	Allocation
UK Equities	50%
Index Linked Gilts	50%

Two parameters for the management of the rebalancing strategy have been considered:

- (1) The frequency of monitoring: daily, weekly, monthly, quarterly
- (2) The tolerance range before rebalancing is triggered: 1%, 2%, 3%

The methodology employed assumes that the starting strategy is maintained until (in the case of a 1% tolerance limit), the allocations breach the 49/51% limit. In that instance, the allocations are rebalanced to 50%. It is also assumed that the costs of rebalancing can be ignored and that trading is instantaneous.

We have used market data over the period from 1 July 2000 to 30 June 2010. The results of the analysis are presented below. The table illustrates the annual outperformance generated by using a systematic rebalancing approach, when compared to not operating any rebalancing:

Tolerance Margin	Annual Outperformance (dependent on frequency of review)			
	Daily	Weekly	Monthly	Quarterly
1.0%	0.53%	0.38%	0.13%	0.21%
2.0%	0.40%	0.41%	0.16%	0.32%
3.0%	0.33%	0.35%	0.31%	0.27%

Source: Bloomberg, P-Solve calculations

As can be seen, the historic outperformance from a mechanical approach to rebalancing is positive, although this masks significant volatility in returns on an annual basis. For example, daily rebalancing using a 1% tolerance gives rise to annual outperformance (compared to a strategy with no rebalancing) of between -0.5% and +2.0% in the 10 year period studied.

It can also be observed that broadly, more frequent rebalancing tends to give rise to better performance but that broadening the tolerance range does not necessarily result in lower performance. This is useful in gauging the relative merits of different rebalancing approaches, but it does not take into account all the practical considerations involved.

Other considerations

There are a number of other practical issues that need to be considered alongside the basic backtesting results.

Costs

In considering the rebalancing of assets, costs need to be taken into account, particularly the trading costs of buying and selling assets. We estimate that trading costs would reduce the above returns by up to 0.1% p.a.

Implementation

If the Fund's asset allocation were to be rebalanced on a more frequent basis, i.e. daily or weekly, this could only be practically achieved by delegating management responsibility to a third party. Less frequent rebalancing could be managed in conjunction with the Officers and custodian on a more traditional advisory basis.

Practicalities

The need to invest/disinvest at potentially short notice poses further practical problems. In particular, certain of the Fund's investments (such as Baring's Dynamic Asset Allocation and LGIM's Index linked Gilt funds) have weekly dealing dates with notification of trading required several days in advance. Similarly, the proceeds of disinvestments are only made available several days following trading. This would mean that instructions given based on market conditions on a particular date could be invalidated by subsequent market movements or that these vehicles would have to be excluded from a mechanical rebalancing process.

Alternative approach

An alternative approach may be to introduce a "rebalancing portfolio". Such a portfolio would implement short term asset allocation rebalancing using derivative contracts. However, the introduction of such a portfolio gives rise to a number of other key issues:

- Cash would need to be allocated to the portfolio to provide collateral/margin against derivative contracts. The requirement for physical assets potentially reduces exposure to actively managed strategies and hence gives rise to a loss of outperformance. We estimate that this "cash drag" could reduce performance at an overall Fund level by up to 0.1% p.a.
- The Fund would need to appoint an investment manager to manage this portfolio. The costs of managing such a portfolio including cash and derivative management fees are likely to be up to 1% p.a. This reduces returns at an overall Fund level by up to 0.05% p.a. although needs to be balanced against the reduction in costs by disinvesting from other mandates.

The costs of pursuing more active management of the asset allocation are likely to offset the potential gains. The costs could be mitigated by broadening the mandate into a more active derivative strategy (to effectively become a global macro hedge fund strategy) which seeks to take advantage of relative value between a wider range of asset classes. However, such an approach would need to be balanced against other asset classes and strategies that could be used by the Fund.

Summary

In summary, whilst backtesting provides some evidence that a systematic rebalancing strategy can add value, given the additional costs and governance burden involved in executing such an approach, we do not believe there is sufficient evidence to justify the introduction of a more complex, short-term rebalancing arrangement.

P-Solve Asset Solutions
August 2010

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AUDIT AND PENSIONS COMMITTEE

22nd September 2010

CONTRIBUTORS

DF

MATCHING FUND STRATEGY

This report prepared by P-Solve, reviews the Matching Fund Strategy and the Legal & General investment mandate.

WARDS
All

RECOMMENDATION:

1. To note the report and ask Psolve and officers to monitor the situation as outlined in the report.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	P-Solve File	P.Gough Extn 2542	FCS, Room 42, Town Hall

London Borough of Hammersmith & Fulham Pension Fund: Review of LGIM Matching Fund Mandate

Summary

- The Committee previously agreed to a Matching Fund strategy which required investment in one of LGIM's "Enhanced Matching Funds" ("the EMF"), a leveraged LDI vehicle.
- Investment in this element of the Matching Fund strategy was deferred as the implementation costs associated with investment in Quarter 2, 2009 were deemed prohibitive. The Panel instead implemented an alternative strategy, investing in very long-dated index linked gilts.
- Whilst this strategy has been somewhat successful in broadly achieving its overall objective, performance over the last 12 months has highlighted the approximate nature of the protection within the strategy.
- We have reviewed the current LGIM mandate against the alternatives previously considered in light of current market conditions. We do not believe the Panel should implement the previously agreed strategy at this time for the following reasons:

- Although the costs of investment in LGIM's Enhanced Matching Funds have reduced significantly over the last year, these costs remain reasonably high;
- Hedging liability risk through gilts remains more attractive than hedging liability risk through a combination of cash and swaps;
- Whilst P-Solve believe that increasing inflation presents a serious risk to the Fund at this time, we also believe that interest rates are more likely to rise than fall. We therefore believe it appropriate to implement inflation protection independently of any increase in interest rate protection.

- We propose the Committee agree to the following actions at this time:
 - To retain the current investment strategy at this time whilst continuing to monitor prevailing market conditions;
 - That P-Solve should engage in dialogue with LGIM with regard to the implementation of a more bespoke strategy that may, for example, permit the level of inflation risk hedged to be increased independently of the level of interest rate hedging;
 - To review the Matching Fund strategy alongside a more general review of investment strategy early in 2011.

Background

The Fund's Matching Fund strategy seeks to deliver a return of 1% per annum in excess of the return on index linked gilts. The Matching Fund strategy currently consists of one mandate with Legal & General Investment Management ("LGIM") and one with Goldman Sachs Asset Management ("GSAM"), with the GSAM mandate being used to generate the target outperformance above gilts.

Following P-Solve's advice of May 2009, the Investment Panel deferred the proposed investment in LGIM's Enhanced Matching Fund and agreed to transfer the Fund's mandate with LGIM from the Over 5 Year Index-Linked Gilt Fund to the 2055 Index-Linked Gilt Fund. This provided the Fund with a mandate that offered greater sensitivity to inflation expectations in line with that of the Fund's liabilities.

Over the 12 month period to 30 June 2010, the Matching Fund strategy has delivered a return of 10.8% compared to a target return of 11.7% over this period. This performance breaks down as follows:

- GSAM achieved a return of 10.2% over the year compared to a target return of 2.9%, i.e. outperformance of 7.3%.
- LGIM achieved a return of 11.3% over the year compared to a target return of around 20.5%, i.e. underperformance of around 9.2%

London Borough of Hammersmith & Fulham Pension Fund: Review of LGIM Matching Fund Mandate

The underperformance from LGIM is a consequence of the approximate nature of the strategy against the chosen benchmark. The performance from LGIM (as a passive vehicle) has been as expected.

Investment in the EMF

We believe there are several issues for the Committee to consider in deciding whether to progress the investment:

Costs

Since the Fund's investment in the 2055 Index-Linked Gilt Fund, liquidity has returned to the swaps market, dramatically reducing the investment costs for swap based funds.

At the time of our previous advice, in May 2009, the bid-offer spread for the proposed investment in the Enhanced Matching Fund was substantial (circa 12.0%) At this time, the combined cost of disinvestment from the index linked gilt fund and reinvestment in the EMF is around 3% of assets, or around £2 million.

Gilt vs. Swap yields

We previously highlighted the relative benefit of hedging interest and inflation risks through the use of gilts rather than swaps. The "yield gap" remains and is illustrated in Appendix A.

In effect, if the Committee were to elect to invest in the EMF, relative to the benchmark, the investment would create a "drag" of around 0.4% per annum relative to the gilts benchmark. This in turn would require the GSAM mandate to deliver an additional 0.8% per annum in order to achieve the Matching Fund objective.

Current market views

As set out in detail in Appendix B, our expectations are that interest rates are more likely to rise than fall from here. Over the next few years, we believe that swap interest rates are likely to rise into the 4.5% to 5.5% range. At the current time, swap interest rates are below 4% p.a.

Another possible scenario is an "inflation" scenario, where the inflationary cycle takes hold, and long term swap rates rise to above 5.5% and medium term interest rates and inflation potentially both reach double digits. This is not an immediate concern as the Fund currently has relatively low asset exposure to interest rates albeit that the Fund's liabilities are all inflation linked through salary increases, increases to pensions in deferment and in payment.

This suggests that the Fund should seek to increase protection against rising inflation whilst deferring the introduction of further interest rate protection.

Proposed Actions

We propose that the Committee pursue investment in the EMF on the basis that inflation exposure can be introduced independently of interest rate exposure.

Although, at this time, LGIM do not offer such a pooled fund, from our initial discussions with them, we understand this is under active consideration. We propose to progress discussions with LGIM on this matter as well as the possibility of introducing a more bespoke solution.

Given this restriction, we therefore propose that the Committee retains the Fund's investment in the 2055 Index-Linked Gilt Fund at this time, given the cost of investment in the EMF and the drag on return against its benchmark. However, we propose market conditions, namely the overall real yield available and the real yield "gap" between index linked gilts and swaps, continue to be monitored.

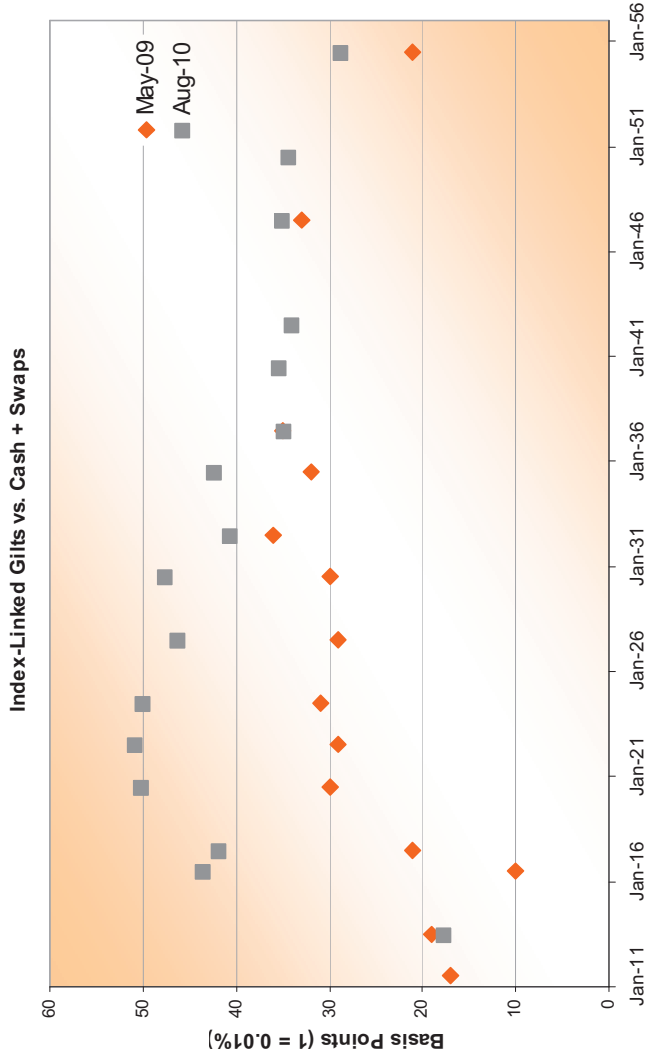
Following the current actuarial valuation, it is also proposed to review the overall investment strategy. Consideration will be given within this review to the more general hedging of liability risk.

We look forward to discussing this paper with the Pension and Audit Committee.

**P-Solve Asset Solutions
September 2010**

Appendix A: Index-Linked Gilts pick-up relative to Cash+Swaps

The chart below shows the spread offered by Index-Linked Gilts of different maturities above an investment in cash and swaps. We compare the spreads as at May 2009 and August 2010.



It can be seen that Index-Linked Gilts currently offer a greater yield than an equivalent investment in cash and swaps. We would expect this yield to reduce, and even revert to its pre-crisis negative level. However, we cannot be certain that it will revert, or if new positive yield normal will be set.

Appendix B – Economic argument for interest rates rising

P-Solve's view is that long term interest rates should rise over the medium term (3-5 years), and rise by more than the market is current pricing in. In this appendix we outline the economic rationale for this view.

Background

Market long term interest rates are the current going rate of interest at which market participants lend to one other for fixed interest loans for a long period of time, typically 15 years plus. They are calculated as the yield on low risk long-term fixed interest investments such as Government bonds and collateralised interest rate swaps.

They are quite separate from short term (or "cash") interest rates such as the Bank of England interest rate (or "base rate"), which is the rate at which financial institutions can borrow money from the Bank of England overnight. For example, at the present time the base rate is 0.5%, the interbank rate Libor is c.0.7% whilst yields on 30-year par swaps are c.3.9%.

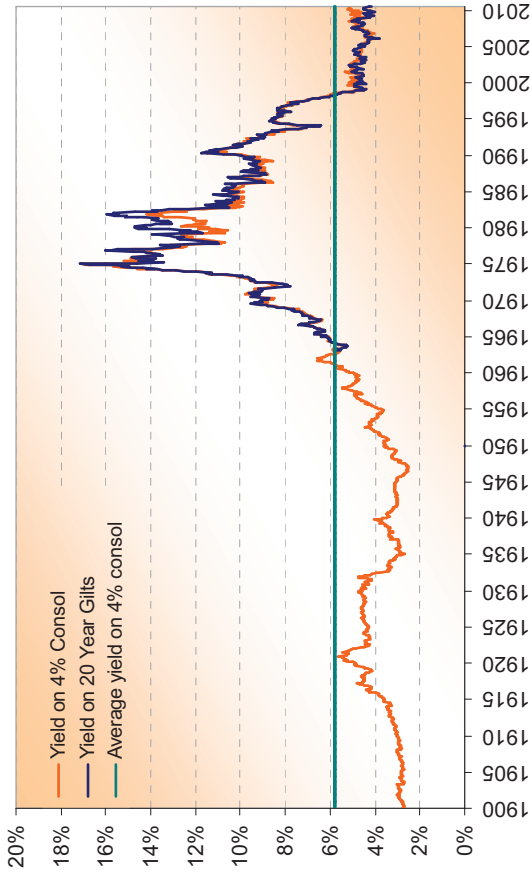
To a limited extent an investment in cash could be a substitute for an investment in a 30-year fixed interest bond, and so it is common parlance to describe the 30-year interest rate as "the market's expectation" for average short-term rates over that period. However, in reality cash and fixed interest bonds have very different financial characteristics (one preserves capital, the other matches a fixed long-dated liability). Therefore, in practice, long-term interest rates move with supply and demand for fixed interest investments and are not useful predictors of short term rates.

As a consequence, in framing our arguments we do not discuss the reasons why the Bank might or might not change the base rate. Instead, we consider the behaviour of long dated yields in the past, and focus on factors that we see affecting supply and demand for long-dated fixed interest sterling investments over the next few years.

History of long term interest rates

The chart below shows how 20 year interest rates on Gilts have changed over time since 1900. The average over that period is 5.8%, which is above the current

level of 4.2%. The high interest rates in the 1970s are a result of the economy being in a stagflation environment: inflation was high meaning that prices of fixed interest investments fell and their yields increased sharply.



Source: Thompson DataStream, P-Solve

Since then, Gilt interest rates (and inflation) have fallen and apparently stabilised around 4.5% to 5.0%. Some have argued that a new low-inflation paradigm has been reached, and that periods like the 1970s can safely be ignored. However, even if we consider a shorter time period such as from 1985 onwards, 20 year interest rates are still close to historic lows - this is shown in the table below.

Yield on 20 Year Gilts	
As at 30 June 2010	4.2%
Average post 1970	8.9%
Peak (15/12/1974)	17.2%
Low (15/01/2006)	3.8%

* Peak and Low refer to period Post 1985. Source: Thompson DataStream, P-Solve

London Borough of Hammersmith & Fulham Pension Fund: Review of LGIM Matching Fund Mandate

Although interest rates are currently below the observed averages both over the long term and since 1985, this is only part of the reason behind why we expect long term interest rates to rise. Our view is also strongly driven by the structural issues within the UK economy, and particularly the level of debt in the UK economy. In particular, we do not rule out a return to higher levels of inflation, albeit not necessarily to the levels seen in the late 1970s.

The relationship between swaps and Gilts

Sterling long-term interest rates may be derived from either from Gilt yields, or from the Libor interest rate swap market. Gilts are the main ultimate source of long-dated fixed interest exposure, and supply of Gilts is the factor that is expected to be the driver of interest rate rises.

Typically these two are close and move together, with Gilts yielding 0.2% to 0.3% **less than** swaps reflecting the fact that least risk cash investments generate below Libor.

In the current environment, longer dated Gilts are actually yielding 0.3% to 0.5% **more than** swaps, so the relationship is inverted. This has resulted from a shift in the supply/demand balance towards long-dated swaps and away from long-dated Gilts. We believe that this has occurred because:

- The market is concerned about the risk of Government default.
- Pension schemes are not in a position to move from return-seeking assets into Gilts due to poor performance of equity markets (most other Gilt investors prefer short or medium dated Gilts). They have continued to implement liability hedging but have instead tended to use long-dated swaps.
- Where banks used to hold long-dated Gilts and resell the inherent interest rate exposure in the form of swaps, they are now less willing to do so. This has resulted from bank weakness and increased risk aversion, coupled with increased volatility in the swap gilt spread.

However, there is a limit to which Gilts and swaps can be expected to diverge as they are close substitutes for one another in the long run, economically speaking. Even in terms of credit risk they are related to one another because swaps are

typically collateralised by posting Gilts, and the Government is the ultimate guarantor of the banking sector.

Going forward, we expect UK pension scheme funding to improve through increased sponsor contributions, recovery of return-seeking assets and/or reduction of benefits through entry into the PPF. As interest rates rise, pension schemes will therefore become both more willing and more able to buy long-dated Gilts. This will put pressure on the Gilt swap spread to revert, meaning that, if anything, swap interest rates may be expected to rise more than Gilt rates.

The graph opposite shows a history of swap interest rates for the period covering five years up to the credit crunch (from June 2002 to June 2007) which excludes the recent extreme moves. It gives an average rate of 4.7%, which is also in line with the 4.5% to 5.0% range mentioned above.

Movement of 30 Year Term Interest Rates over 5 Years before the start of the credit crunch (June 2007)



Source: Bloomberg

London Borough of Hammersmith & Fulham Pension Fund: Review of LGIM Matching Fund Mandate

What is the “normal” level for interest rates?

The empirical evidence indicates that long-term risk-free interest rates, averaged over long periods, tend to be broadly in line with the nominal economic growth of a country. This is in line with what may be expected from economic theory. For the UK, we might expect:

- inflation of 2.0% to 2.5% (based on the existing Bank of England inflation mandate) and,
- in the absence of a protracted depression, real growth of 2.0% to 2.5% (based on historical averages).

This implies a long term level for interest rates of 4.5% to 5.0%.

Therefore, on this argument alone, there is some scope to expect rates to rise from their current levels of c.4.0%. Indeed the swaps market is already pricing in that the 30-year par swap yield will rise from 3.90% to 4.32% by June 2014. However, we believe that there is good reason to expect interest rates to overshoot their normal levels over the next few years. We next set out why this should be the case.

The case for rising interest rates — the source of the problem

The UK is currently facing the highest budget deficit since World War II – historically the only other times that the UK has ever borrowed on such a large scale (and run such a high Debt to GDP ratio) were in order to finance major wars. Spending by the previous Government over the last 10 years means the UK now needs to take action to reduce its debt.

If the Government does not manage to maintain investor confidence, investors will demand much higher yields on Gilts, sterling will suffer and imported inflation will set off an inflationary spiral that will be difficult to bring under control. This time however, the UK also has off balance sheet commitments that dwarf the official debt, such as PFI debt, Network Rail bonds, and over £1,000bn of underfunded and even entirely unfunded public sector pension liabilities, quite apart from the unfunded state pension system.

So interest rates must rise significantly, unless the Government can swiftly diffuse the ballooning national debt. Historically, governments have dealt with

excessive debt via austerity, growth, default and/or inflation. We discuss next how relevant each of these might be to the current situation.

Austerity

One likely solution is austerity: cutting government spending and/or increasing taxes. We have already seen some austerity measures being announced by the new coalition government who have pledged to reduce the annual budget deficit by £40bn over the period to 2015 with broadly 80% of this coming from spending reductions and 20% from tax increases. However, we do not see this as the magic bullet for the following reasons:

- Austerity is generally unpopular with voters, it can lead to strikes by unions and, it ultimately has little impact on plugging the UK deficit. The lack of a Conservative majority does not help here, and there is a risk that the coalition Government could collapse if voter or union resistance is too strong.
- The public and private sectors are inter-dependent and austerity could threaten the nascent private sector recovery. Reduced Government spending means public sector employees have less to spend, and companies that provide goods or services to the Government will suffer reduced revenue and kept pricing pressure.
- Even if the Government succeeds in finding ways to implement the cuts proposed, with associated huge numbers of public sector job losses, the forecasts optimistically assume that the private sector will replace the majority of those jobs. If it does not, and private sector growth currently looks to be at best sluggish, then the consequential reduction in tax take and increase in welfare spending will put paid to any hope of balancing the budget by 2015.
- More worryingly still, even if the arguably optimistic forecasts turn out right, the impact on the required investor base for Gilts is relatively limited. The graph below shows the projected Gilt stock first as projected by Labour (teal bars), and then following the “most austere budget for a generation” (orange bars).

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Government with another spending issue to deal with. We have seen some measures such as an increase in the State Pension Age and linking pensions to CPI rather than RPI. However these will only take effect slowly and will have a limited effect as currently proposed.

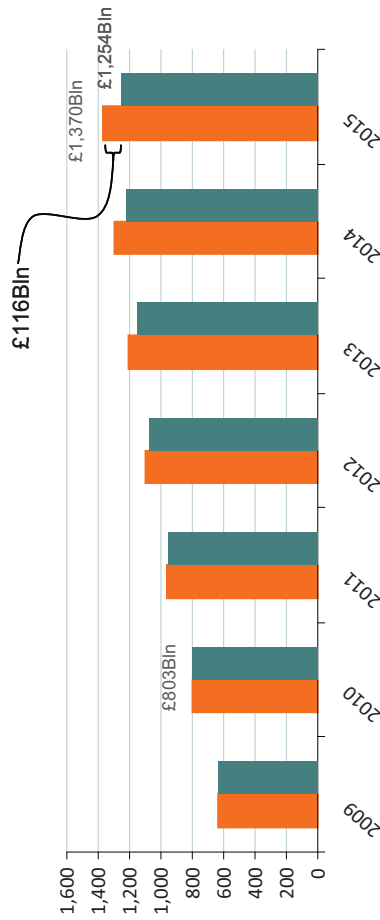
- The burden of paying the interest on the existing and projected national debt of itself acts as a drain on our national resources, meaning that tax rates are higher than they would otherwise be. This “fiscal drag” acts to slow economic growth and diverts resources that could otherwise be invested in the real economy.
- A shift of powers away from the Western economies to more developing economies like India and China means it is difficult for the UK to become a manufacturing nation again and achieve growth through exports. Most emerging markets do not have an ageing population, and are well placed to grow through increasing domestic demand.

As a consequence, we do not see real growth as a solution now.

Default

A further measure the Government could take to plug the deficit would be to simply default on its debt. Historically, the UK has not formally defaulted on its debt since 1688. However, the “voluntary” conversion of War Loans in 1932 from 5% coupon to 3% coupon was in effect a partial default. This was done in grip of the Great Depression, alongside austerity measures and associated deflation, and in effect reduced the rate to one in line with the then market levels for new debt.

The importance of reputation has always been a driver for the British to find other ways to solve the problem, not least because much of our prosperity has depended and continues to depend on London’s pre-eminence as a global financial centre. In the modern day this reputational concern is seen in the new Government’s commitment to maintain the UK’s AAA credit rating. We believe that default will be avoided unless all other possible solutions have been tried and failed.



Source: UK Treasury, OBR

Growth

Another potential solution would be real economic growth¹: growth helps because it increases the tax base and makes the debt stock seem smaller relative to an increased national income (GDP). Indeed, growth was the main factor which enabled Britain to deal with the huge national debt that resulted from the Napoleonic wars; it was also through growth, along with some austerity measures, that Canada dealt with its excessive levels of national debt in the 1990s.

However, we expect the UK to struggle to achieve significant real economic growth because:

- During the 1980s, the solution was growth driven in the main by improvements in productivity and working practices. This time however there are few obvious major inefficiencies in the private sector and hence easy wins for productivity as a source of growth.
- The UK population is ageing. This means the workforce is shrinking relative to the retired population and the concept of retirees being funded by the working population no longer works as well as it once did, leaving the

¹ In fact, it is nominal growth that is needed: this could be achieved by real growth combined with modest inflation (discussed here), or by inflation combined with stagnation or modest growth (discussed overleaf).

Inflation

We therefore see challenges with the Government significantly solving the deficit problem through austerity measures or economic growth, and we do not believe the Government will default of its debt. Instead we believe the Government will increase and extend its borrowing by issuing gilts and, it will fail to adequately control inflation (leading to a reduction in the real economic value of its debt).

Inflation is in effect a “polite” way to default: the debt is paid back in pound terms but its purchasing power is much reduced. Inflation increases the tax base and reduces the burden of the outstanding debt stock relative to incomes. Whilst some UK government debt is linked to inflation (index-linked Gilts), these represent only a minority of the current total stock.

Clearly, it is in the Government’s interest to convince investors that inflation will remain under control, otherwise investors (especially foreign investors) will demand high yields on Gilts to compensate for the risk of loss of purchasing power on the capital invested, increasing the national interest burden. This is the reason for the independence of the Bank of England and (albeit questioned) the new Office of Budgetary Responsibility.

High inflation will never therefore be a stated policy, though the Bank’s current 2% inflation target could be raised. Indeed we have already seen speculation in the press that the Bank is considering increasing the 2% CPI target to 4%. Alternatively the rules changed surrounding divergence from the target or around measurement of inflation could be changed, or the mandate of the Bank altered to take into account the wider economy (as is already the case with the Federal Reserve in the US).

Alternatively, inflation may arise from other sources, such as:

- Fall in the value of sterling, if foreign investors become nervous about the government’s ability to repay its debt. This increases prices of imports and exports, increasing inflationary pressure.
- A return to commodity price inflation, driven by emerging market consumption growth.
- A specific commodity driven crisis, such as the 1973 oil crisis.

- Wage inflation driven by increased taxation or the need to pay privately for services no longer provided by the public sector.

Whilst the source is not easy to predict, the emergence of higher levels of inflation, could lead to the resolution a number of current imbalances including excessive nation debt (and indeed private sector debt).

We therefore do not believe the Bank will seek to control inflation as tightly as they have in the past. For the Government, higher inflation has the side effect of reducing the size of the budget deficit in real terms. Importantly, it also means that investors, especially those overseas, will demand higher yields before they are willing to buy Gilts.

Consequences for Gilt issuance and hence interest rates

Given that we do not see further austerity, significant real growth, or default as likely possibilities, we come to the conclusion that:

- Inflation is likely to run at a higher rate than the current 2% CPI target.
- Gilt issuance is likely to be at least at the levels shown in the latest OBR projections.

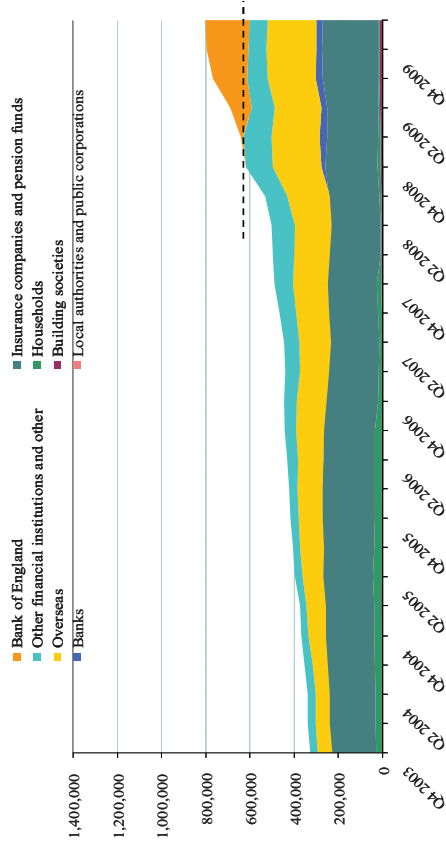
Both increased Gilt issuance and higher inflation will tend to lead to a rise in long term interest rates. As seen in the chart on page 7, the Government intend to issue approximately £450bn of Gilts to the end of 2015. (This is the net issuance, not counting issuance required to roll over existing debt that matures.) This will bring the total level of Gilts in issuance from c.£800bn to £1,250bn – a more than 50% increase relative to the gilts currently in issuance.

The main problem with issuing a high amount of debt is finding a buyer for this debt. Typically, the buyers of gilts have been insurance companies and pension schemes, overseas investors and financial institutions such as banks and building societies. However, the market is now arguably saturated with Gilts and last year the investor base was a net seller of gilts - a by product of the quantitative easing project in which the Bank bought £200bn of Gilts.

So which of these investor groups might be able to absorb some of this huge increase in supply?

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- Local authorities, building societies and households have little reason to hold Gilts. Retail investors are unlikely to choose Gilt funds, especially as interest rate rises begin and capital values of Gilts fall leading Gilt funds to produce negative performance.
- There is no reason to expect insurance companies to dramatically expand their business. They may take some increase in Gilts if Solvency II makes corporate bonds less attractive, but this is unlikely to be material to the scale of the additional issuance required.
- Banks currently own relatively few Gilts, which reflects their function as financial intermediaries — they are in the business of lending money out again! There may be some increase in bank holdings as a result of muted increased capital requirements, but again it will not be material compared to the additional issuance required.
- Pension schemes (also included in the “Other financial institutions” via their pooled fund holdings) are unlikely to buy many more Gilts at current yields. However, if yields increased significantly then scheme funding would improve and pension schemes’ appetite for Gilts would increase.
- Overseas investors have increased their holdings over the period since 2003, but last year actually decreased their holdings, as worries about the UK losing its AAA rating mounted. Most developed world governments are in a similar situation to the UK, and even if international appetite for sovereign bonds increases, there will be strong competition for that money, especially from the US which has the benefit of the dollar being the leading reserve currency.
- The Bank of England has already bought £200bn of Gilts and, if the economy does recover, will need to sell them back to the market in order to mop up the excess money that quantitative easing generated. If the economy falters, quantitative easing may be extended and the Bank may be a purchaser of Gilts in the short term. However, this only defers the problem, and stores up more surplus supply for when quantitative easing is eventually reversed.



In our view, there is therefore no obvious buyer for additional UK Gilts in the near future, at current yields. Therefore, given the dramatic increase of supply required, we expect Gilts prices to fall and yields to rise, and hence swap interest rates to rise.

We also believe it is likely that further quantitative easing will be necessary to help soak up the additional supply of Gilts. This amounts to monetising a deficit and will tend to have the effect of storing up more inflation for the future,

Why interest rate rises might take longer to happen

Based on the above arguments, the only realistic way that interest rate rises might be avoided entirely would be our “Japan” scenario where the UK follows Japan into a deflationary environment with extremely low interest rates. However, the political consensus and the political will to avoid a repeat of the Great Depression makes a deflationary scenario appear unlikely.

The most serious risk to our view is therefore not that interest rates do not rise, but that they do rise, yet take longer to do so than the 2–4 years that we anticipate. We see two main circumstances where this may occur:

- A Eurozone crisis which causes confidence in European markets to fall. If this happens, foreign investors in European sovereigns may flee to UK Gilts as a safe haven. However, this is relatively unlikely because even if the Euro does collapse, the US is more likely to be viewed as a safe haven. (The US is a more diverse economy with a stronger manufacturing industry and broad skill base compared to UK which is heavily dependent on financial services.)
- A **“Stagnation” scenario** where there is relatively limited industrial action, the coalition government holds together, there is qualified success in implementing the austerity measures, and as a consequence the private sector growth stagnates and base rates are held low and quantitative easing is extended. If anything this would push down medium dated rates (5–10 years) more than long-dated, as cash investors go out along the curve in the search for yield. Whilst “Stagnation” is a genuine possibility, it requires too many things to go right to be viewed as a central scenario.

Conclusion

As a result, we believe that the most likely outcomes (in order) are:

- A **“Growth” scenario**, where the combination of higher but controlled inflation, and a degree of austerity measures, leads to a reasonable economic recovery. Even though real GDP growth may not be particularly strong, above target inflation means that the nominal GDP growth would be high enough to inflate away the problem in a controlled way over a period of 5 to 10 years. Gilt yields rise and a combination of pension schemes de-risking and foreign investors soak up the additional supply. In this scenario we see swap interest rates at 4.5% to 5.5% in 2014.
- An **“Inflation” scenario**, where the inflationary cycle takes hold, and long term swaps interest rates rise to above 5.5% and medium term interest rates and inflation potentially both reach double digits.

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AUDIT AND PENSIONS COMMITTEE

22nd September 2010

CONTRIBUTORS

DF&CS

CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

This report sets out the Knowledge and Skills Framework developed by CIPFA.

WARDS All

RECOMMENDATION:

1. To note the report.
2. To agree to complete the knowledge and skills assessment.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	CIPFA Knowledge & Skills Framework File	P.Gough Extn 2542	FCS, Room 42, Town Hall

1. INTRODUCTION

- 1.1 The Chartered Institute of Public Finance & Accounting (CIPFA) has introduced a new Knowledge and Skills Framework to promote improvements in the governance arrangements of the Local Government Pension Scheme (LGPS). Under the current economic climate, pension schemes generally have come under increasing scrutiny in recent years and public sector pension schemes in particular are increasingly a focus of public sector finance debate.
- 1.2 In addition, there has been a trend over the last decade for the funds which make up the LGPS to extend their investment strategies into a more diverse range of investment assets and asset managers. Consequently local government finance officers and elected members are being asked to advise, manage and make decisions on a more complex range of investments than in the past.
- 1.3 Investment knowledge can not sit in isolation from an understanding of the overall framework within which public sector pension scheme finance operates. This wider context requires knowledge of the regulatory position, accounting and auditing developments, fund liabilities, cash flow management, actuarial valuations, outsourcing and supplier relationship management and many other issues.
- 1.4 The knowledge and skills framework is intended to promote good governance in public sector pension scheme decision-making bodies by providing a framework for the training and development of their members. Local authorities are required to publish statements of compliance against a set of best practice principles for scheme governance and stewardship. The first of these principles (Myners Principles) concerns knowledge and skills:
- Administering authorities should ensure that:
- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and
 - Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- 1.5 Against the background of the six Myners Principles and CIPFA/SOLACE Delivering Good Governance in Local Government, the CIPFA pensions panel is concerned that in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role on decision-making bodies, it is difficult to ascertain whether training is truly effective. Hence in an attempt to determine the correct skill set for public

sector pension scheme, CIPFA has developed a technical Knowledge and Skills Framework.

- 1.6 This framework has two primary functions:
- A tool for organisations to assess whether they have the right skill mix to meet their scheme financial management needs; and
 - A tool for individuals to measure their progress and plan their development
- 1.7 CIPFA acknowledges that not all schemes will demand that their financial managers possess the full range of technical skills and knowledge outlined in the framework and schemes are strongly encouraged to adapt the framework to meet their own requirements.

2 KNOWLEDGE AND SKILLS FRAMEWORK

- 2.1 CIPFA has identified six areas of knowledge and skills as the core technical requirements for both officers and members. They are:
- Pensions legislative and governance context;
 - Pensions accounting and auditing standards;
 - Financial services procurement and relationship management;
 - Investment performance and risk management;
 - Financial markets and products knowledge;
 - Actuarial methods, standards and practices.
- 2.2 Due to the complexity of pensions finance, these skill sets extend beyond the strict boundaries of accountancy into areas of investment and actuarial finance, as well as knowledge of the legislative environment. Detailed knowledge and skills related to pension scheme benefits administration are also largely excluded from the framework, as there are other professional bodies active in this area. However, a general knowledge of scheme benefits and taxation arrangements is included in the skill sets.

3 STATUS OF FRAMEWORK

- 3.1 At this stage, the knowledge and skills framework is not mandatory, but is designed to have persuasive force. However, in future it may be elevated to a formal CIPFA Code of Practice, which the Council would be expected to adhere to. CLG is considering whether to make it a requirement for funds to include in their annual reports a statement on the extent to which they have adopted the framework or made alternative arrangements. In the interim, CIPFA recommends that users of the framework make a voluntary disclosure in their annual reports on how the framework has been applied, what assessment of training needs has been undertaken and what training has been delivered against the identified training needs.

4 FRAMEWORK FOR MEMBERS

- 4.1 For members, the key knowledge and skills developed by CIPFA are detailed in Annex A. Additional guidance is available for the Chairman and Vice-Chairman of a pensions committee.

5 FRAMEWORK FOR OFFICERS

- 5.1 The framework for officers recognises that different individuals/groups have varying roles. For officers, four main roles have been illustrated – Chief Finance Officer, Chief Investment Officer /Head of Investment, Pension Fund Accountant and Assistant Pension Fund Accountant. For information, the framework for the Chief Finance Officer is attached as Annex B.

6 PROPOSALS FOR LBHF

- 6.1 In order to comply with the framework, the Council needs to carry out a training needs assessment and assess the training needs of both members and officers. It then needs to consider the most appropriate and effective means of delivering training and agree a training plan.
- 6.2 CIPFA has developed a product with Hymans Robertson LLP, (a firm providing actuarial services and investment advice to many local authorities), which includes training needs assessments for both members and officers and also provides an on-line library for reference. At £1900, this is considered a cost effective means of assessing the training needs of members and officers and also providing a useful resource for easy reference and the Council has recently purchased it. Sample questions from the assessment are included in Annex C.
- 6.3 Once the Council has access to the training needs assessment tool, officers will consider whether it needs to be modified for LBHF. The assessment will then be sent to all members of the committee and relevant officers for completion.
- 6.4 A summary of the results, together with a proposed training plan will be brought back to a later meeting of this committee.

7 RECOMMENDATIONS

- 7.1 To note the report
- 7.2 To agree to complete the knowledge and skills framework

Pensions Knowledge and Skills Framework for Elected Representatives and Non-executives

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
<p>General pensions framework</p> <p>A general awareness of the pensions legislative framework in the UK.</p> <p>Scheme-specific legislation</p> <p>An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.</p> <p>An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.</p>	<p>Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.</p> <p>Awareness of the role of both internal and external audit in the governance and assurance process.</p>	<p>Understanding public procurement</p> <p>Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <p>Supplier risk management</p> <p>Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p>	<p>Total fund</p> <p>Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Performance of advisors</p> <p>Awareness of the Myners principles of performance management and the approach adopted by the committee.</p> <p>Performance of the committee</p> <p>Awareness of the Myners principles and the need to set targets for the committee and to report against them.</p> <p>Performance of support services</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>	<p>Investment strategy</p> <p>Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property). Understanding of the role of these asset classes in long-term pension fund investing.</p> <p>Financial markets</p> <p>Understanding of the primary importance of the investment strategy decision.</p> <p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <p>An awareness of the limits placed by regulation on the investment activities of local government pension funds.</p>	<p>Valuations</p> <p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>Awareness of the importance of monitoring early and ill health retirement strain costs.</p> <p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p> <p>Outsourcing</p> <p>A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.</p>

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
<p>A regularly updated appreciation of the latest changes to the scheme rules.</p> <p>Knowledge of the role of the administering authority in relation to the LGPS.</p>	<p>Pensions regulators and advisors</p> <p>An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p>	<p>General constitutional framework</p> <p>Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.</p>	<p>Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p>		

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
Pension scheme governance					
An awareness of the LGPS main features.					
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.					
A detailed knowledge of the duties and responsibilities of committee members.					
Knowledge of the stakeholders of the pension fund and the nature of their interests.					
Knowledge of consultation, communication and involvement options relevant to the stakeholders.					

Pensions Knowledge and Skills Framework

	Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
Chief finance officer (head of finance, finance director, section 151 officer)	<p>General pensions framework</p> <p>A general awareness of the pensions legislative framework in the UK, particularly:</p> <ul style="list-style-type: none"> ■ Pensions Act 1995 ■ Pensions Act 2004 ■ Occupational Pension Schemes (Disclosure of Information) Regulations 1996. <p>Scheme-specific legislation</p> <p>An overall understanding of the legislation specific to the scheme:</p> <ul style="list-style-type: none"> ■ Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 ■ Local Government Pension Scheme (Administration) Regulations 2008 	<p>Awareness of the relevant pensions accounting standards as they apply to the scheme and to the employer:</p> <ul style="list-style-type: none"> ■ Pensions SORP ■ FRS17 (IAS19) ■ iFReM. <p>Understanding of the approach to pensions external audit as set down in APB Practice Note 15.</p> <p>Understanding of the role of internal audit in the governance and assurance process.</p> <p>Awareness of and compliance with the CIPFA statement of expertise as it applies to:</p> <ul style="list-style-type: none"> ■ leadership and strategic management ■ governance, ethics and values 	<p>Understanding public procurement</p> <p>Knowledge and understanding of the background to current public procurement policy and procedures.</p> <p>Understanding of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>Able to understand and analyse the impact of procurement policy and government initiatives on procurement.</p> <p>Understanding of the significance of the financial accountability cycle for procurement policy and practice.</p> <p>Supplier risk management</p> <p>Awareness of the nature and scope of risks for the organisation.</p>	<p>Total fund</p> <p>Understanding of the importance of monitoring asset returns relative to the liabilities.</p> <p>Understanding of the ways of assessing long-term risks, eg asset liability modelling.</p>	<p>Governance</p> <p>An awareness of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and their application to the newer types of investment instrument.</p> <p>Knowledge of the Myners principles and associated CIPFA guidance.</p> <p>Knowledge of the regulatory requirements under the FSA for investment managers.</p> <p>Investment strategy</p> <p>Detailed understanding of long-term risk and return parameters of equity, bond and property markets, and issues arising from short-term volatility.</p>	<p>Governance</p> <p>A detailed knowledge of the duties and responsibilities of committee members.</p> <p>A reasonable awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 and their main features.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayer.</p> <p>An appreciation of the latest changes to the scheme rules.</p>

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
<ul style="list-style-type: none"> ■ Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. <p>Understanding of how the scheme interfaces with other private and state pension provision.</p> <p>Tax legislation</p> <p>A general awareness of pension scheme tax legislation and the UK pension scheme reporting framework. In particular:</p> <ul style="list-style-type: none"> ■ Finance Act 2004 ■ Finance Act 2005 ■ Finance Act 2006 ■ related statutory instruments. <p>Pensions regulators and advisors</p> <p>Understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p>	<ul style="list-style-type: none"> ■ financial and performance reporting ■ audit and accountability ■ strategic and operational financial management ■ partnerships and stakeholder relations ■ change risk and project management. 	<p>Able to assess the sources of supplier risk and the likely impact of those risks upon the organisation.</p> <p>Able to plan and implement an appropriate risk management process in order to protect the organisation's interests.</p> <p>Understanding of how supplier appraisals, pre-qualification of suppliers and contract monitoring can help to mitigate risks.</p> <p>Able to develop systems for testing risks and monitoring them accordingly.</p> <p>Understanding of how to apply risk management principles to various procurement and supply management scenarios.</p> <p>Able to apply a range of techniques to mitigate risk proactively and to reduce the consequential losses in the instance of a risk event occurring.</p>		<p>The effect on overall risk and return of combining these asset classes in the pension fund strategy.</p> <p>Understanding of the relationship between the investment and funding strategies and the liabilities of the fund.</p> <p>A working knowledge of 'alternative' asset classes available for pension fund investment (private equity, infrastructure, absolute return mandates etc), including the practicalities of investing, prospective risks and returns and correlation with other asset classes.</p> <p>Costs and benefits of active and passive currency hedging strategies, including implementation issues.</p> <p>Investment manager structures</p> <p>The relative attractions of active and passive management across different asset classes.</p>	<p>Valuations</p> <p>A detailed knowledge of the valuation process, including:</p> <ul style="list-style-type: none"> ■ the actual valuation processes ■ agreeing the financial and demographic assumptions ■ developing and publishing the funding strategy statement in conjunction with the fund actuary ■ signing off the rates and adjustment certificate ■ inter-valuation monitoring. <p>Monitoring of early and ill health retirement strain costs.</p> <p>The inclusion of new employers into the fund and the implications of cessation with existing employers.</p> <p>Understanding the difference between the funding valuation exercise and FRS17.</p>

Pensions legislative and governance context

Pensions accounting and auditing standards

Financial services procurement and relationship management

Investment performance and risk management

Financial markets and products knowledge

Actuarial methods, standards and practices

The role of active manager risk within the investment arrangements.

Understanding of the concepts of 'risk budgeting', sources of return (*alpha* and *beta*) and improving the 'efficiency' of the arrangements.

The practical implications of pooled and segregated mandates in terms of setting investment guidelines, effecting transactions and client reporting.

The implications of combining managers with different investment styles.

Other issues

Responsibilities of the custodian and procedures for reconciling information with managers.

Costs and benefits of stock lending and commission recapture programmes.

Outsourcing

A general awareness of the requirements of the Treasury's 'Fair Deal' guidance and related guidance in relation to outsourcing and bulk transfers.



Training Needs Analysis

for Elected Representatives and Non-executives in the Public Sector

1. Pensions legislative and governance context

1.1 General pensions framework

1.1.1		tick one box
Under which Act is the LGPS 'registered'?		
	A. Pensions Act 1995;	<input type="checkbox"/>
	B. Finance Act 2004;	<input type="checkbox"/>
	C. Pension Schemes Act 1993;	<input type="checkbox"/>
	D. Superannuation Act 1972.	<input type="checkbox"/>

1.1.2		tick all that apply
In which of the following ways is the LGPS impacted by overriding pensions legislation?		
	A. Tax relief on pension contributions;	<input type="checkbox"/>
	B. The reference scheme test;	<input type="checkbox"/>
	C. Disclosure of information requirements;	<input type="checkbox"/>
	D. Reduced national insurance contributions;	<input type="checkbox"/>
	E. None.	<input type="checkbox"/>

1.2 Scheme specific legislation

1.2.1		tick one box
Under which Act is legislation regulating the LGPS made?		
	A. Pensions Act 1995;	<input type="checkbox"/>
	B. Finance Act 2004;	<input type="checkbox"/>
	C. Pension Schemes Act 1993;	<input type="checkbox"/>
	D. Superannuation Act 1972;	<input type="checkbox"/>

5. Financial markets and product knowledge

5.1 Investment strategy

5.1.1 tick all that apply

What influences the funding level of your scheme?

A. The value of the assets;

B. The value of the liabilities;

5.1.2

What is the investment objective of your Fund? In which document would you find it recorded?

5.1.3 write in answer

Which asset class (equities, bonds, property, cash) matches each of the activities described below?

A. Lending money to companies or to government;

B. Buying a share in commercial premises;

C. Buying shares in companies on a stock exchange;

D. Depositing money in the bank?

5.1.4 tick one box

Historically LGPS funds have invested mainly in equities, bonds and property. Which of these has had the highest allocation?

A. Equities;

B. Bonds;

C. Property.



AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS
Director of FCS

Subject

WARDS
All

**TREASURY MANAGEMENT OUTTURN
REPORT**

This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31st March 2010.

RECOMMENDATIONS:

To note the borrowing and investment activity for the period 1st April 2009 to 31st March 2010.

1. Introduction and Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009 was adopted by this Council in February 2010 and this Council fully complies with its requirements.

1.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual treasury management strategy report for the year ahead, a midyear review report, and an annual review report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit and Pensions Committee.

2. This annual report covers:

- The Council's treasury position as at 31 March 2010 (Para. 3)
- Economic review (Para.4)
- Borrowing rates (Para. 5)
- Borrowing outturn for 2009/10 (Para. 6)
- Investment outturn for 2009/10 (Para. 7)
- Debt rescheduling (Para. 8)
- Compliance with treasury limits and Prudential Indicators (Para. 9)

3. Current Treasury Position

3.1 The Council's borrowing position at the beginning and end of the year is set out in Table 1.

Table 1 – Outstanding Debt

	31 March 2009		31 March 2010	
	Principal	Ave. Rate	Principal	Ave. Rate
	£000's		£000's	
Fixed Rate - PWLB	398,520		475,520	
Variable Rate - PWLB	Nil		Nil	
Market & Temporary Loans	Nil		Nil	
Total	398,520	6.06%	475,520	5.93%
Total Investments	76,000	4.94%	137,000	1.24%

3.2 The General Fund Capital Finance Requirement (CFR) is £133 million as at 31/03/10 compared to £137 million as 31/03/09 a reduction of £4 million. The HRA CFR is £405 million as at 31/03/10 compared to £353 million as at 31/03/09 an increase of £52 million. The increase in the HRA CFR is due to the delivery of the decent homes programme. Total CFR is £538 million as at 31/03/10.

3.3 The CFR represents the underlying borrowing need of the HRA and General Fund. The reason why actual borrowing is lower than the CFR is because the Council has affectively borrowed from its internal resources.

4. Economic Review

4.1 During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

4.2 Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

4.3 It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rates and 3 months LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

4.4 The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 for 2009. There was then major disappointment that the end of the recession failed to materialize in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth at +0.4%.

- 4.5 CPI inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.
- 4.6 More recent figures have been released which show UK CPI inflation peaked at 3.7% in April and slowed to 3.4% in May which is the first decline for three months as lower costs of items from food and transport eased price pressures in the economy. Although the CPI figure fell on the month, it is still well above the 2% target rate due to the VAT restored to 17.5% in January.
- 4.7 The latest data would suggest that CPI inflation may have peaked in the short term and the spare capacity in the economy should pull down inflation going forward. In 'normal time' such high inflation would trigger a series of rate rises from the MPC, however the Committee is likely to remain cautious given the outlook for growth and the troubles in the Euro area.

5. Borrowing Rates 2009/10

- 5.1 Variations in most PWLB rates this year have been within a fairly limited band compared to previous years with the largest spread being 1.12% in the 10 year.
- 5.2 **5 Year PWLB rate.** This started the year at 2.54% and then fell to a low for the year of 2.47% before then rising sharply to hit a peak of 3.29% in July. From there it fell until reaching 2.54% in October and then rose back up to a peak 3.13% in January. It finished the year at 2.89%.
- 5.3 **10 Year PWLB rate.** This started the year at 3.36% and then fell to a low for the year of 3.30% before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.
- 5.4 **25 Year PWLB rate.** This started the year at 4.28% and then peaked in the 4.70%'s during June – August before falling to a bottom of 4.07% in October. From there it rose again towards the end of the year to return to the 4.70's and peaked at 4.83% in February. It finished the year at 4.67%.
- 5.5 **50 Year PWLB rate.** This started the year at 4.57% and then peaked a 4.85% in June before falling back to a low of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

6. Borrowing Outturn for 2009/10

- 6.1 As a result of the H&F Homes bid in 2005/06 for £192 million to the DCLG for supported borrowing for the Decent Homes Initiative there was a borrowing requirement of £77 million. It was decided to take advantage of low long term rates and reduce exposure to fluctuations in short term interest rates that

borrowing would be taken in November 2009. This borrowing will be supported through the Housing Revenue Account Subsidy.

6.2 To balance the Council's debt maturity portfolio this was taken over the following periods.

- 7 Million at 3.95% for 10 years
- 20 Million at 4.04% for 11 years
- 20 million at 4.31% for 19 years
- 20 Million at 4.25% for 15 years
- 10 Million at 4.32% for 21 years

6.3 Debt Performance - As shown in para 3 the average debt portfolio rate has reduced over the course of the year from 6.06% to 5.93%.

6.4 An analysis of the Council's long term (PWLB) borrowings by maturity (i.e. date of repayment) is as follows:

PWLB	31 March 2009 £000s	31 March 2010 £000s
Up to two years	0	16,000
Between two and five years	36,430	25,533
Between five and ten years	66,026	77,923
More than ten years	<u>296,064</u>	<u>356,064</u>
Total	<u>398,520</u>	<u>475,520</u>

6.5 An analysis of movements on loans and investments during the period is shown below:

	Balance 31.03.09 £000s	Loans/Invs Raised £000s	Loans/Invs Repaid £000s	Balance 31.03.10 £000s
PWLB	398,520	77,000	0	475,520
Temporary loans	0	0	0	0
Total debt	<u>398,520</u>	<u>77,000</u>	<u>0</u>	<u>475,520</u>
Investments	<u>76,000</u>	<u>973,950</u>	<u>912,950</u>	<u>137,000</u>

7. Investment Outturn for 2009/10

- 7.1 At the start of 2009/10, investment rates were enhanced by a credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by half way through the year. Consequently, investment rates fell markedly during the first half of the year.
- 7.2 **Overnight rate:** this varied little during the year within a range of 0.38 – 0.49%.
- 7.3 **3 month rate:** from a high point for the year of 1.50% on 01.4.09, the rate fell gradually to reach a low of 0.42% in September before finishing the year at 0.52%.
- 7.4 **12 month rate:** this started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.
- 7.5 Investment Performance – The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from over night to 364 days, dependent on the Council's cash flow, its interest rate view and the interest rates on offer.

	Average Investment	Average Interest Rate	Benchmark Return
Internally Managed	£103,700,000	1.24%	0.37%

- 7.6 The benchmark for internally managed funds is the weighted average 7-day LIBID rate sourced from the Financial Times.
- 7.7 Investments as at 31 March 2010 stood at £137,000,000, whilst the average for the year was £103,700,000. The Council exceeded the benchmark return by 0.87%.
- 7.8 The Council has also strengthened its credit criteria by using all three credit rating agencies Fitch, Moody's and Standard and Poor rating plus data on movements in credit default swaps. Credit ratings, alerts and changes are notified to treasury officers on a daily basis and these are acted upon immediately. In addition officers monitor the financial press and economic reports. The Council is alerted to changes to ratings of all three agencies through its use of Sector's creditworthiness service. This methodology was approved at Council on 24 February 2010.
- 7.9 Since the report to Council in February 2010 the banking sector has remained an area of uncertainty and the current policy is that whilst we maintain our lending list in accordance with the agreed methodology, we continue to

operate a more restricted lending list and only lend to UK Government guaranteed institutions and the UK Government.

8. Debt Rescheduling

- 8.1 On 1st November 2007 the PWLB imposed two rates for each period, one for new borrowing and a new, significantly lower rate for early repayment of debt. The differential between the two rates ranged from 26bp (basis points) in the shorter dated maturities to over 40bp in the longer ones. They also introduced daily movements of 1bp instead of 5bp and rates in half year periods throughout the maturity range (previously had been mainly in 5 year bands). These changes effectively meant that restructuring the portfolio into new PWLB borrowing would not produce savings.

9. Compliance with Treasury Limits and Prudential Indicators

- 9.1 During the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.

10. Comments of the Director of Finance

The comments of the Director of Finance are contained within this report.

11. Comments of the Head of Legal Services

There are no direct legal implications for the purpose of this report.

12. Comments of the Overview and Scrutiny Committee

TBA

13. Recommendations

- 13.1 To note the borrowing and investment activity for the period 1st April 2009 to 31st March 2010.

LOCAL GOVERNMENT ACT 2000 - BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Loans and Investments Ledger	Rosie Watson Ext: 2563	Room 4, Ground Floor, Town Hall
2.	Treasury Management documents	Rosie Watson Ext: 2563	Room 4, Ground Floor, Town Hall



AUDIT AND PENSIONS COMMITTEE

22 SEPTEMBER 2010

CONTRIBUTORS

FCS
All Departments

Annual Governance Reports 2009/10 – Statement of Accounts & Pension Fund

WARDS
All

Summary

This report provides an overview of the issues arising from the audit of the Council's annual Statement of Accounts for 2009/10, prior to the publication of the Audit Commission's formal opinion on those accounts.

The covering report sets out the Council's response to the Audit Commission's Annual Governance Reports 2009/10, which is attached, along with the revised Statement of Accounts for approval

Recommendations

The Committee is asked to;

- 1 To note the content of the Auditor's Annual Governance Reports stating that the accounts will receive an unqualified opinion, are free from material error and that the Council has a adequate internal control environment
- 2 To note the Council's response to the Annual Governance Reports,
- 3 To note the management representation letter,
- 4 To approve the Statement of Accounts for 2009/10.

1 Introduction

- 1.1 In accordance with the Accounts and Audit Regulations, the Council's audited year end Statement of Accounts must be published before the end of September. The Audit Commission is required to report the findings from their audit to a properly constituted governance body of the Council before the opinion on the accounts is issued. The Audit and Pensions Committee fulfils this role for Hammersmith and Fulham.
- 1.2 The Audit Commission's Annual Governance Report for Hammersmith and Fulham 2009/10 Audit is attached to this report (Appendix 1). It sets out the Audit Commission's findings from this year's audit relating to two main areas:
- Financial Statements
 - Value for Money
- 1.3 This report summarises the issues included in the Annual Governance Report, and sets out the Council's response to the recommendations made therein. Attached in Appendix 3 is the revised Statement of Accounts for approval by the Audit and Pensions Committee.
- 1.4 For the second year the Audit Commission have produced a separate Annual Governance Report for the Pension Fund (Appendix 2). This is discussed in section 5 of this report.
- 1.5 The Pension Fund is required to publish a separate annual report. The auditors are required to check consistency with the financial statements before issuing an opinion. 2009/10 sees an earlier publication of this report by the Council and so the Audit Commission will be able to provide an opinion on the Pension Fund accounts at the Audit and Pensions Committee

2 Summary

- 2.1 The Annual Governance Report sets out one area where work on the final accounts audit has yet to be completed, but is expected to be finalised before the deadline for signing off the accounts. It is usual for some pieces of work not to be finalised at this stage, and there are no indications that these areas will give rise to any material considerations.
- 2.2 Based on work completed to date, the Annual Governance Report indicates that the District Auditor expects to issue an unqualified opinion on the main financial statements and also notes that the financial statements are free from material error and the Council has an adequate internal control environment. There are ten adjustments or revisions to

- the Statement of Accounts, all of which have been made to the updated copy in Appendix 3.
- 2.3 The adjustments/revisions mentioned in Appendix 2 of the Annual Governance report occurred as follows.
 - 2.4 An error in service classification when converting the trial balance to the Income & Expenditure account (adjustment 1).
 - 2.5 An error in between categorisation of disposal of fixed assets and ne service expenditure in the Income & Expenditure account (adjustment 2).
 - 2.6 An error in classification leading to an overstatement in debtors and creditors on the balance sheet (adjustment 3).
 - 2.7 Addition of narrative explaining the cumulative effect of prior period adjustments below the Statement of Total Recognised Gains and Losses (adjustment 4)
 - 2.8 An error in disclosure to Note 2 Private Finance Initiative (adjustment 5).
 - 2.9 An error in disclosure to Note 6 Pensions Costs (adjustment 6).
 - 2.10 An arithmetic error in Note 9 Agency Income and Expenditure (adjustment 7).
 - 2.11 An error in disclosure to Note 10 Leasing charges (adjustment 8).
 - 2.12 An error in disclosure to Note 11 Material transactions with related parties (adjustment 9).
 - 2.13 The inclusion of a new post balance sheet event that arose between the June and September Audit and Pensions Committee. Amendments such as this are common practice dependent on external circumstances (adjustment 10).
 - 2.14 The report also states that the District Auditor will issue an unqualified opinion on the Council's arrangements for delivering Value for Money.

3 Financial Statements and Annual Governance Statement

- 3.1 The audit of the financial statements has, from the Council's perspective, progressed well. The Audit Commission identified some areas of audit risk before the audit commenced, which were used to plan their audit work. At the time of writing all areas of risk had been examined and passed by the District Auditor.

- 3.2 The working relationship between the audit team and the council accounting teams has been positive, with arrangements put in place to manage the process well. Improvements to the quality of working papers have again been made and most queries have been answered more promptly than in previous years. This process has been enhanced by lessons learnt from the 2008/09 process and the growing experience of Council staff. Both teams realise there is still room for improvement especially due to the amount of work required to present the 2010/11 accounts under International Financial Reporting Standards. Specific recommendations on the 2009/10 accounts are set out below:
- 3.3 The Audit Commission has asked the Council to ensure that, in future years, all working papers required for the Final Accounts audit are prepared and available at the beginning of the audit. 2009/10 saw an improvement in this part of the process, but to meet one of the objectives of the Council's World Class Financial Management programme (WCFM) of a speedier final accounts production and audit process, continued improvement in this area is key.
- 3.4 The Council has also been asked to look at its unallocated cash balance in the Accounts Receivable ledger. Although correctly accounted for in the final accounts, this balance needs to be applied to individual customer accounts to reflect correct individual debtor positions.

4. Value for Money

- 4.1 The District Auditor comments positively on the Council's arrangements for securing value for money.

Rec.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a full set of working papers is available for the agreed date of the commencement of the audit.	3	Deputy Director of Finance	Agreed	To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit	June 2011
2	Review the £2.3 million of unallocated receipts in the sales ledger.	2	Deputy Director of Finance	Agreed	This has been accounted for correctly, however, as part of the WCFM programme, unallocated cash in AR will be dealt with under a series of agreed options	Dec 2010

5. Pension Fund Annual Governance Report

- 5.1 For the second year, the Audit Commission is obliged to submit a separate Annual Governance Report for the Pension Fund
- 5.2 Subject to the satisfactory clearance of outstanding matters, the Annual Governance Report indicates that the District Auditor expects to issue an unqualified opinion on the pension fund accounts and also notes that the Pension Fund financial statements are free from material error and the Council has an adequate internal control environment.
- 5.3 The Audit Commission identified four areas of specific audit risk which were used to plan their audit work. In the Auditor's opinion, one area of risk has not been addressed and is the subject of recommendations below.
- 5.4 The auditors have identified some areas for improvement in terms of internal control and have produced four specific recommendations in light of their findings which can be seen on the next page
- 5.5 The first recommendation, as with the main accounts AGR, is to ensure that a complete set of working papers is available at the beginning of the audit. This will ensure an even speedier audit process in future years.
- 5.6 The second recommendation is to establish a process to reconcile LPFA pensions records with Pension Fund Accounts, both in terms of contributions and pensions in payment. Although this has not led to material misstatement in the accounts, the Council has now implemented a robust procedure in reconciling Trent pensions payroll entries to the pension fund accounts and admitted bodies remittances to the pension fund accounts. Work is being undertaken to ensure the LPFA records are reconciled to the pension fund accounts on a regular basis. The first 6 months of 2010/11 will be reconciled by October 2010 and reviewed by internal audit.
- 5.7 The third recommendation is to ensure that the movement in pension membership numbers is reconciled, at least annually. The Council has requested that the LPFA produce a report on 31 March each year reconciling membership numbers from 1 April to 31 March. This procedure will be in place in time for the 2010/11 pension fund accounts
- 5.8 The fourth recommendation asks the Council to ensure that all disclosures required by the Statement of Recommended Practice are made in the Pension Fund Accounts.

- 5.9 There were also four adjustments to the Pension Fund Accounts. The first amended the pension fund membership statistics; the second concerned a misstatement between admitted bodies of £41k in Note 14 regarding lump sum retirement benefits; the third gives an updated Post balance sheet event disclosure of the market value of the investments of the fund, this is amendment is common practice; the fourth added a note to the Pension Fund accounts for the 'Top Ten Equity Holdings' and a note detailing the in year amounts and values at year end of Additional Voluntary Contributions (AVCs).

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a complete set of working papers is available for the commencement of future audits.	3	Assistant Director (Business Support) & Assistant Director (Human Resources)	Agreed	To achieve an even quicker audit conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit.	June 2011
2	Establish a process to reconcile LPFA pension records with the Pension Fund accounts.	3	Assistant Director (Business Support)	Agreed	Resources were reduced earlier in the year by half a post in the pensions administration team, but this has not worked. In addition, the team has had to deal with the data requirements of the actuarial valuation and the pensions administration tender. The actuary has congratulated the team on supplying good quality data and on time. Resource levels are being reviewed and additional resources will be allocated to the Pensions	Oct 2010

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Administration team to ensure that a full reconciliation of the LPFA records to the Pension Fund accounts takes place. Responsibilities have been agreed between three different sections for reconciling LPFA records to pension fund accounts.</p> <p>Reconciliations for the first six months of the current year are underway and will be reviewed by internal audit.</p>	
3	Ensure the movement in membership numbers is reconciled each year.	3	Assistant Director (Human Resources)	Agreed	<p>The LPFA will be requested to run a report reconciling the movement in membership numbers from 2009/10 to 2010/11 as at 31 March 2011. It should be noted that there are differences in the way membership numbers are</p>	March 2011

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	<p>Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of:</p> <ul style="list-style-type: none"> • employer contributions; and • additional voluntary contributions. 	1	Assistant Director (Business Support)	Agreed	<p>held by the LPFA and this could account for the differences found. This will be fully investigated and the reconciliation documented for ongoing use.</p> <p>The information for the employer contribution disclosure notes comes from the triennial actuarial valuation report. The last report in 2007 did not contain this information but the current actuary has been asked to provide it in the 2010 report and this will be shown in next year's accounts.</p> <p>The information for the additional voluntary contributions was not received in time to go into the accounts. The provider will be requested</p>	April 2011

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					to supply this information earlier next year to fit in with the accounts timetable	

6 List of Appendices

Appendix 1 – Audit Commission Annual Governance Report (Main Financial Statements)

Appendix 2 – Audit Commission Annual Governance Report (Pension Fund)

Appendix 3 – Annual Statement of Accounts (including Pension Fund)

Annual Governance Report

London Borough of Hammersmith & Fulham

Audit 2009/10

September 2010

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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.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance on 21 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Jon Hayes
District Auditor
September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	9

Financial statements

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements subject to the completion of outstanding work.

Value for money

- 2 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Independence

- 3 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Work remains in progress on the cash flow statement.
- 6 The audit has progressed quicker than in previous years with most of our work completed by the end of August. To further improve the process the Council would benefit by ensuring that all the working papers set out in my working paper requirements are available at the agreed date of the commencement of the audit.

Recommendation

- R1** Ensure a full set of working papers is available for the agreed date of the commencement of the audit.

Errors in the financial statements

- 7 I have not identified any material errors in the financial statements.

Important weaknesses in internal control

- 8 I have not identified weaknesses in internal control that would lead to material mis-statements in the accounts.
- 9 As at 31 March 2010, the sales ledger contains £2.3 million of unallocated receipts. This amount has been correctly accounted for in the accounts by netting it off the debtors balance. However, there is a risk that individual debtor accounts remain open where the balance has been paid. Officers should review this balance and write off amounts as appropriate.

Recommendation

- R2** Review the £2.3 million of unallocated receipts in the sales ledger.

Key areas of judgement and audit risk

10 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Although International Financial Reporting Standards do not take effect in Local Government until 2010/11, the CIPFA Statement of Recommended Practice (SoRP) does adopt one standard (IFRIC12) for 2009/10. The impact of this is the Council's Private Finance Initiative scheme will have to be re-assessed and is likely to be accounted for on-balance sheet. In previous years the scheme has been off-balance sheet.</p>	<p>I have reviewed the Council's arrangements for identifying and assessing contracts that potentially fall within the scope of IFRIC12. I have audited the Council's Private Finance Initiative scheme which is the only contractual arrangement to be assessed as 'on balance sheet' as a result of IFRIC12. I have no issues to report.</p>
<p>The SoRP includes other changes to the format of the accounts:</p> <ul style="list-style-type: none"> • Changes to accounting for local taxation; and • Deletion of some notes and other minor changes. 	<p>I have reviewed changes to the accounts to ensure they are in accordance with the SoRP.</p>
<p>Amendments to the accounts and audit regulations require more disclosures about senior officers' pay.</p>	<p>I have reviewed senior officer pay disclosures and ensured they have been made in accordance with the regulations.</p>
<p>Reconciliations of feeder systems to the general ledger require improvement. Reconciliations are often difficult to understand and review, both from a management and audit perspective.</p>	<p>I have reviewed the reconciliations of significant feeder systems. I have not identified any issues other than those reported under "important weaknesses in internal control" above.</p>
<p>In 2008/09 the Council elected not to prepare group accounts. The case for not producing these accounts needs refreshing each year.</p>	<p>I have reviewed the case for not preparing group accounts. I have asked management for specific representation that the increase on the ALMO pension liability is not considered material in this context. See appendix 3 for the draft letter of representation.</p>
<p>In 2008/09 we made recommendations about the Council issuing clear guidelines to valuers and reviewing advice for</p>	<p>I have reviewed instructions to valuers and the valuation of fixed assets and have no issues to report.</p>

Issue or risk	Finding
reasonableness. The current economic climate suggests property values are still volatile and the valuer's advice will be critical to ensuring the balance sheet is materially accurate.	
The 2008/09 Penalty Control Notices (PCN) debtor was approximately £55 million, though most of this was uncollectible. We recommended that this debtor be written off against the corresponding bad debt provision.	I have reviewed debtors and confirmed that the uncollectable debt has been written off.
Calculation of the housing rent and temporary accommodation bad debt provision appears unusual as it is based on the size of the debt rather than an aged debt analysis.	I have reviewed the process for calculation of the housing rent bad debt provision and have no issues to report.
Controls concerning petty cash were found to be in need of improvement during the 2008/09 audit.	I have sample tested cash balances and have no issues to report.

Letter of representation

- 11** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 12 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 13 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

- 14** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 15** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 16** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 17** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 18** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules.

Unqualified

- 19** The auditor does not have any reservations.

Value for money conclusion

- 20** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of London Borough of Hammersmith & Fulham for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in

June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 2 – Amendments to the draft accounts

I identified misstatements during my audit that managers have agreed to adjust. There are also some amendments made by management to the draft accounts approved in June. I bring the following to your attention to assist you in fulfilling your governance responsibilities.

Description of adjustment	Income and Expenditure Account		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Error in converting the trial balance to the accounts. <ul style="list-style-type: none"> Cultural, Environmental and Planning Services: Income Housing General Fund: Income 	2,800	2,800		
Gain on disposal of fixed assets understated. <ul style="list-style-type: none"> Central services to the public (Gain) / loss on disposal of fixed assets 	646	646		
Section 106 receipts not netted off the correct account resulting in overstatement of debtors and creditors. <ul style="list-style-type: none"> Creditors Debtors 			1,035	1,035

Adjustments to notes	£000
Statement of total recognised gains and losses	
Additional narrative on the cumulative impact of prior period adjustments	n/a
Note 2 Private finance initiative	
- Table 3: Impairment and depreciation charges understated, though the net book value remains unchanged	688
- Table 5: Error in unitary charge profile	2,190
Note 6 Pension Costs	
Changes to the movement in the pension reserve:	
- London Borough of Hammersmith & Fulham	-240
- London Pension Fund Authority	240
Note 9 Agency income and expenditure	
Arithmetic error	4,090
Note 10 Leasing charges	
Include the PCT sub-lease for the PFI within the disclosure	
- Gross book value	5,100
- Depreciation	243

Appendix 2 – Amendments to the draft accounts

Adjustments to notes	£000
Note 11 Material transactions with related parties Adjustment to pension fund average cash balance	202
Note 41 Events after the balance sheet date The Council has included an additional disclosure as a non-adjusting post balance sheet event to reflect the Government's announcement to adopt the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes from April 2011. It is estimated that this change will reduce the pension fund liability as at 31 March 2010.	n/a

Appendix 3 – Draft letter of representation

To: Jon Hayes, District Auditor, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1p 4HQ

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

Appendix 3 – Draft letter of representation

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

- The increase in the ALMO pension liability to £12.3 million is not considered material to users of the accounts and therefore group accounts have not been prepared.

Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 5 – Action plan

Rec.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a full set of working papers is available for the agreed date of the commencement of the audit.	3	Deputy Director of Finance	Agreed	To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit	June 2011
2	Review the £2.3 million of unallocated receipts in the sales ledger.	2	Deputy Director of Finance	Agreed	This has been accounted for correctly, however, as part of the WCFM programme, unallocated cash in AR will be dealt with under a series of agreed options	Dec 2010

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, Braille, audio or in a language other than English, please call 0844 798 7070.

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For further information on the work of the Commission please contact:

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Annual Governance Report

Hammersmith & Fulham Pension Fund

Audit 2009/10

September 2010



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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.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance on 21 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Jon Hayes
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Financial statements

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.
- 2 The accounts are free from material error. However, there is scope for improvement in the preparation of working papers, the reconciliations to London Pension Fund Authority (LPFA) records, the membership reconciliations and Statement of Recommended Practice (SoRP) disclosures.

Independence

- 3 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Audit and Pensions Committee:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of public funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Work remains outstanding on the membership reconciliation.

Errors in the financial statements

- 6 No material errors have been identified in the financial statements.

Important weaknesses in internal control

- 7 I have not identified weaknesses in internal control that would lead to material mis-statements in the accounts, but I have identified some matters that lead to delays in the audit process.
- 8 To enable me to complete the audit in a timely fashion it is important that a full set of working papers is available with the draft accounts in June. To help officers with this task I provided a list of my working paper requirements in February 2010. Officers did not provide all of the working papers requested in a timely fashion, which has resulted in delays to the audit and a higher number of queries than would otherwise be the case.
- 9 We reported after last year's audit that working papers provided in support of employer and employee contributions did not agree to the values reported in the accounts. These working papers are provided by the London Pension Fund Authority (LPFA). This remains the case and action has not been taken in respect of the recommendation made last year. Table 1 summarises the variances I have identified for 2009/10 although I only examined a sample of employers. Attempts to explain these variances during the audit identified mispostings to the ledger, which demonstrates the importance of establishing a strong reconciliation process.

Financial statements

Table 1 Variance between the financial statements and LPFA records

Item of account	Financial statements £000	LPFA records £000	Variance £000
London Borough of Hammersmith & Fulham (including Councillors): Employer Contributions	20,301	20,209	(92)
Inspace: Employer Contributions	62	58	(4)
London Borough of Hammersmith & Fulham (including Councillors): Employee Contributions	6,054	5,960	(94)
Eden: Employee contributions	35	32	(3)

10 Officers were also unable to provide a reconciliation of the membership numbers. The statistics reported in note 1 have been amended to agree to figures from the LPFA.

Recommendation
R1 Ensure a complete set of working papers is available for the commencement of future audits.
R2 Establish a process to reconcile LPFA pension records with the Pension Fund accounts.
R3 Ensure the movement in membership numbers is reconciled each year.

Letter of representation

11 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

12 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 2 Key areas of judgement and audit risk

Issue or risk	Finding
The financial markets, both locally and globally, remain volatile. This may impact upon the valuation of the Pension Fund's investment holdings.	I have reviewed reports on the Custodian's internal control. These have given me the assurance that investments are appropriately valued.
Valuation of unquoted investments can be difficult	I have reviewed fund statements as at 31 March

Issue or risk	Finding
to obtain. The Custodian values these investments on draft accounts as at 31 December.	which were made available in September and have obtained assurance that the valuations are materially accurate.
The Pension Fund cash balance is held within the Council's bank account. In effect the cash balance reported in the Pension Fund Net Asset Statement is a balancing item with no independent verification of the balance.	The cash balance remains as a balancing item in the Pension Fund trial balance. However, I have not made a recommendation on this as a separate bank account is to be established in 2010/11.
During 2008/09 we identified discrepancies between LPFA pension records and the Pension Fund accounts for contributions and pensions in payment.	I have commented on this issue in paragraph 10 above.

Accounting practice and financial reporting

13 I consider the non-numeric content of your financial reporting. Table 3 contains the issues I want to raise with you.

Table 3

Issue or risk	Finding
<p>The Statement of Recommended Practice requires contributions from employers to be broken down into the following categories:</p> <ul style="list-style-type: none"> • normal; • augmentation; • deficit funding; and • other 	The accounts do not contain the required disclosure.

Recommendation

R4 Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of employer contributions.

Glossary

Annual governance statement

14 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

15 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

16 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules.
-

Qualified

17 The auditor has some reservations or concerns.

Unqualified

18 The auditor does not have any reservations.

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of London Borough of Hammersmith & Fulham for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 2 – Amendments to the draft pension fund's accounts

I identified misstatements during my audit that managers have agreed to adjust. There are also some amendments made by management to the draft accounts approved in June. I bring the following to your attention to assist you in fulfilling your governance responsibilities.

Table 4 Amendments to the draft pension fund accounts

Description	Adjustment
<p>Note 1 Introduction</p> <p>Amendment to the pension fund membership statistics:</p> <ul style="list-style-type: none"> - Employees - Pensioners - Deferred pensioners 	<p>+ 232</p> <p>+ 171</p> <p>+ 186</p>
<p>Note 14 Benefits Payable</p> <p>Move lump sum retirement benefits from "P H Jones" to "Serco"</p>	<p>£41,000</p>
<p>Note 16 Post Balance Sheet Events</p> <p>The note has been updated to reflect the latest valuation of investments as at 31 August.</p>	<p>- £1,94m</p>
<p>Additional note added on 'Top ten equities' to ensure consistency with the financial statements in the annual report.</p>	<p>n/a</p>
<p>Additional detail to the Additional Voluntary Contributions (AVCs) note on the amount of AVCs paid in year and the valuations at year end.</p>	<p>n/a</p>

Appendix 3 – Draft letter of representation

To: Jon Hayes, District Auditor, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1p 4HQ

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Appendix 3 – Draft letter of representation

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

- The increase in the ALMO pension liability to £12.3 million is not considered material to users of the accounts and therefore group accounts have not been prepared.

Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a complete set of working papers is available for the commencement of future audits.	3	Assistant Director Business Support Assistant Director Human Resources	Agreed	To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit.	June 2011
2	Establish a process to reconcile LPFA pension records with the Pension Fund accounts.	3	Assistant Director Business Support	Agreed	Resources were reduced earlier in the year by half a post in the pensions administration team, but this has not worked. In addition, the team has had to deal with the data requirements of the actuarial valuation and the pensions administration tender. The actuary has congratulated the team on supplying good quality	Oct 2010

Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>data and on time. Resource levels are being reviewed and additional resources will be allocated to the Pensions Administration team to ensure that a full reconciliation of the LPFA records to the Pension Fund accounts takes place. Responsibilities have been agreed between three different sections for reconciling LPFA records to pension fund accounts. Reconciliations for the first six months of the current year are underway and will be reviewed by internal audit.</p>	
3	Ensure the movement in membership numbers is reconciled each year.	3	Assistant Director Human Resources	Agreed	The LPFA will be requested to run a report reconciling the movement	March 2011

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of employer contributions.	1	Assistant Director Business Support	Agreed	<p>in membership numbers from 2009/10 to 2010/11 as at 31st March 2011. It should be noted that there are differences in the way membership numbers are held by the LPFA and this could account for the differences found. This will be fully investigated and the reconciliation documented for ongoing use.</p> <p>The information for the employer contribution disclosure notes comes from the triennial actuarial valuation report. The last report in 2007 did not contain this information, but the current actuary has been asked to provide it in the 2010 report and this will be shown in next year's</p>	April 2011

Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					accounts.	

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.

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For further information on the work of the Commission please contact:

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Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

LONDON BOROUGH OF HAMMERSMITH & FULHAM

STATEMENT OF ACCOUNTS

2009/10

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

I confirm that these accounts were approved by the Audit and Pensions
Committee on 22 September 2010

Councillor Michael Adam
22 September 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 - 29)

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 30 - 93)

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 31)

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 32)

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 33)

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 34)

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 35)

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 36 - 93)

COLLECTION FUND ACCOUNT (Pages 95 - 97)

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 98 - 104)

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 105 - 122)

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 123 - 129)

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 130 - 137)

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 £1.284 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. The Council's share of this reduction was published in June 2010 as an in year reduction of £1.72m in Area Based and other specific grants. 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
22 September 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

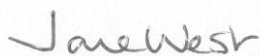
- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Code of Practice.

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 104 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 105 to 122 present a true and fair view of 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
22 September 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 20 to 75 years. Further enhancement expenditure is depreciated over a shorter period (from 4 to 10 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

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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	(31,292)	104
Court Services		160	1,183	(1,046)	137
Cultural, Environmental and Planning Services		37,773	57,386	(19,143)	38,243
Children's and Education Services		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	(156,014)	12,923
Housing Revenue Account		(11,329)	75,851	(84,571)	(8,720)
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	735,299	(521,573)	213,726
(Gain)/Loss on Disposal of Fixed Assets		(7,745)		(7,119)	(7,119)
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	839,017	(575,915)	263,101
Income from Council Tax		(67,265)		(65,904)	(65,904)
General Government Grants (Revenue Support Grant)		(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	839,017	(772,274)	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

As set out in Note 1 to the accounts, the 2008/09 balance sheet figures have been restated to reflect a change in the way that PFI and local taxation are accounted for. The cumulative effect of these changes on the reserves of the Council is an increase of £9.657million.

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		58,959	
Short Term Investments	24	77,452		137,398	
Cash in Hand	22	13,864		14,958	
Total Current Assets			163,637	211,522	
Total Assets			2,090,946	2,179,439	
Current Liabilities					
Creditors	23	(112,516)		(159,104)	
Short Term Borrowing	24	(5,324)		(5,855)	
Cash Balances Overdrawn	22	(30,750)		(14,230)	
Total Current Liabilities			(148,590)	(179,189)	
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		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	(600)	(300)	0
Gross Value at 31/03/10	9,200	5,100	3,780
Depreciation as 01/04/09	0	0	0
Revaluation/Impairment	445	243	172
Charge for the Year	(445)	(243)	(172)
Depreciation at 31/03/10	0	0	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	4,398	101	1,315	5,814
2 to 5 years	18,880	554	5,111	24,545
6-10 years	26,156	1,218	5,863	33,237
11-15 years	29,183	2,317	4,764	36,264
16-20 years	32,672	4,499	2,582	39,753
21 years and over	2,477	536	90	3,103

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 £000	Expenditure £000	Income £000	(Surplus) / Deficit £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)	(17,321)
Net Charge to the Income and Expenditure Account	22,124	22,811

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%
Other	7.6%	7.0%
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)	(1,144)
Net Charge to the Income and Expenditure Account	803	439

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	7.7%	7.0%
Cashflow Matching	4.5%	4.2%
Cash	4.8%	4.0%
Target Return Portfolio	0.0%	0.0%
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
Rate of Increase in Pensions	3.1	3.9
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 membership prior to 1 st April 2008	20%	50%
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.

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
Assistant Director (Legal & Democratic 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 Assistant Director (Legal & Democratic 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.

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
Assistant Director (Legal & Democratic 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, 123 (38%) 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, 122 (39%) 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	13,724

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 £4.821m. 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	14,954	(440)	(378)	(406)
Total	53,401	(440)	(378)	(4,821)

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 £0.975 million of surplus cash deposited with the Council. The Council paid the Fund £13,552 for interest on these monies. The Council charged the Fund £0.861 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 105 to 122.

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. There is joint funding by the Royal Borough of Kensington and Chelsea for the Head of Legal Services.

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					Total
	HRA Dwellings £000s	Other Land & Buildings £000s	Infrastructure £000s	Vehicles, Plant & Equipment £000s	Community Assets £000s	Assets Under Construction £000s	Surplus Assets for Disposal £000s	Investment Properties £000s	Intangible Fixed Assets £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*	39	39
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)	(15,414)
Government Grants	(11,544)	(14,230)
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	(2,166)
Government Grants	(2,524)	(4,312)
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

The Council's Capital Financing Requirement covers both Housing Revenue Account and General Fund requirements. The table below summarises the movement in borrowing split between the two.

Housing Revenue Account net borrowing requirement has increased by £51.195m in 2009/10 (£59.741m in 2008/09), reflecting investment in housing stock fully within the HRA.

General Fund net borrowing requirement, which is met by Council Tax, has reduced by £4.180m in 2009/10 (£12.229m reduction in 2008/09).

Capital Financing Requirement

2008/09				2009/10		
General Fund	HRA	Total		General Fund	HRA	Total
£000	£000	£000		£000	£000	£000
150,849	293,699	444,548	Opening financing requirement	138,620	353,440	492,060
2,318	59,741	62,059	New borrowing	113	51,195	51,308
-14,547	0	-14,547	Repayment of borrowing	-4,293		-4,293
138,620	353,440	492,060	Closing financing requirement	134,440	404,635	539,075
			Adjustment re PFI	9,225	0	9,225
			Adjusted financing requirement	143,665	404,635	548,300

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	45,995
Car and other employee loans	124	158
Payments in advance	3,840	3,584
Subtotal	149,730	85,289
Less:		
Provision for doubtful debts	(77,688)	(26,330)
Total	72,042	58,959

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	(11,213)	(46,019)
Other Public Bodies	(21,473)	(32,416)
Housing Rents	(1,167)	(1,238)
Business Rates	(0)	0
Council Tax	(3,575)	(4,279)
Sundry Creditors	(75,088)	(75,152)
Total	(112,516)	(159,104)

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. The fair value of trade and other payables is taken to be the invoiced amount as disclosed in Note 23

	31 March 2009		31 March 2010	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Financial Liabilities	(402,903)	(451,333)	(481,144)	(509,105)
Financial Assets	78,710	78,436	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	51,218
3 months to 6 months	3,346	4,965
6 months to 1 year	9,198	8,917
More than 1 year	80,302	9,826
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 placed 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, 2nd Floor, Hammersmith Town Hall Extension, King St, London, W6 9JU.

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 the Council's Area Based Grant.

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 22 September 2010 when the accounts were authorised for publication by the Council's Audit and Pensions Committee, there was one material, non-adjusting event after the balance date to report.

HM Treasury has confirmed that from April 2011 the increase in pensions will be linked to the Consumer Prices Index (CPI). Since 1972, each April, public-sector pensions have been increased in line with the Retail Prices Index (RPI). Historically the CPI is

lower than the RPI which would therefore have a potential reduction in the Council's FRS17 Pensions liabilities as shown on the balance sheet.

42. AUTHORISED FOR ISSUE DATE

Under the Accounts and Audit Regulations 2003, on 22 September 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 4,259 employees (4,297 at 31st March 2009) who were contributing to the scheme, 4,242 pensioners (3,903 at 31st March 2009) receiving benefits and 4,900 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 11 and 12 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. TOP TEN EQUITY HOLDINGS

The Largest 10 equity holdings of the Fund as at 31 March 2010 were:

Holding	Country	Market Value	% of Investments
		£'000	
BP	United Kingdom	7,987	1.43
Royal Dutch Shell	United Kingdom	7,076	1.27
GlaxoSmithKline	United Kingdom	6,948	1.25
Vodafone Group	United Kingdom	6,592	1.18
HSBC	United Kingdom	5,919	1.06
Nestle	Switzerland	5,156	0.93
Heineken	Netherlands	4,570	0.82
Anglo American	United Kingdom	4,291	0.77
Linde	Germany	4,215	0.76
Roche	Switzerland	3,890	0.70
Total		56,644	10.17
Total Value of Investments		556,831	

9. 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	<u>11,586</u>	<u>9,039</u>

10. 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.

11. 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 Technology	21	14	7	3
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

12. 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		
Quadron	31			
Turners		37		
Urban Partnership Group		17		
Serco	45	41		
GRAND TOTALS	4,281	6,146	518	855

13. 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

14. STOCK LENDING AGREEMENTS

We do not participate in stock lending or underwriting.

15. 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.

16. 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 apart from four members who contributed £417.96 for death-in-service cover. The total market value of the separately invested AVC's with Equitable Life Assurance at 6th April 2010 was £300,701.08.

At the 31st March 2010, 70 employees were paying AVC's to Zurich Assurance. The total value of the contributions paid to Zurich in 2009/2010 was £75,937.01 and the total market value of the separately invested AVC's with Zurich Assurance at 31st March 2010 was £800,332.45.

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.

17. POST BALANCE SHEET EVENTS

At the 31st August 2010 the market value of the investments of the Fund had decreased to approximately £535.90 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.

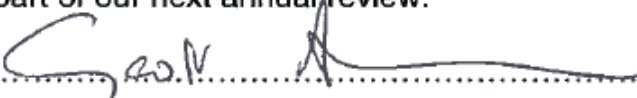
4. Frameworki

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.



AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS	Subject	WARDS
Internal Audit Manager	Audit Commission recommendations updates	All

This report updates the Committee on progress towards meeting Audit Commission recommendations

RECOMMENDATION:

That the Committee notes the report.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	External Audit report recommendations progress update	John Kanés Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

Internal Audit

Update on Audit Commission report recommendations

The table attached as Appendix 1 shows updates on recommendations from Audit Commission reports which have been previously reported. Updates on 4 recommendations have been sought for this report. . Two recommendations have been reported as fully implemented whilst the other two will require further updates at future meetings. We will continue to report progress on all outstanding recommendations at future meetings together with recommendations contained in any newly received reports

Internal Audit has not verified the current position and can therefore not give any independent assurance in respect of the reported position in any updates that are received.

The Pensions and Audit Committee is invited to note the updates provided by operational management.

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided August 2010
08-09 Annual Governance Report					
	R3 Establish a policy for the write off of penalty charge notices.	To be established by parking officers in conjunction with their finance team.	Director of Environment and Assistant Director of Finance and Resources – Environment	Draft completed and to be submitted to cabinet member by end of July	<i>A draft policy is to be submitted for consideration by the Financial Strategy Board and then to the appropriate cabinet member.</i> Further update to be provided to next meeting
Interim Audit Report 2008-09					
<i>Payroll</i>					
	R10 Consider introduction of a second check to ensure information entered into the payroll system based on starter forms is accurate.	Feasibility to be discussed further with payroll section. {Target November 2009}	Assistant Director Human Resources	Feasibility still being discussed with payroll section. This will be considered as part of a review of payroll procedures – timescale to be agreed with AD (HR).	<i>A new team (Pay and Conditions) has been created to be the single point of contact overseeing new starter documentation and accuracy on the Trent system. In place since 1st June 2010.</i> This recommendation is now closed and no further updates will be reported.

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Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided August 2010
Grants 2008-09					
<i>New Deals for Communities</i>					
	R9 Review the NDC asset register to ensure it only records expenditure which is capital in nature, over the de minimis of £5,000 and is clearly traceable to a tangible asset.	It is agreed that improvements need to be made to ensure that the NDC asset register is maintained in accordance with CLG guidelines. Guidance has been drafted by the departmental finance officer responsible and this will be reviewed by corporate finance colleagues and an Audit Commission view sought before implementation to correct the register for 2009/10. (Target March 2010)	Housing Finance Manager	It has been agreed with the NDC that the areas of improvement will be implemented. The timeline for achieving this has been pushed back to end of June 2010 as a result of the closing of accounts process.	The NDC asset register has been reviewed and updated in line with the recommendation. This will now be passed to corporate finance colleagues and the Audit Commission for review before implementation. <i>Further update to be provided to next meeting</i>
	R10 Quality-check working papers to support eligible expenditure prior to submission to auditors.	Working papers supporting eligible partner expenditure will be subject to a more robust review prior to submission to the auditors. Submissions will also include providing clear reconciliations, and an explanation demonstrating eligibility. Any such working papers not meeting the standard will be corrected before submission. Guidance will be issued and agreed with the relevant finance officers (Council and NDC). (Target March 2010)	Housing Finance Manager	The NDC have made arrangements with all partner organisations to ensure that working papers of a satisfactory quality are submitted for all projects. Sample checks will be carried out by Council finance officers by the end of May on partners' working paper submissions to ensure that the improvements are being delivered prior to the AC deadline for submission of the 9/10 SGE at the end of September.	Sample checks (in accordance with the guidance on quality working papers) are currently being carried out by Council finance officers as part of the preparation of the 2009/10 grant claim, prior to submission to the Audit Commission at the end of September. Any working papers not meeting the standard will be corrected before submission, and further sampling carried out if necessary. <i>This recommendation is now closed and no further updates will be reported.</i>



AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS	Subject	WARDS
Internal Audit Manager	Annual Governance Statement 2010 Action Plan	All

This report presents an update to the action plan arising from the 2010 Annual Governance Statement.

RECOMMENDATION:

That the Audit Committee notes the report.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Annual Governance Statement Action Plan	John Kanés Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

Internal Audit
Annual Governance Statement Action Plan

The 2010 Annual Governance Statement (AGS) was first considered by the Pensions and Audit Committee at its June 2010 meeting.

Attached as Appendix 1 is the latest update to the action plan relating to the control weaknesses identified in the statement and report on its progress.

The action plan is a necessary result of producing the AGS. Because these issues are considered to be significant the action plan and the progress made in its implementation should be periodically reported to the Pensions and Audit Committee to agree and then to monitor progress. The action plan should provide sufficient evidence to show that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.

Failure to act effectively on the significant control issues would increase the exposure of the council to risk.

The schedule at Appendix 1 shows the current stated position as reported by the identified responsible officers. Internal Audit has not verified the current position and can therefore not give any independent assurance in respect of the reported position.

The Pensions and Audit Committee is invited to note the updates provided by operational management.

2009/10 Annual Governance Statement**Action Plan**

AGS Finding re Significant Control Weakness	Responsible Officer	Update for September Pensions and Audit Committee meeting
<p>Budget Estimation</p> <p>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.</p>		<p>Further assurance and recommendations as appropriate to be reported following the completion of further work by Internal Audit.</p>
<p>Reconciliation of Financial Systems</p> <p>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.</p>	<p>Head of Corporate Accountancy</p>	
<p>Business Continuity IT</p> <p>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.</p>	<p>Head of IT Strategy</p>	<p>The ICT Business Continuity paper was approved in February 2010. Since then H&F Bridge Partnership have been negotiating with suppliers on data storage. Levels of usage are high and rising so a key aim is to contain the cost of storage and this has an impact on the BC proposal. Now these are reaching a conclusion, the project is starting with procurement taking place in August and implementation of the new BC service due to complete in December 2010.</p> <p>{Target Date 31/12/2010}</p>

AGS Finding re Significant Control Weakness	Responsible Officer	Update for September Pensions and Audit Committee meeting
<p>Contract Management of Consultants</p> <p>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.</p>	<p>Principal Consultant (Strategic Procurement)</p>	<p>Further assurance and recommendations as appropriate to be reported following the completion of further work by Internal Audit.</p>

AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS	TITLE	WARDS
Head of Fraud Service Chief Internal Auditor Director of Finance	Corporate Anti Fraud Service Q1 Fraud Report 2010-11 This is the first quarter report on the progress made in delivering the 2010-11 year service plans; key results of the work undertaken; and the performance achieved.	All

RECOMMENDATION:

To agree the contents of the report.

**LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Corporate Anti Fraud Service operational investigation files and performance reports	Ross Chesterton X1300	Corporate Anti Fraud Service, 4th Floor, Town Hall, Hammersmith

Hammersmith & Fulham Council

Corporate Anti Fraud Service

Fraud Report

The Council's 1st Quarter Fraud Report to 30th June 2010

Management Summary

1. This report details the counter fraud work undertaken during the first quarter of the year to 31st March 2011 by the Council's Corporate Anti Fraud Service (CAFS).
2. CAFS strategy for countering fraud is based around the following:
 - receiving and responding directly to fraud referrals in relation to benefit fraud, tenancy fraud, and fraud directed at the Council from employees or third parties from outside the Council;
 - complying with government guidelines and requests to undertake targeted work, particularly to reduce the suspected significant levels of tenancy fraud;
 - undertaking a range of special proactive exercises such as data matching across Council databases, checks on Housing Register applicants about to be offered property, directing and controlling participation in the NFI to ensure maximum rewards and returns, and a number of exercises targeted internally to reduce incidences of employee fraud or misconduct;
 - undertaking joint exercises with the police to identify and target prolific offenders with significant assets who have committed benefit or tenancy fraud;
 - raising fraud awareness across the Council and residents of the borough.
3. Performance is measured by output in numbers of sanctions (prosecutions, penalties, formal cautions or other action taken directly against proven fraudsters). CAFS has delivered 70 sanctions (including 4 prosecutions for Housing Benefit) in the first quarter, which includes 33 removals from the Housing Register that took place in March 2010 which were too late to be included in the year end outturn report and hence which have been included in this years report. Further, at the time of writing, July's performance to date has significantly increased the achievements to date in June, at 103 sanctions to date (including the 33 from the end of 2009/10).

5. Applying the Audit Commission's recommended values for property recoveries, as well as calculating the value of overpayments generated and penalties applied to offenders, the value of CAFS work to the council for quarter 1 stands at £3.9million, against an annual projected operating cost of £1.1million.
6. CAFS continues to deliver targeted project work aimed at reducing tenancy fraud, and retains 2 officers funded in part from central government to achieve this.
7. A new Head of Fraud Service has been recruited and will start later in the year once the relevant administration has been completed.
8. In summary, CAFS has made a successful start to the year, applying a sound strategic approach to the issue of fraud affecting the Council, and achieving results commensurate with the aims and goals of the service.

1. Introduction

- 1.1 The Council's counter fraud services are provided by the Corporate Anti Fraud Service (CAFS). CAFS investigates suspected fraudulent Housing Benefit and Council Tax Benefit claims; suspected fraudulent tenancies and the circumstances of tenancy related matters; and investigating allegations of fraud or irregularity committed within or against the Council. CAFS also has responsibility for raising fraud awareness across the Council; managing participation in the Audit Commission's National Fraud Initiative; providing advice and guidance in such areas as Money Laundering and Whistleblowing; and maintaining close working relationships with the police and other partnership organisations in order to protect the Council from fraud directed at it, whilst contributing to the reduction of crime overall.

2. Strategy

Benefit Fraud

- 2.1 The majority of the 500 or so benefit fraud cases that CAFS deals with on average each year arise from direct referrals, all referrals are risk scored in order to reject those of poor quality. Currently, the equivalent of 4 full time investigators is employed to deliver a targeted 58 "sanctions" against proven offenders. A sanction could be a case prosecuted in court, a formal caution, a penalty, or a reduction in benefit entitlement. The target represents a 32% success rate (against the expected total annual number of cases completed) however, performance over the last three years suggests CAFS should achieve a better performance than this by year end.

Tenancy Fraud

- 2.2 Tenancy fraud investigation is driven by two primary sources: direct referral of suspected fraudulent tenancies from H&F Homes; and targeted work into specific areas such as Housing Register applicants or

areas of concern flagged by central government. The Audit Commission's most recent National Fraud Initiative 2008/09 report produced in May 2010 calculated the average cost of a tenancy fraud as £75,000 over a three year period; and the average cost of a Right to Buy fraud as £26,000. CAFS strategy is to seek to recover properties and to prosecute offenders under the Fraud Act 2006 wherever possible to act as a deterrent. The equivalent of 4.5 full time officers is tasked with achieving 57 recoveries (and/or removals from the Housing Register) in this financial year.

Internal/Corporate Fraud

- 2.3 All of the investigations in this area arise from direct referral. The majority relate to incidences of staff misconduct, and CAFS policy is to assist HR in the collation of evidence to ensure appropriate disciplinary action is taken, and where the seriousness of the incident warrants it to effect prosecution. Currently the team is based on 4 officers, this is being reduced to two officers from 1 October 2010.

Proactive Exercises

- 2.4 CAFS also seek to identify fraud by undertaking proactive exercises of differing natures, for example: data mining using Council databases to identify potential frauds and areas of control weakness such as overtime claims. The service also undertakes "flesh tone" monitoring to ensure proper use of the Councils email system, plus manages the bi-annual National Fraud Initiative including instructing and educating respective departments on how to undertake the exercise effectively.

Joint working

- 2.5 In 2009/10 CAFS pioneered the secondment of a Council fraud officer to the local police. For 2010/11 the objective is to target prolific offenders where there is also suspected benefit fraud and identified significant hidden assets, freeze the assets of the offenders, prosecute in court and make use of the Proceeds of Crime Act to ensure restitution plus generate windfall income where possible for the Council and the police to put back into the fight against crime.

Fraud Awareness

- 2.6 Although raising fraud awareness is part of CAFS remit and part of its overall strategy, given the focus that has been given in this area over the past three years, our decision has been to concentrate on operational directives for this year ahead.

3. Performance

- 3.1 CAFS performance is measured on outputs which are the number of sanctions successfully applied and the number of fraudulent issues stopped or prevented. We also keep under review the value of fraud and error identified plus the amount of recovered and recoverable losses identified for the Council and the public purse.
- 3.2 CAFS has produced 70 sanctions, including 4 prosecutions for benefit fraud, against a targeted 45. This includes 33 Housing Register removals which were made in the final days of the 2009/10 year which were too late to have been recorded and hence have been counted here. Additionally, at the time this report was compiled, the results for July had just been collated and which showed the results had significantly increased to 103. **Figures 2 and 3** show the outturn for Quarter 1 for each type of fraud, and by sanction delivered.
- 3.3 The measurable financial value of CAFS work involves cash recoveries received from the application of penalties or court awards, Housing Benefit overpayments which become a debt owed to the Council plus a 40% 'bounty' on these overpayments which is paid to the Council from Government subsidy, the recovery of property or removals from the Housing Register, the prevention of fraudulent Right to Buy applications, and other overpaid benefits which are recoverable and while bringing no specific value to the Council do represent a saving made to the public purse. The analysis of the value of fraud identified and recovered is contained in the table at **Figure 4** in Appendix 1, and shows a calculated value to the public purse of £3.9million, including £108k recovered either directly by CAFS or by way of subsidy. **Figure 5** shows the projected overhead spend of the CAFS unit against its budget for

2010/11. The comparison of these figures to the value to the Council shows that the unit has already generated value in excess of its annual budget.

- 3.4 There has been some criticism of the generation of overpayments and actual recovery rates, questioning whether debts are raised and never recovered. Analysis of all fraudulent overpayments generated is shown at **Figure 6**. This shows that the debt raised over the last 6 years is in the process of being recovered. Given that much of the debt is levied at persons with whom slow repayment terms are agreed, the rate of recovery seems reasonable. However, the situation will continue to be monitored. As an aid to this, when debt repayment terms are agreed following the application of an Administrative Penalty, the Debt Management team are involved in the interview and agreement.

4. Service Review

- 4.1 The Corporate fraud team will be reduced from 1st October from 4 to 2 officers. This is based on improved case management plus a new strategy to refer straightforward disciplinary cases for line management to manage with support from HR and CAFS.
- 4.2 A new Head of Fraud Service has recently been appointed and is expected to take up post later in the year.
- 4.3 In order to maximise the potential benefit of the joint working arrangement with the police, a Memorandum of Understanding has been put in place between LBHF and the Metropolitan Police to formalise the arrangement and the split of any proceeds. A first significant case has just realised the confiscation of £123k of funds to be split between the police, CAFS, and CDRP.
- 4.4 In order to maximise the realisable benefits from work of this nature, two CAFS officers have commenced training to qualify as accredited Financial Investigation Officers which will give us the future option to apply to the courts to make restraints ourselves, rather than being dependant on the police. A third officer commences training later in the year.

Appendix 1

Fig. 1 Cases Opened, Rejected, and Closed 2010-11 (to Q1)

	1 st Quarter
Cases referred	529
Cases rejected due to poor quality	60
Cases rejected due to overload of case	31
Cases closed with a successful sanction/outturn	70
Total number of cases closed	417

Fig. 2 Performance by Outcome Achieved to Date (to Q1)

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	4	12	3	19
Tenancy		11		11
Housing Projects		7		7
Housing Proj 09/10**		33		33
Corporate				0
Total	4	63	3	70

Fig.3 Performance Outturn against Target (to Q1)

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Benefits	19				19
Tenancy	11				11
Housing Projects	7				7
Housing Proj 09/10**	33				33
Corporate	0				0
Total All	70				70
Target 2010/11	45	45	45	45	180
<i>Previous Years' Comparatives</i>					
Total 2009/10	55	92	40	91	278
Total 2008/09	31	54	98	186	186
Total 2007/08	32	65	97	130	130
Total 2006/07	33	66	99	132	132

**33 Housing Register removals effected in March 2010 but not counted or reported in 2009/10 outturns, hence included here

Fig.4 Financial Value of Counter Fraud Work Undertaken 2010-11 (to Q1)

		Recovered		Recoverable		Additional value to the Council	Recoverable to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by CAFS	Recoverable by LBHF	Value of properties recovered or lets avoided	Recoverable	Value of Assets Currently Restrained
Benefits	Penalties	4,330						
	Costs, Compensation, POCA	3,671						
	HB Overpayments				44,835			
	40% Bounty on HB O/Ps		17,934					
Tenancy	Tenancies recovered					975,000 ¹		
	Housing Register removals					225,000 ¹		
	HR removals 2009/10**					2,475,000 ¹		
	Right to Buys prevented					52,000 ²		
Corporate	Corporate cases	41,275	41,275			41,275		
NFI*	HB Overpayments							
	40% Bounty on HB O/Ps							
	Pay & pensions							
	Creditors							
Income Support Overpayments								
Assets Restrained								2,378,695
Total		49,276	59,209	0	44,835	3,768,275	0	2,378,695
Total recovered		108,485						
Total balance recoverable				44,835				
Total overall recoverable value to the council				153,320				
Total value to council due to CAFS work				3,921,595				
Total value to the public purse						3,921,595		

*NFI is a bi-annual exercise. Results for the last exercise were published as part of the 2009-10 Annual Fraud Report. No results expected in this area until Q4 at the earliest.

**33 Housing Register removals effected in March 2010 but not counted or reported in 2009/10 outturns, hence included here

¹. Valued by the Audit Commission at £75k per council property recovered

². Valued by the Audit Commission at £26k per RTB stopped

Fig. 5 Projected Expenditure vs. Budget

	Annual Budget	Expenditure (Projected)
Cost of Staff	£781,200	£755,392
Operational Expenses	£27,800	£33,535
Legal Expenses	£64,900	£70,300
TOTAL – operational budget/ costs	£873,900	£859,227
Fixed	£244,700	£244,700
TOTAL – operational and overhead costs	£1,118,600	£1,103,927
Net underspend		£14,673
Income (POCA & Adpens)	£0	Nil

Fig. 6 Value of Outstanding Debt

Value of Outstanding Debt - Fraud Overpayments			
	Raised	Outstanding	% outstanding
2004/05	£316,175	£70,576	22.3%
2005/06	£1,032,426	£448,225	43.4%
2006/07	£678,610	£223,345	32.9%
2007/08	£376,326	£223,148	59.3%
2008/09	£255,660	£158,760	62.1%
2009/10	£375,439	£333,261	88.8%
2010/11 to date	£27,036	£27,036	100.0%
	£3,061,672	£1,484,351	48.5%

Appendix 2

Significant case developments

The following are reported for interest:

Subject 1

Subject 1 was employed by the council in 2000 as a Cleaning Supervisor, supervising 96 employees. When 2 members of staff left the council, he failed to inform the council's HR department of their resignation, and subsequently changed their bank details and home addresses on HR systems creating 'ghost employees' subsequently diverting salary payments for these employees to himself. He was arrested, charged and found guilty to all 9 indictments. He was sentenced to 16 months imprisonment to serve at least 8 months before being released on licence. At a subsequent confiscation hearing he was ordered to pay compensation to LBHF to the value of £123,823, where the original loss to the council through the fraud was £106k.

Subject 2

Subject 2 was formally employed as a part-time lecturer in Adult Education Services at London Borough of Hammersmith & Fulham between 2002 and 2009. She was dismissed for Gross Misconduct after it was ascertained she had used a blue badge in the name of her deceased husband and forged a letter in his name to evade a parking ticket issued by LBHF. Further enquiries established she had submitted fraudulent voter registration details in the name of her deceased husband at his (different) address. She was summonsed on 3 counts of Fraud by False Representation, and is due to attend Court in July.

Subject 3

An allegation was received that the subject had failed to declare he owned a property. Enquiries confirmed that the subject is a joint owner of a property with his mother. The property in question was the property where he was residing with his family and from where he made his housing application. The subject was interviewed under caution in which he denied the allegation of knowingly making a false statement. The findings were passed to H&F Advice in order for his application to be ended. The subject is further charged with offences under section 2 and 3 of the Fraud Act 2006 and the case will be heard at West London Magistrates Court in July.

Subject 4

This subject has made an application for social housing, and was in receipt of Housing Benefit between 2005 and 2009. The subject failed to declare ownership of property which was bought for £155,000. Enquiries have identified an undeclared partner earning £52,000 a year. The property was

sold for £233,000. The overpayment of Housing Benefit is in the region of £18,000. A joint operation is still progressing with the Department of Work & Pensions.

Subject 5

The subject made a Succession application claiming that she had resided with the deceased tenant at the council address for two years prior to his death. The subject was an employee of this authority and her records indicted she resided at a different address. After attending an Interview under Caution the subject chose to discontinue her succession claim and the property was recovered. The case is currently with Legal in preparation for presentation at court.

Subject 6

In a sub-letting case, the sub-tenant contacted H&F Homes to complain that the tenant was attempting to evict her from the property. Officers attended the property to investigate. Upon arrival they found the listed tenant with a locksmith attempting to get into the property. Photographs were taken in the presence of the sub-tenant to record evidence of subletting and the property was recovered.

Subject 7

The tenant was discovered as having two Housing Association tenancies whilst subletting a two-bedroom LBHF tenancy. The investigation also revealed that there was an arrest warrant outstanding for council tax arrears. The tenant has yet to be found, however, the property was recovered and as part of a central government funded project, CAFS are investigating the sublet of the two RSL properties on behalf of Notting Hill Housing Group

Subject 8

Whilst being investigated for benefit fraud, this subject admitted he was actually living in East London. Following the interview, CAFS recommended H&F Homes issue an NTQ. Soon after the subject contacted his Housing Officer and handed the keys to the property back.

Operation Alexis

A CAFS/police joint operation, this case concerns a subject who was arrested as part of an ongoing operation and discovered to be the owner of a car rental business. An overpayment of Housing Benefit has been calculated at £95,000 and the file is being prepared for prosecution.

Operation Aston

Referred to CAFS by the police as they discovered the claimant to be in receipt of benefits and owning property. DWP overpayments stand at £30,000 and HB overpayments at £62,600. Restraints have been placed on the assets which amount to three properties and several bank accounts. The individuals involved have been charged with 18 offences, 6 of which are under POCA. The trial is set for September.

Operation Tiamat

The subject was arrested by Police and officers from HMRC and was found to be in possession of a quantity of drugs. A search of the property by both the Police and CAFS identified evidence relating to benefit fraud. Arrests were made and a trial set for September.

Operation Vulcan

During a court hearing, the subject stood surety for another defendant. She was in receipt of benefit from LBHF and during the hearing it came to light that the subject held significant savings. The subject was arrested for benefit fraud and charged with 9 offences, 3 under POCA. The trial is set for August.

Other convictions for fraud

In April a man was sentenced to a Community Punishment Order and electronic tagging with full costs of £1107 awarded. A compensation order has been granted for the total over payment of £7691.

In May a woman was sentenced to 6 months suspended for two years, and was advised by the judge that she would have received a custodial sentence had she not had children.

In June a woman was sentenced to an 80 hour Community Punishment Order.



AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS

Chief Internal Auditor
Principal Consultant-
Risk Management

COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

This report updates the Committee of the risks, controls, assurances and management action orientated to manage organisational level risks.

**WARDS
All**

RECOMMENDATION:

1. **Future reporting needs to the committee are to be based on exception and operational risk activity.**
2. **The committee adopt a new suite of risk reporting snapshots that includes information security, data quality, insurance, health and safety, fraud, financial and contractor risk. (Appendix A – draft format subject to further development)**
3. **The committee consider the current risk position as reported in Appendix A.**

1. PURPOSE

- 1.1. This report informs Members on the performance of risk management across the council and presents a change in reporting from previous submissions to Committee, attached on a work-in-progress basis as **APPENDIX A**. A review of risk management output is underway based on the British Standard BS 31100 code of risk management practice. The outcome of the review, conducted by Deloitte's, will seek to present information on risk utilising three standard output areas, Strategic, Projects and Programmes and finally Operations. Data shown in Appendix A is illustrative of the base information that would be developed for the purpose of scrutiny by the Committee. Effective risk management continues to help the council to achieve its objectives by 'getting things right first time' and is a key indicator of the 'Corporate Health' of the council.

2. BACKGROUND

- 2.1. The Finance and Corporate Services Department acts as the lead Department on risk management supported by the Principal Consultant Risk Management. Departmental Directors act as Risk Champions in their own service areas to support the process across all levels of the authority.

3. Future reporting needs

- 3.1. It is proposed that the future risk reporting needs of the council are focussed on exception and operational risk activity. This is to move from reporting on process to focussing on activity output, and assisting in developing future risk strategy. The revised approach reflects the standards required as part of the British Standard Code of Practice for risk management. There are a number of key drivers for this including keeping costs down, ensuring and maintaining added value to risk management and positively promoting opportunity management through sensible risk taking. The change in format is intended to enhance transparency of some of the most critical risk areas, assist in keeping costs down through effective management reporting, highlight unnecessary risk and to facilitate robust scrutiny by committee.
- 3.2. Currently risk management is being benchmarked against the British Standard through a gap analysis to ascertain the appropriateness of intelligence used to inform the risk management process.
- 3.3. Output will in future be orientated in accordance with the British Standard model that covers three discreet elements namely;
 - Strategic – Corporate Risk Register
 - Programmes and Projects
 - Operations
- 3.4. Bringing together operational risk information, for example insurance, health & safety and fraud, adds value through shared intelligence from data, for

example to examine if there is any correlation across health & safety, sickness and insurance statistics to spot any patterns emerging.

- 3.5. Additional information held on information security breaches, data quality, and tracking of financial budget risks will be developed. Full background information will be held for the benefit of members detailed enquiries.
- 3.6. To illustrate how the range of information will potentially look, a first version of the new report is attached in **APPENDIX A** (with operational information provided on a snapshot basis as this stage). This will also help serve to address the requirements to demonstrate organisation financial resilience as part of the Value for money judgement of the annual accounts.

4. CONCLUSIONS

- 4.1. To further mature the application of risk management across the council and to comply with British Standards BS31100 code of practice that the council adopt the proposed amendments to risk reporting.

5. Comments from Director of Finance and Corporate Services

The Director of Finance and Corporate Services is the Council's 'Risk Champion' and endorses the contents of this report.

LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Audit Commission: Worth The Risk, Improving Risk Management in Local Government	Michael Sloniowski 2587	Strategy, Performance & Procurement Ground Floor, Room 10 Hammersmith Town Hall
2.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Strategy, Performance & Procurement Ground Floor, Room 10 Hammersmith Town Hall
3.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	OGC Website	http://www.ogc.gov.uk/sdto/olkit/reference/ogc_library/related/orange-book.pdf
4.	Departmental Risk Registers	Michael Sloniowski 2587	Strategy, Performance & Procurement Ground Floor, Room 10 Hammersmith Town Hall
5.	CIPFA Finance Advisory Network The Annual	Michael Sloniowski 2587	Strategy, Performance & Procurement

	Governance Statement		Ground Floor, Room 10 Hammersmith Town Hall
6.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Strategy, Performance & Procurement Ground Floor, Room 10 Hammersmith Town Hall

APPENDIX A Risk Management – Audit & Pension Committee information

1. Strategic

Corporate Risk Register

There are no specific changes to the corporate risk profile and the position remains fairly static. A copy of the Corporate Risk Register is attached for information. It is noteworthy however to consider the potential severity of the financial settlement from government and the potential impact on services currently being managed through the Business and Financial Planning process.

Highlights

Improvements

- A project and funding to improve Business Continuity (IT) resilience has been initiated. This will markedly improve the council's resilience in the event of a significant IT service failure through mirrored systems and upgrades.
- The roll out of Human Resources Self Service Payroll system and Smart HR providing proactive identification and timely delivery of solutions to HR issues with improved ability to analyse service demands and speedier solutions.

Significant risks

- Potential harsh financial settlement maintaining pressure on budgets and social resources (housing, welfare and care) managed through the business and financial planning process.
- The potential of a 'double dip recession' and the effect on assets, people, social budgets and local employment

Corporate risk register (attachment)



C:\Mike's Folders\
Corporate Risk Regist

2. Programmes and Projects

Table 1 Programmes and projects

Monthly reports are provided to the Executive Management team through the Programme Management Office (PMO). An excerpt of the programme tracker illustrates the status of projects based on a traffic RAG indicator. Calls to action and recommendations from the PMO are flagged for EMT attention.

EMT Summary - h&f tracked Programmes and Projects - 7 July					
Sequenced by Key Milestones					
Programme	EMT Owner	Project	Milestones	Date	Status
Supporting Your Choice	JR	100 Club Pilot	100 club evaluation complete	Apr-10	Complete
Supporting Your Choice	JR	Implementation projects	PIDs developed - range of projects	Apr-10	Complete
Slicker Business	JW	Corporate Services Review	Reworked PID signed off	Apr-10	Cancelled
Slicker Business	JW	Overall Programme	Programme Definition	Jun-10	Green
Slicker Business	JW	Corporate Services Review	High Priority Areas completed	Jun-10	Cancelled
Building Schools for the Future	JW	Selected Bidder	Selected Bidder Stage completed	Feb-11	Green
SmartWorking	NP	Telephony	Complete Telephony solution (incl. Outlook integration)	Mar-10	Amber
SmartWorking	NP	Netconnect (Lynx Plus)	Pilots - report & recommendations	Jul-10	Green
Asset Management	NP	Cobbs Hall	Construction work complete	Apr-10	TBC
Asset Management	NP	CAMSYS	Go Live	May-10	Red
SmartWorking	NP	Overall Programme	Business case to Cabinet Briefing for Stage C - rollout to rest of council	Jun-10	Complete
Asset Management	NP	Stow Road Depot	Final vacaton	Sep-10	Amber
Asset Management	NP	Barclay House	Disposal	Sep-11	Green
Customer Transformation	LC	Improving the Customer Experience online	Delivery of Project Sparkle and online Housing Benefits	Aug-10	Green
Customer Transformation	LC	Improving the Customer Experience online	Delivery of online Council Tax and Visitor Parking Permits	Nov-10	Amber
Strategic Regeneration	LD	Developing Decent Neighbourhoods	Draft Opportunity Area Planning Framework - consultation start	Jul-10	Amber
Strategic Regeneration	LD	Area Opportunity Plans: Hammersmith & White City	Consultation starts on OAPF	Jul-10	Green
Strategic Regeneration	LD	Local Housing Company	Business case to Cabinet Briefing	Jul-10	Green
Strategic Regeneration	LD	Local Development Framework (LDF)	Framework publication	Sep-10	Amber

Highlights

- Delivery of the CAMSYS asset management project, marked in the above table as red, has been delayed due to the implementation of updated bespoke enhancements from the supplier Technology Forge affecting the help desk module.

Market Testing

Highlights

Each distinct class of procurement activity is reported through the council's competition board. A summary of their position is outlined below;

- **Market Testing Programme (Green)** – The overall programme is broadly on track. Passenger Transport progressing well, Home Care due to be let in October and business case prepared for H&F News. However minor delay on Health & Safety project
- **Contract Renewals (Amber)** – Mixed picture with a number of contracts already elapsed or no response received despite a number of reminders. Suggest Department Management Teams check through their lists individually to identify any problems which need to be addressed.

- **Contract Monitoring (Amber)** – 10 major contracts reviewed, of which 2 are on red status (London hire Ltd, London Energy PLC), 2 on amber status (Eden Foods Services and Family Mosaic Housing) with the remainder on green status. No response received on Kier Support Services. Actions in place to address shortcomings – departments will need to monitor the effectiveness of these.
- **Building Schools for the Future (BSF) (Red)** – The Government has announced the stopping of all BSF programmes that have not achieved Financial Close. As a consequence of this, the procurement of a LEP to deliver the H&F programme has been halted and all work has stopped on school projects within our BSF programme. A review of schools capital funding will commence in July 2010. It will report to Ministers in mid-September and a forward plan for capital investment over the next spending review period will be produced by the end of the calendar year. Notwithstanding the aforementioned review of capital spending, the BSF Team within the Schools Resourcing Division of Childrens Services is exploring the potential of alternative avenues of funding of schools capital projects. Although the formal competitive dialogue process has been halted, lines of communication with the two bidders are being maintained to explore possible options for partnership working within an alternative funding strategy.
- **WLA Joint Procurement Unit (Amber)** – Overall programme on amber status notably High Cost Placements, Supplier Accreditation, Market analysis/engagement and Programme management.
- **HF/PCT Integration Programme (Amber)** - Despite some uncertainty on future direction for the PCT, there are 3 notable achievements namely 1) Improved overall results in the 2009/10 World Class Commissioning review (although low score on procurement competency 9). 2) Significantly improved risk management of Procurement process & contract management has been recognised and confirmed by internal auditors. 3) The integration benefits from adopting LBHF best-practice has been recognised by the Audit Commission. Introduction of a Competition Board supported by non-exec Chairman and recognised by WCC panel as positive & innovative has been highlighted by the Audit Commission as an example of world class innovation for PCT's in relation to 2009/10 Use of Resources review. Also opportunities for the Adult Social Care JPU offering commissioning services to GPs being explored.
- **E Procurement (Green)** – Overall programme on track. E-Invoicing and e-Tendering implemented and being rolled out which will deliver savings and provide greater consistency in procurement processes being adopted. London Procurement Portal due to be implemented in the autumn.
- **Contract Review and Negotiation Report (Green)** – Briefing sent to all departments, meetings being held by members of the Corporate Procurement Team with Contract Managers throughout the summer and autumn and a special Contract Managers Forum programmed for 5th October 2010 to report on progress and agree next steps.

Individual contract performance

Monitoring of a sample of contracts with regards to risk is undertaken through the Strategy, performance and procurement division. These highlight if a contract is being managed through robust channels to ensure benefits realisation is achieved. Monitoring includes;

- Performance
- Risk
- Information (data quality)
- Cost
- End user satisfaction

A copy of the monitoring document is attached for members' information.

Highlights

At present there are no significant issues to report.

Contract monitoring (attachment – PART 2 – EXEMPT CONFIDENTIAL INFORMATION for Committee)



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Contract monitoring.>

3. Operations

Meaningful Operational Data is being developed and expanded for Members and Officers. Trends in insurance spend (claims patterns), health and safety, sickness, budget risk and other areas will help sharpen focus on cost.

Operational information can be reviewed by members to determine if the risk management strategy applied is effective in managing the control environment. As ineffective controls can increase risk beyond expected levels and the cost of maintaining a control can increase over time, the council's services should undertake regular review of controls and maintain a test schedule to ensure that they remain fit for purpose and cost effective. Where controls are no longer considered necessary or cost effective their removal should be sanctioned by the council Executive Management Team.

The charts below provide snapshot information, which it is proposed to develop including with trend data.

Chart 1 Sickness by cause

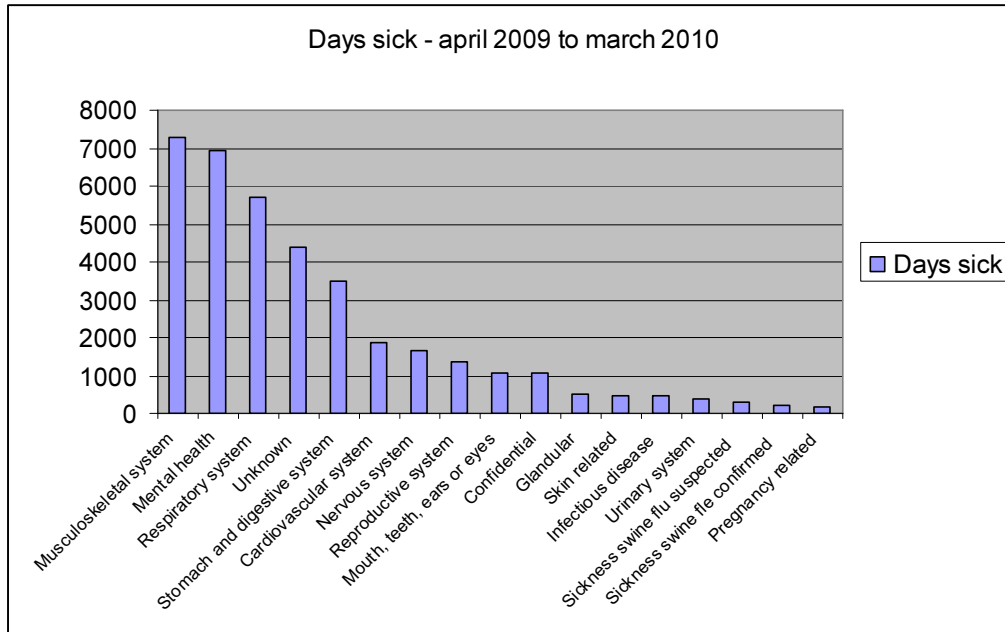


Chart 2 Insurance claims by number 01-07-09 to 31-03-2010

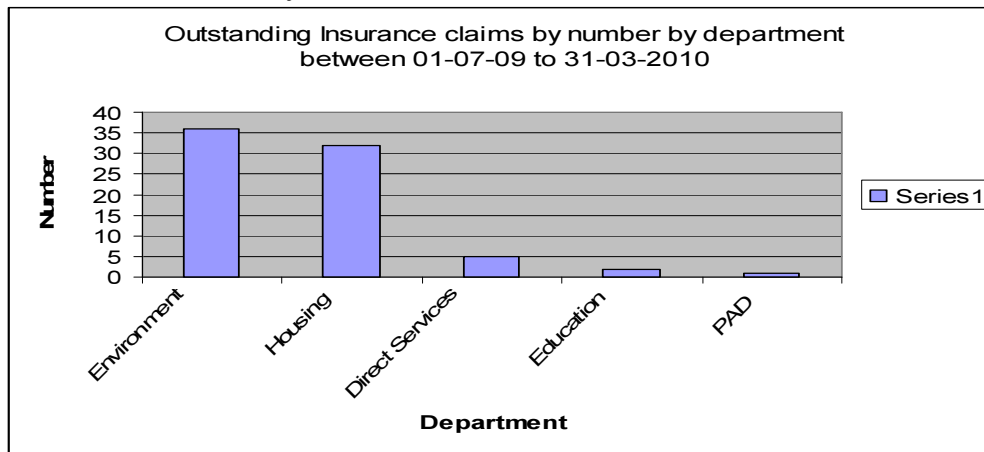


Chart 3 Outstanding Insurance claims by cost 01-07-09 to 31-03-2010

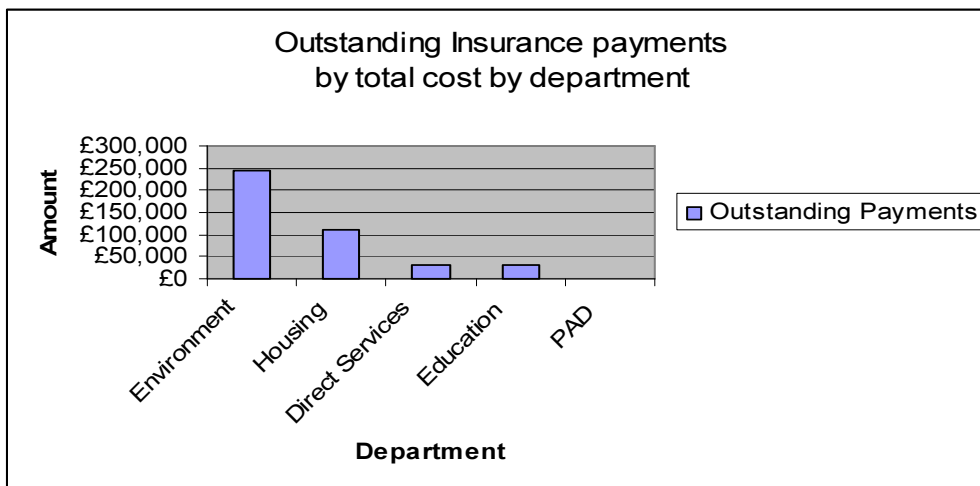
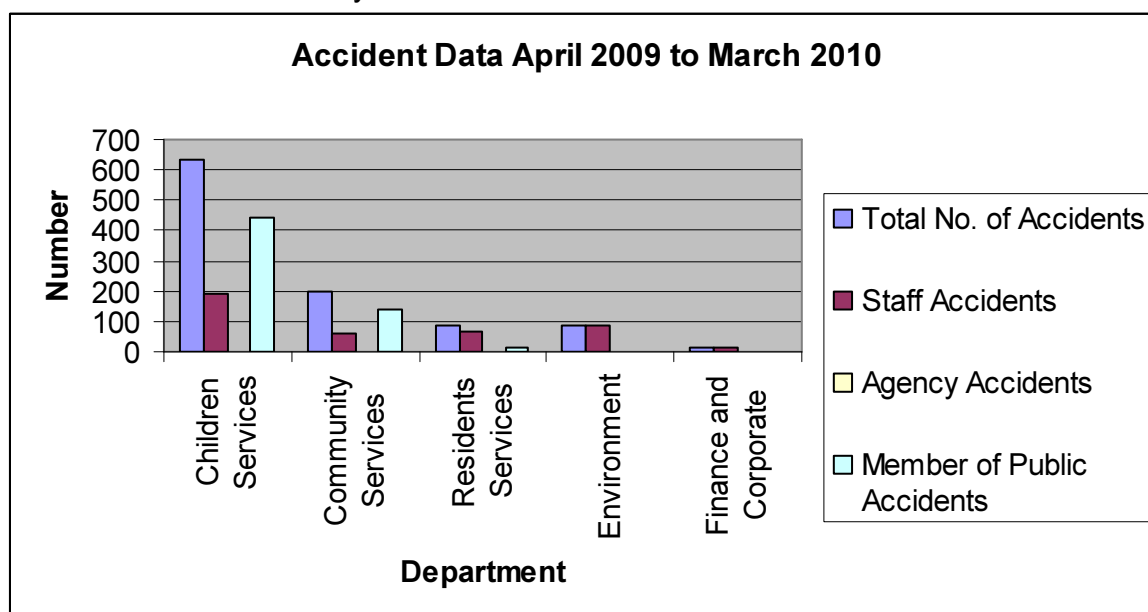


Chart 4 Health and Safety Accident data



Key Budget Risks identified

Financial risks are prudently identified as part of budget planning. Attached are the key risks identified as part of the agreed budget from 2010. It is proposed that these are reported to committee by exception to ascertain whether these risks came to fruition.



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Key Budget risks.pdf

Information Security and Data Quality


The information management team has been asked to compile information for the next Audit and Pension Committee to address any potential or actual breaches of information security and or data quality incidents.

Fraud risk

Members are asked to consider the benefits of combining elements of the Fraud reporting currently provided under separate cover into this proposed combined risk management highlight report.

CORPORATE RISK REGISTER APPENDIX 1


Key Risks (refer to note 1)

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
1.	Delivering high quality, value for money public services	<p>Business Resilience – Sub-risk</p> <p>IT resilience</p> <ul style="list-style-type: none"> • Systems not joined up and connected • Strategic Information technology framework not implemented effectively • Electronic information storage capacity • Lack of top tier response plans 	<p>If an event occurs</p> <ul style="list-style-type: none"> • Customers face delays in service provision • Time to recover power and IT Services could be between 6 & 8 weeks • Loss of information • Service interruption • Loss of productivity • Non compliance with statutory duties - indirectly • Increased cost of resurrecting services (only partially insurable) • Threat to life - indirectly • Wasted resources & staff duplication in recovery phase • Cost of additional data storage capacity • Impact on service delivery due to potential of a local outbreak affecting staff and the public 	<ul style="list-style-type: none"> • Corporate Incident Management Procedures incorporate Business Continuity • Training has been delivered to local service plan leaders • A corporate service resilience group has been formed and meet periodically • Assistant Directors of Resources have been appointed as Departmental contact leads • Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services • H & F Bridge Partnership have submitted a Local Service Recovery Plan and has worked with the council to undertake a formal risk assessment • Data recovery is insured under the councils corporate insurance package (but limited) • A threat assessment has been compiled • Some ITC service has been moved to East London • The Business Continuity (BC) project involves provision of IT BC for approximately 30 First Order applications as 	<p>Business Continuity Audit report 2008/09 (Limited Assurance) in, ICT Disaster recovery provisions Audit report 2009/10 (Nil Assurance)</p> <p>Data storage & back up audit Audit report 2009/10 (Substantial assurance)</p> <p>EMT, Pension and Audit Committee</p>	3	4	12	<p>Medium</p> 	Jane West (Insurance & H F Bridge Partnership contract monitoring) Lyn Carpenter (Corporate Business Continuity)	<p>Review</p> <p>July 2010</p>


CORPORATE RISK REGISTER APPENDIX 1

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
				<p>identified by H&F. The data will be replicated from the primary data centre at East London to the secondary site at HTH. Additionally, there will be local network switch resilience within HTH; resilience for the infrastructure elements such as profiles, home folders and printing; plus annual tests of parts of the BC solution.</p> <p>NOTE Please refer to BCP Risk Assessment for highlighted risks and controls</p>							
2.	Delivering high quality, value for money public services	<p>Managing projects</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Projects do not consider enough time to mobilise in the event services are awarded to the private sector Project implementation is delayed due to protracted discussions regarding pensions transfer The risk of challenge to contract awards may increase during the harsher economic climate Large scale high risk high return projects are not led by a qualified or experienced project manager. Too many projects are undertaken with unrealistic or unachievable targets 	<ul style="list-style-type: none"> Customers needs and expectations are not fully met when projects are delivered Benefits of investment in creating toolkit not realised Threat of overspend on projects Benefits are not fully realised Delays in mobilisation of services through revised contracts 	<ul style="list-style-type: none"> Project Management toolkit Training of Officers has being delivered and is ongoing Programme Management Office in Finance & Corporate Services Department acts as a repository for project information and reports to EMT but does not ensure compliance with the toolkit Senior Managers have all been briefed about the Project Toolkit Toolkit is available on desktop PC's Monthly programme reporting to EMT (dashboard) Competition Board monitor aspects of project management compliance Procedures for TUPE transfer have been included in project management instructions Programme and Portfolio governance arrangements are being formalised 	<p>Corporate Programme & project management audited in 2009 draft report issued (Limited Assurance)</p> <p>Competition Board</p> <p>Audit Commission review of selected contract management scheduled 2010</p> <p>Internal Audit review of specific contracts under 2009/10 Audit Plan and of Use of Consultants (</p>	3	3	9	Low	Jane West lead – All Directors	Review July 2010



CORPORATE RISK REGISTER APPENDIX 1

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
				<ul style="list-style-type: none"> Lessons learned report 	Nil Assurance) EMT, Pension and Audit Committee						
3.	Delivering high quality, value for money public services, Providing a top quality education for all, Tackling crime & anti-social behaviour, A cleaner greener borough, Promoting home ownership.	<p>Managing statutory duty</p> <p>Sub-risks Non-compliance with laws and regulations</p> <p>Breach of duty of care</p> <p>Departmental assurances</p>	<ul style="list-style-type: none"> Non compliance may result in prosecution or a Corporate Manslaughter charge Financial compensation may be claimed Injury or death to a member of the public or employee A breach of information security protocols may result in fines, harm to reputation and personal liability of Directors Inadequate level of service Poor satisfaction with statutory services Potential claims involving failures in Social Care (Stamford House) 	<ul style="list-style-type: none"> Nigel Pallace appointed lead Sponsor on EMT for Health & Safety Pro-active Health, Safety and Welfare culture across the council Contractors are managed within CHAS regime Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims Legislative changes are adopted and reflected in amendment to the council's constitution, budget allocation through MTFS (Now unified business & financial planning process) Training and guidance packages Corporate Safety Panel Briefings for Senior Managers on Corporate Manslaughter have been undertaken Health & Safety week promoted the theme of risk assessment Health & Safety guidelines have been reviewed, refreshed and communicated 	<p>Internal Audit undertook an Audit of this in 2008/09 and a follow up is planned</p> <p>Health & Safety Internal Audit undertaken 2009/10 demonstrated improvements and substantial assurance</p> <p>Annual Assurance process</p> <p>Assurance required that actions are being taken to ensure compliance with the law and regulations</p> <p>EMT, Pension and Audit Committee</p>	4	3	12	Medium 	Geoff Alltimes	Review July 2010



CORPORATE RISK REGISTER APPENDIX 1

5.	Delivering value for money	<p>Managing budgets</p> <p>Sub-risks</p> <ul style="list-style-type: none"> • Austere financial settlement from government is not favourable. The council is seen as a floor authority. • Impact of the recession and cascade effect on social budgets * link to revenue forecast • Demand led services may occur mid year resulting in unanticipated additional costs • HMRC VAT claims regarding partnering activities • Grant application is incorrectly calculated • Unplanned growth • Failure to achieve VFM • Accruals & reconciliations • Planned savings not implemented • Creditworthiness of some contractors may be downgraded as a result of the economic downturn • Increase in social welfare services as a result of the economic downturn may impact on projected spend. • Insufficient budgetary provision and/or budgetary under/overspend * • Incomplete/inaccurate accounting records * 	<ul style="list-style-type: none"> • Pressure on the authority to manage overspends • Departments have to manage cost pressures • Pressure to meet target savings and Administrations commitment to cut Council Tax • HMRC recover VAT from the council affecting cash flow • Repayment of Grants 	<ul style="list-style-type: none"> • Medium Term Financial Strategy and Business Planning Processes have been combined and is re-modelled • MTFS Officer & Member Challenge • Efficiency programme management in place identifying statutory v discretionary services • Leader's monthly monitoring reports • Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements • Partnership activity now includes a VAT trace and has been raised at FSB • Grant Claims & returns record is tracked at FSB • Monthly corporate revenue & capital monitoring to cabinet • Reports to the Leader identify where spend levels exceed a tolerable level during the year • Credit check of contractors is being undertaken through the Competition Board • Disposal of Assets 	<p>Annual Audit Letter</p> <p>Select Committees are given the opportunity to fully scrutinise budgets during January.</p> <p>Assurance required that complete and accurate accounting records are being maintained *</p> <p>Participation in London Efficiency Challenge</p> <p>EMT, Pension and Audit Committee</p>	4	4	16	High 	Jane West lead – All Directors	Review July 2010
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CORPORATE RISK REGISTER APPENDIX 1

6.	Putting residents first, Setting the framework for a healthy borough	<p>Successful partnerships (Local Area Agreement - Borough Partnership & Major Contracts)</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Area based grant has been clawed back Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability or liability in the event of service failure Plans to remodel the PCT's and delivery of health services through GP's as per the White Paper – Liberating the NHS 	<ul style="list-style-type: none"> Joint objectives are not met Community expectations are not met Relationship deteriorates Threat of overspends and underspend 	<ul style="list-style-type: none"> LAA partners are risk assessed and LAA refreshed Community Strategy refreshed Governance arrangements are in place Borough Partnership Compact Performance monitoring reports reported to Scrutiny Cttee's & Borough Partnership Strategy Unit monitors Partnership progress Area based grant exit strategy is funded short term through contingency / reserves Review of Partnerships undertaken by Strategy Unit Data Quality protocols agreed in Borough Partnership Handbook – Constitution H & F Bridge Performance Monitoring 	<p>Audit Commission & Internal Audit have undertaken a review of partnerships in 08-09 (Satisfactory assurance)</p> <p>H & F Bridge Partnership Assurance process</p> <p>H & F Homes Assurance process</p> <p>PCT are Audited by the Audit Commission</p> <p>Audit of H & F Homes Contract Management undertaken in 2008/09</p> <p>EMT, Pension and Audit Committee</p>	4	3	12	Medium 	Geoff Alltimes	Review July 2010
7.	Delivering value for money	<p>Maintaining reputation and service standards</p> <p>Sub-risks</p> <p>Breach of Officer or Member code of conduct</p> <p>Data released</p> <p>Poor data quality internally or from third parties, breaches of information protocols, information</p>	<ul style="list-style-type: none"> Threat to the status of the council Potential adverse media reporting Quality and integrity of data held in support of Performance Management & Financial systems leads to under or over estimation 	<ul style="list-style-type: none"> Combined Business Planning & MTFS processes Business Planning is part of the performance management competencies Risk registers have been developed for all departments and divisions Annual review of corporate governance arrangements conducted by Internal Audit Performance statistics are 	<p>Ofsted, Care Quality Commission, Annual Audit letter</p> <p>EMT, Pension and Audit Committee</p>	4	3	12	Medium 	All Directors	Review July 2010

CORPORATE RISK REGISTER APPENDIX 1

		erroneously sent to third parties. Auto forwarding of information (Information control and threat of leakage)		scrutinised by Select Committee's, EMT & DMT's <ul style="list-style-type: none"> • Corvu Performance Management System is able to pick up anomalies • Data Quality Training 							
8.	Delivering value for money	Managing fraud (Internal & External) Sub-risks Misappropriation of assets *	<ul style="list-style-type: none"> • Loss of reputation • Financial loss • Adverse regulatory /audit report • Inadequately resourced fraud unit 	<ul style="list-style-type: none"> • Literature and training has been delivered to all levels of the authority • Information and guidance has been published on the corporate intranet • Awareness survey has been undertaken • A Corporate Fraud Service has been established • Level of fraud is being tracked through FSB • Close working relationship is established with the Police • Fraud risks being integrated into risk registers • CAFS team now use a risk assessment to assist in targeting and workload prioritisation 	<p>Audit Committee receive quarterly reports on Fraud</p> <p>Deloitte Fraud Survey 2008</p> <p>Assurance required that assets are safeguarded</p> <p>EMT, Pension and Audit Committee</p>	2	3	6	Low 	Jane West lead – All Directors	Review July 2010
9.	Delivering value for money	Successful cultural change	<ul style="list-style-type: none"> • Potential internal uncertainty re: staff morale • Change consumes more resource than VFM/efficiency gains realise 	<ul style="list-style-type: none"> • Effective communications programme • Staff Survey undertaken in 2009 and follow up action plans • Career development discussions • Revised sections in Business Planning document inc. Equalities & Diversity and • Smartworking 	<p>Staff survey, Corporate Workforce Group</p> <p>EMT, Pension and Audit Committee</p>	3	3	12	Low 	Ellen Lamparter	Review July 2010

CORPORATE RISK REGISTER APPENDIX 1

10.	Putting residents first	Managing the Business Objectives (publics needs and expectations)	<ul style="list-style-type: none"> The Public or section of the public may not receive the service that they need or to the quality they expect Reputation of the service may be affected Updating the Community Strategy will affect the direction of travel in some business areas 	<ul style="list-style-type: none"> Robust Business Planning regime revised for 10-12 incorporating fully the Medium Term Financial Strategy Performance monitoring and feedback through local media & H & F News Customer experience and satisfaction surveys 	Cabinet Members and Scrutiny Cttee review performance Ofsted, Care Quality Commission	3	3	9	Low 	All Directors	Review July 2010
11.	Delivering value for money	Market Testing of Services (refer to Competition Board Roadmap and Programme Dashboard)	<ul style="list-style-type: none"> Officers time away from other projects Timescale of project is tight Insufficient numbers of Officers designated to the project Benefits are not realised Data Quality (Accuracy, timeliness of information) results in variation to original contract spec 	<ul style="list-style-type: none"> Consultation with other boroughs Project managing the process Separation or joining of projects to maximise benefit potential Realistic timetables agreed and reviewed at Competition Board Market Testing reported on Programme dashboard to EMT Programme & Project Management – Risk Logs being maintained, periodic risk reviews 	Competition Board, Programme Management Board, EMT, Audit review conducted for Use of Contractors	3	3	9	Low 	All Directors	Review July 2010
OPPORTUNITY RISKS											
1.	Delivering high quality, value for money public services	Managing Human Resources Sub-risks Integration of services with NHS Hammersmith & Fulham	<ul style="list-style-type: none"> Key staff retention HR protocol has been agreed for officers who work with the PCT 	<ul style="list-style-type: none"> HR team has been centralised and self service is being rolled out Performance reports are provided on staffing to FSB, EMT and are reported to Scrutiny Committees 	Business Planning, Corporate Workforce Group	3	3	9	Low 	Geoff Alltimes lead – All Directors	Review July 2010
2.	Delivering high quality, value for money	Merging of education services with Westminster Council	Savings due to removal of duplication across the councils			2	4	8	Low 	Andrew Christie	Review July 2010

CORPORATE RISK REGISTER APPENDIX 1

	public services										
3.											

Note 1. All key risks have been extracted from(but not limited to) a number of sources for analysis by the Corporate Management Team. The sources include;

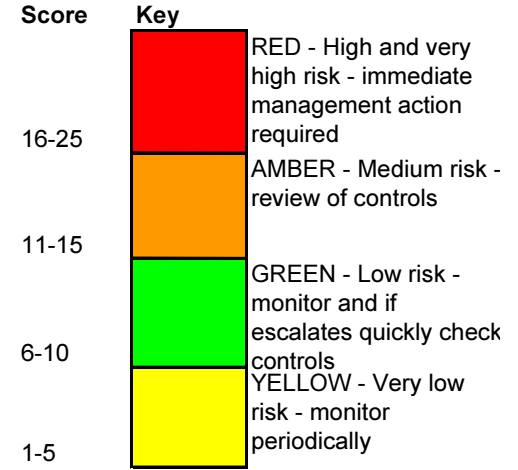
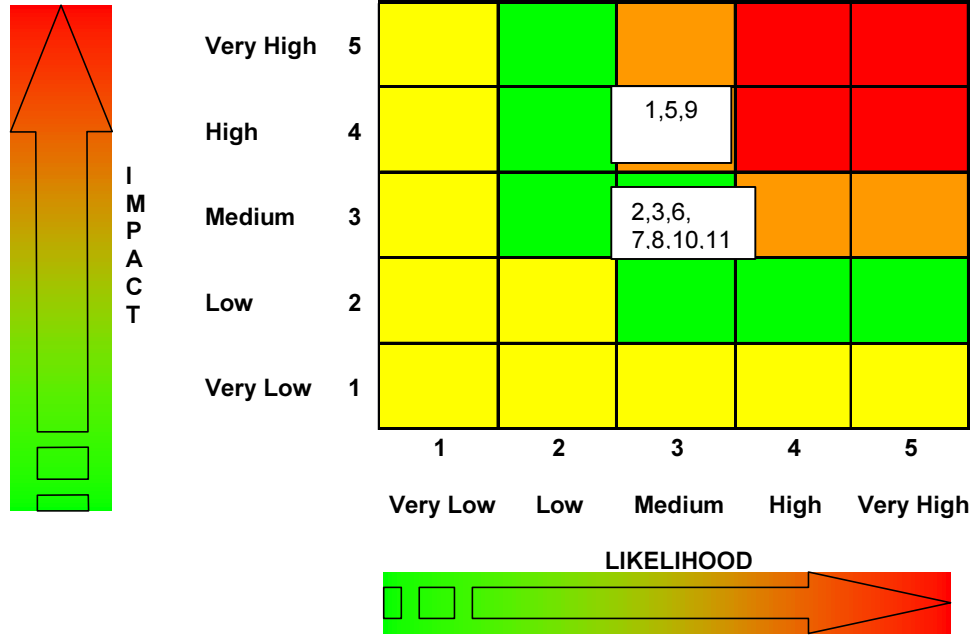
- i. Previous Corporate Risk Register
- ii. Benchmarking with other Local Authorities on Identified Risks
- iii. Information identified from Departmental Risk Registers
- iv. Officers Knowledge and experience
- v. The Office of Government Commerce Project Risk Management Handbook
- vi. Procurement exercises
- vii. Significant Weaknesses established from the Annual Assurance process
- viii. Audit Reports
- ix. Knowledge and experience of public sector risks from the Principal Risk Consultant
- x. Data Quality and Integrity
- xi. Programme Management Office monthly report

Note 2. Categorized under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with Audit Commission/ ALARM/IRM/CIPFA best practice.

CORPORATE RISK REGISTER APPENDIX 1

Residual

CORPORATE RISK REGISTER



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* Derived from Deloitte's Assurance Framework 2007/2008

Risks

Children's Services				
Title	Description	2010/11 £'000	2011/12 £'000	2012/13 £'000
Cross Cutting	Increase in demand for Interpreter Services	60	60	60
Asylum	Risk of increase in Asylum numbers	150	150	150
Complex Needs	Loss of income from PCT due to cessation of Joint Funding agreements between H&F and PCT as pupils turning 18.	375	375	375
Complex Needs	Additional security for potentially violent service users	60	60	60
Total		645	645	645
Community Services				
Title	Description	2010/11 £'000	2011/12 £'000	2012/13 £'000
Adult Social Care	Stars-impact of new re-enablement model (existing proposal may not be fully achieved)	200	200	200
Adult Social Care	Continuing Care	250	250	250
Adult Social Care	The strategy, service delivery intention & options for the future development of Self Directed Support needs to be modelled to ascertain the potential impact of increase in demand and charging	1,000	1,000	1,000
Housing	Changes to the Housing Benefit thresholds (possible further 5% reduction) relating to the temporary accommodation account	330	330	330
Adult Social Care	Inflationary placements increase.	570	570	570
Housing	Prevention Initiatives: Possible withdrawal of funding on preventative areas of funding	0	1,232	1,232
Quality, Commissioning & Procurement	Supporting People - Inflation on Contracts above funded levels	300	300	300
Quality, Commissioning & Procurement	White City Collaborative Care Centre	200	200	200
Adult Social Care/Housing	Home Care & Housing Related Support - new contracts	700	700	700
Resources	Bad debt provision for Income Collection	150	150	150
Total		3,700	4,932	4,932

Risks

Environment Services		2010/11	2011/12	2012/13
Title	Description	£'000	£'000	£'000
Utility Costs	energy is procured on an annual basis and as well as general uncertainty over volume, prices can not be guaranteed for the final 4 months of the year.	200	200	200
New Contracts	Both the new non-housing maintenance contract and the Highway Maintenance contracts are expected to deliver overall cost reductions. However it is possible that these savings may be skewed towards the capital programme with an increase on revenue.	300	300	300
Advertising Income	The lead-in time to establishing new sites and the economic conditions may lead to delayed or reduced income in this area	250	250	250
Total		750	750	750

Residents Services		2010/11	2011/12	2012/13
Title	Description	£'000	£'000	£'000
Cleaner, Greener Neighbourhoods	Waste Contract - Trade Refuse increase income	150	300	300
Parks and Culture	Fulham Palace - reduced income	76	76	76
Total		226	376	376

Corporate		2010/11	2011/12	2012/13
Title	Description	£'000	£'000	£'000
Employees	2010/11 Pay Award at 2% rather than 1%	1,500	1,500	1,500
Inflation	Contract inflation 1% higher than currently allowed for	1,246	2,492	3,738
Formula Grant	Formula Grant reduction - 3% per annum	0	3,628	7,147
Area Based Grant	Area Based grant - 5% annual reduction	0	558	1,116
Total		2,746	8,178	13,501

Risks due to Economic Slowdown				
		2010/11	2011/12	2012/13
Community Services	Regeneration - Reduction in developer contributions	0	0	141
Community Services	ASC - Increase in mental health cases and reduction in self funders	112	224	224
Corporate	Pensions - Impact of next actuarial revaluation	0	1,500	3,000
Corporate	Debt Reduction - downturn/delay in forecast capital receipts. Interest rate adjustments	500	500	500
Corporate	Housing Benefit - claimant increase/lower income recovery	?	?	?
Environment Services	Building Control Changes - slow down in activity	300	400	400
Total		912	2,624	4,265
Hammersmith and Fulham - Summary				
		2010/11	2011/12	2012/13
		£'000	£'000	£'000
Grand Total		8,979	17,505	24,469



AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 April to 30 June 2010**

This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2010, as well as reporting on the performance of the Internal Audit service.

**WARDS
All**

RECOMMENDATION:

- a) To note the contents of this report
- b) To approve the amendments to the audit plan as outlined in Appendix E

CONTENTS

1. Introduction	1
2. Internal Audit Coverage	1
3. Internal Audit Service	3
Appendix A Audit reports issued 1 January to 31 March 2010	5
Appendix B Limited and No Assurance Final Audit Reports	7
Appendix C Internal Audit reports in issue more than two weeks	76
Appendix D Audit Recommendations outstanding	77
Appendix E Amendments to 2010/11 Audit Plan	91

1. Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2010 as well as reporting on the performance of the Internal Audit service.

2. Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.
- 2.2 A total of 23 reports were finalised in the first quarter of 2010/2011 (see **Appendix A**). In addition 1 FMSIS Inspection letter was issued as well as 1 follow-up report and 12 other management letters. 2 audit reports issued in this period received limited assurance. All 6 of the recommendations raised in the report on Leisure Centre Contract management have been reported as implemented and a follow-up audit will now be scheduled. None of the 21 recommendations made in the report on Brackenbury School have been reported as implemented. A follow-up audit will be carried out to verify implementation once all recommendations in each report have been reported as implemented.
- 2.3 At its last meeting the Committee requested a further update on the implementation of the recommendations made in the *Use of Consultants* report. A follow-up audit has now been carried out which will be formally reported as part of the quarterly report to the next meeting. This found that 2 priority 1 recommendations had been fully implemented. The remaining 1 priority 1 recommendation and 3 priority 2 recommendations were found to be only partly implemented. The partly implemented recommendations relate to controls that should exist within departments. As a result of this additional centralised controls are being introduced in the relevant areas.
- 2.4 Two reports are maintained on an ongoing basis to which departments (including directors and FSB reps) have access and which departmental Internal Audit reps help to maintain. The first of these is a schedule of draft audit reports that have been issued for which responses have not been received for more than two weeks. There is only 1 report outstanding at this time and this is shown in **Appendix C**.

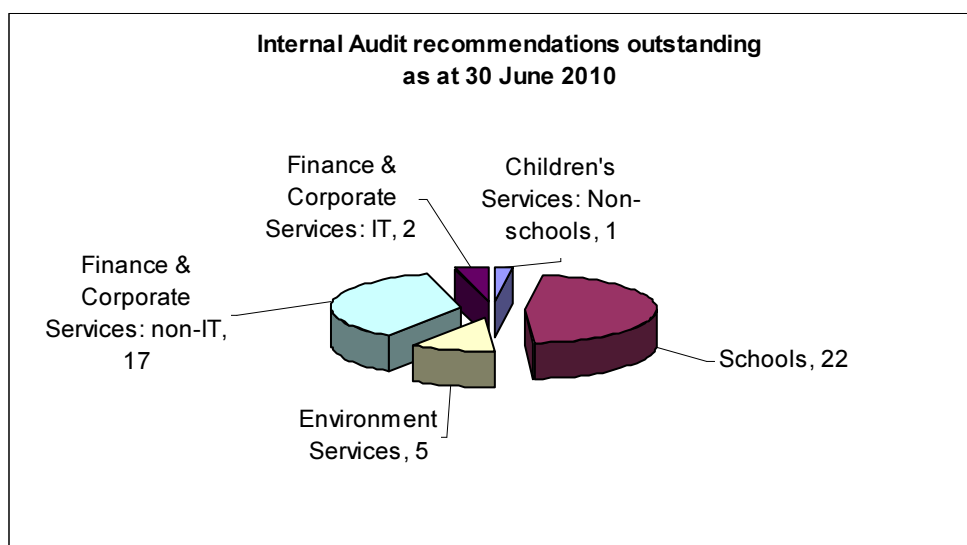
This report relates to Environment Services and will not be over 6 months old at the time of the Committee meeting. We are very pleased

to report that there are no reports outstanding for any other department.

2.5 The second report is a table, a copy of which has been provided at **Appendix D**, that shows there are now 47 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to the 18 reported as outstanding at the end of the previous quarter and represents a significant deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

2.6 The breakdown between departments is as follows:

- Schools – 22
- Children's Services (non-schools) – 1
- Environment Services Dept – 5
- Finance & Corporate Services Dept – 19
(of which 2 relate to HFBP)



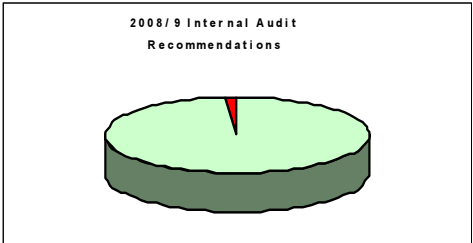
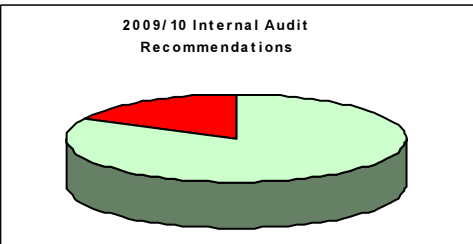
We are very pleased to report that there are no outstanding recommendations to report in respect of Community Services, Community Services (Housing) or Residents Services.

2.7 Of the 47 recommendations listed 1 is at over six months past its target date for implementation as at the date of the Committee meeting. There are no outstanding recommendations over a year past their target date. Internal Audit are currently focussing on clearing the longest outstanding recommendations and to that end will continue to meet with the specific managers responsible for all recommendations overdue by more than 5 months at the time of the meeting. The

breakdown of recommendations implemented compared as a proportion of the total in each year can be seen below.

100% of recommendations made in 2004/5, 2005/6 and 2006/7 have been implemented

There are no recommendations currently outstanding from the 2007/8 year which were beyond their target date at 30 June 2010

<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>98.71%</p>	<p>384 recommendations implemented out of a total of 389</p> <p>5 recommendations outstanding</p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>82.57%</p>	<p>199 recommendations implemented out of a total of 241</p> <p>42 recommendations outstanding</p>	

3. Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd supply the resources for carrying out individual audits and also periodically provide management information to support the reporting requirements of the in-house team
- 3.2 As part of the CIA's function he is required to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 April 2010 to 30 June 2010 and also include an update on the completion of the 2009/10 audit plan.

Performance Indicators 2009/2010 & 2010/11

Ref	Performance Indicator	Target	Pro rata target	At end of Q1	Variance	Comments
2009/10						
1	% of deliverables completed (2009/10)	95%	100%	98%	-2%	124 reports delivered out of a total plan of 127
2	% of planned audit days delivered (2009/10)	95%	100%	99%	-1%	1119 days delivered out of a total plan of 1129 days
2010/11						
3	% of deliverables completed (2010/11)	95%	24%	10%	-14%	12 reports delivered out of a total plan of 120 Target achieved.
4	% of planned audit days delivered (2010/11)	95%	24%	12%	-12%	137 days delivered out of a total plan of 1096 days
5	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	+5%	12 audit briefs out of 12 issued within PI requirement
6	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	1 draft report out of 1 issued within PI requirement

3.3 For the 2009/10 year the target of delivering 95% of the audit plan by 31 March 2010 was achieved. Three reports remained to be issued at the end of Quarter 1.

3.4 Delivery of the 2010/11 audit plan is behind target due to difficulties in scheduling in audits in quarter 1 - particularly schools audits which account for 9 out of the 30 planned audits in quarter 1. Work has begun on bringing audits forward into Q2 wherever possible in order to increase delivery.

3.5 A re-tender for the Internal Audit Service is currently in progress as the contract is due to be renewed from 1 April 2011. We have potential re-tender partners in the local PCT and possibly the London North West Region group of PCTs. Legal advice on options is currently awaited before the formal re-tender commences. It is expected that formal invitations to tender will be issued on 6 September 2010.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

Audit reports Issued 1 April to 30 June 2010

We have finalised a total of 23 audit reports for the period to 30 June 2010, all relate to the 2009/10 programme. In addition, we have issued a further one FMSIS reports, 12 management letters and 1 follow-up report.

Audit Reports

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	09/10	Building Schools for the Future	Andrew Christie	Full
2	09/10	Health and Safety	Nigel Pallace	Substantial
3	09/10	Print Services	Jane West	Substantial
4	09/10	Hurlingham and Chelsea School	Andrew Christie	Substantial
5	09/10	Corporate Workforce Planning	Jane West	Substantial
6	09/10	Council Tax	Jane West	Substantial
7	09/10	Cambridge School	Andrew Christie	Substantial
8	09/10	Addison School	Andrew Christie	Substantial
9	09/10	Register of Officers Interests	Jane West	Substantial
10	09/10	Employment of Foreign Nationals	Jane West	Substantial
11	09/10	Leisure Centre Contract Management	Lyn Carpenter	Limited
12	09/10	Trade Waste - Financial Aspects and Debt Recovery	Lyn Carpenter	Substantial
13	09/10	Debtors	Jane West	Substantial
14	09/10	Register of Members Interests	Jane West	Substantial
15	09/10	Risk Management Service Review	Jane West	Substantial
16	09/10	Budget Management	Jane West	Substantial
17	09/10	Children's Services Transfer to HFBP	Jane West	Substantial
18	09/10	Lynx Remote Access	Jane West	Substantial
19	09/10	Register of Gifts and Hospitality	Jane West	Substantial
20	09/10	Brackenbury Primary School	Andrew Christie	Limited
21	09/10	Frameworki Financial Aspects	Andrew Christie	Substantial
22	09/10	Holy Cross Catholic School	Andrew Christie	Substantial
23	09/10	Business Transformation Team	Jane West	Substantial

Audit Reports

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

FMSIS Inspection Reports

No.	Audit Plan	Audit Title	Director	Result
24	2010/11	Fulham Primary FMSIS	Andrew Christie	Conditional Pass

Financial Management Standard in Schools (FMSIS) inspections are categorised as Pass, Fail or Conditional Pass in line with the guidance issued by the DCSF.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
25	2009/10	Data Quality	Jane West
26	2009/10	CHS Framework	Andrew Christie
27	2009/10	Cross Borough Contract Management Thematic Paper	Jane West
28	2010/11	Building Schools for the Future Year End Report	Andrew Christie
29	2010/11	Project Management Year End Report	Jane West
30	2010/11	Schools Year End Report	Andrew Christie
31	2010/11	Finance Year End Reports	Jane West
32	2010/11	HolA Year End Report	Jane West
33	2010/11	Risk Management Assurance Framework	Jane West
34	2010/11	IT Year End Report	Jane West
35	2010/11	Risk Management Year End Report	Jane West
36	2010/11	Contact Point	Andrew Christie

Follow ups

No.	Audit Plan	Audit Title	Director	Findings on recommendations				Total
				Fully Implemented	No longer Applicable	Partly Implemented	Not Implemented	
37	2010/11	Macbeth and Bryony Centre	Lyn Garner	9	0	2	3	14

Limited and No Assurance Final Audit Reports

In quarter one of 2010/11 we issued three reports which were provided limited assurance – Leisure Centre Contract Management, Brackenbury Primary School and CRB Checks



**Final Internal Audit Report 2009/10
London Borough of Hammersmith &
Fulham
Leisure Centres Contract Management
May 2010**

This report has been prepared on the basis of the limitations set out on page 26.

Final Report

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This report and the work connected therewith are subject to the Terms and Conditions of the Supply Agreement dated 25 April 2008 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited. The report is produced solely for the use of London Borough of Hammersmith & Fulham. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte & Touche Public Sector Internal Audit Limited will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

Final Report

Executive Summary

Introduction	<p>As part of the 2009/10 Internal Audit Plan, agreed by the Audit Committee on 11 March 2009, we have undertaken an internal audit of Leisure Centres Contract Management.</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out at Appendix B.</p>
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Audit Opinion	None	Limited	Substantial	Full
				

Rationale Supporting Award of Opinion and Direction of Travel	<p>The audit work carried out by Internal Audit (the scope of which is detailed in Appendix B) indicated that, weaknesses in the system of internal controls are such as to put the client's objectives at risk, and the level of non-compliance puts the client's objectives at risk.</p> <p>Weaknesses in control were identified in relation to agreed contracts that could not be provided for examination, the contract for Hammersmith Fitness & Squash Centre and Lillie Road Fitness Centre not including specific income terms, the Business Plan 2010 not being reviewed and updated, and the Health and Safety Policy not obtained for one of the two contractors under examination.</p> <p>The Direction of Travel provides a comparison to the previous audit visit. In this case, the absence of an arrow indicates that this area has not previously been visited by Internal Audit.</p>
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Final Report

Priority Recommendations	1 We have raised three priority 1 recommendations as a result of this internal audit. These are as follows: <ul style="list-style-type: none">• A copy of the signed and sealed copy contract between the Council and Greenwich Leisure Limited for the management of Phoenix Fitness Centre should be retained and made accessible to all relevant staff. Where the contract is not held by the service, a copy should be obtained from the Legal Department;• Management should ensure that regular monitoring of contracts takes place in line with the agreed contractual terms and conditions. Evidence of any monitoring undertaken should be documented and retained; and• Formal agreement should be made between the Council and Greenwich Leisure Limited on the frequency and amount of income to be paid for the Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre.
---------------------------------	--

Detailed Findings

Background

The Council operates five sports and leisure centres within the Borough. These are:

- The Linford Christie Stadium;
- Fulham Pools;
- Hammersmith Fitness & Squash Centre;
- Lillie Road Fitness Centre; and
- The Phoenix Sports & Fitness Centre and Janet Adegoke Swimming Pool.

The Council has appointed two contractors on long-term contracts to manage the leisure centres. The Linford Christie Stadium is not covered by these arrangements and has not been considered as part of the audit scope.

A Lifestyle Plus membership scheme is operated by the Council for all borough residents who qualify, including those who are pensioners, unemployed, full time students, disabled or are on income support or housing benefit are eligible to join. Residents who do not qualify for Lifestyle Plus can become a member of a centre and can use the facilities at a reduced rate.

The joining fee is £20.50 for a year or £10.25 for six months. The Council retains the joining fee. Members can use any of the sports and leisure facilities for 50p per session. The contractor keeps the reduced rate session fee. Members can also obtain discounts in respect of other services, including some library charges, theatre tickets and museum admission.

Fulham Pools also operate a Fulham Pools Card. This offers a reduced rate for holders of the card. The card is available to both residents of the borough and non-residents. The cost of the Fulham Pools Card is detailed in the following table:

	Adult	Junior
Residents	£33.00	£16.50
Non Residents	£54.00	£27.00

The Fulham Pools Card is operated by the contractor and they retain all membership fees.

Final Report

Area Summary	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				Priority 1	Priority 2	Priority 3
	Contract Standards			1	0	0
	Performance Monitoring and Reporting			1	2	0
	Contract Payments/Fee sharing			1	0	0
	Risk Management and Risk Continuity Management			0	1	0

Summary Findings

of

In this section we set out a summary of our findings under each area of scope. This is a balanced summary where possible. Where weaknesses are identified, full details of these are included in the recommendations raised.

Contract Standards

Signed and sealed agreements for the provision of leisure services were requested.

We were informed that the contract for Phoenix Fitness Centre and Janet Adegoke Swimming Pool with commenced in January 2006 and expires in January 2012, a copy of the contract could not be located at the time of our audit. We were however able to obtain a letter detailing the Financial Arrangements. The contract for Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre commenced on February 2004 and expires on 31st January 2014. We identified through examination that the contract for Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre did not however detail the income arrangements.

The contract for managing Fulham pools commenced on 30th November 2001 and expires on 1st January 2051. The total value of the contract is approximately £2m, which was paid at the beginning of the contract.

We have raised one recommendation as a result of our work in this area.

Performance Monitoring and Reporting

A scheduled calendar of meetings between Council representatives and both contractors from September 2009 to March 2010 was provided for observation.

However, minutes of meeting were only available for September 2009 and January 2010. There was no evidence that other meetings had been held with one of the contractors. Six monthly meetings are also held with the Steering Group. In these meetings, health and safety and security are discussed. This was confirmed from examination of the two most recent meeting minutes dated 4th June 2009 and 10th December 2009.

Examination of the contract identified that as part of the contract review, one contractor is required to carry out surveys and opinion polls of users or targeted potential users to highlight the facilities strengths, weaknesses and areas for development. We obtained the Client Report Quarter 1 (April 2009) and Quarter 2 (June 2009). Performance statistics for Quarters 3 and 4 were not available for examination at

the time of the audit. Further, a summary performance report, April 2009 – September 2009 was obtained for Phoenix Fitness Centre. There was no performance data available for Hammersmith Fitness & Squash Centre and Lillie Road Fitness Centre. Also, we could not determine what contractual arrangements were made for producing and submitting performance data as there was no contract available for examination.

We obtained performance data for the period, April to December 2009 for the one of the contracts. The data is required to be prepared and produced for the Performance Review Board quarterly. Examination of minutes from the Performance Review Board meeting held in July and November 2009 confirmed that the data was produced and reported. However, there are no set performance indicators for assessing both contractors.

The Council's Business Plans for 2009 and 2010 covering the contract were obtained and examined. We identified that Business Plan 2010 was incomplete as it made reference to the same targets and objectives as in 2009. There was also no evidence to confirm that the Business Plan was formally approved.

We have raised three recommendations as a result of our work in this area.

Contract Payments/Fee sharing

We confirmed from examination of the letter detailing financial arrangements between the Council and one contractor that the frequency of payment as outlined in the contract is on a quarterly basis within 30 days of presentation of a valid invoice. This relates to a quarterly management fee for Phoenix Fitness Centre and Janet Adegoke Swimming Pool. We confirmed that quarterly payments were made and payments were in line with the agreed charges. The Council does not receive any income from this contract. Where the contractor fails to perform the service as per the agreed contract, 'Default Points' may be awarded. In addition, a 'Warning Notice' may be served on the contractor in the event that the contractor is awarded 200 or more default points in any 12 week period.

From the Resident Services Director briefing on 11th August 2009, we identified that one contractor is required to make annual payments to the Council for Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre. However, we could not confirm details of the frequency of payment, amount, or the agreed terms.

For the one contract, a lump sum payment was made to the contractor at the beginning of the contract.

Final Report

	<p>We have raised one recommendation as a result of our work in this area.</p> <p>Risk Management and Risk Continuity Management</p> <p>A Risk Register had been developed and approved by the service head, which is reviewed on a quarterly basis. A Business Continuity Plan (BCP) had also been developed and approved. We were informed that the BCP had been tested by Emergency Services in December 2009. This was confirmed through examination of supporting documentation obtained.</p> <p>We obtained copies of the Health & Safety Policies for Greenwich Leisure Limited and Virgin Active. Examination identified that both policies have not been reviewed.</p> <p>We have raised one recommendation as a result of our work in this area.</p>
Acknowledgement	<p>We would like to thank the management and staff of Community Sports for their time and co-operation during the course of the internal audit.</p> <p>All staff consulted are included at Appendix C.</p>

Recommendations

Contract Standards

1. Signed and Sealed Contracts

(Priority 1)

Recommendation		Rationale	
<p>A copy of the contract between the Council and the contractor for the management of Phoenix Fitness Centre and Janet Adegoke Swimming Pool should be retained and made accessible to all relevant staff. Where the contract is not held, a copy should be obtained from the Legal Department.</p>		<p>Retaining copies of the signed and sealed agreement between both parties to a contract will help to ensure that both parties have a legal recourse in the event of any legal action.</p> <p>Although a letter from the Council to the contractor detailing Financial Arrangements was provided, a copy of the contract between the Council and the contractor for provision of leisure services at Phoenix Sports Centre and Janet Adegoke Swimming Pool could not be obtained.</p> <p>Where contractual terms and conditions are not formally agreed or retained, there is an increased risk that in the event of any legal action being brought against the Council, the Council may not have any legal recourse resulting in adverse publicity and financial loss.</p>	
<p>Management Response</p>			
<p>Agreed.</p>			
<p>Responsibility</p>	<p>Community Sports Manager</p>	<p>Deadline</p>	<p>30 April 2010</p>

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Performance Monitoring and Reporting

2. Monthly Contractors Meetings

(Priority 2)

Recommendation		Rationale	
<p>The Council should ensure that contractor meetings take place monthly, in line with the agreed terms of the contract and agreed schedule of dates.</p> <p>Matters discussed and action points arising from these meetings should be minuted.</p>		<p>Maintaining a record of meetings with contractors will help to ensure that all decisions, discussions and agreed actions are undertaken.</p> <p>We were only provided with monthly contract meeting minutes for September 2009 for one contractor and January 2010 for another. We were informed that meetings were held but not minuted.</p> <p>Where a formal record of meetings is not held, there is an increased risk that actions, decisions and assigned responsibilities arising from meetings may not be fulfilled.</p>	
Management Response			
Agreed.			
Responsibility	Community Sports Manager and Sports Operations Manager	Deadline	Immediate

Final Report

3. Business Plans

(Priority 2)

Recommendation		Rationale	
<p>The Business Plan should be updated to contain current objectives and targets for the service in line with the overall Council targets for leisure facilities.</p> <p>Evidence of formal approval of the Business Plan should be maintained.</p>		<p>Ensuring Business Plans contain the latest available information helps to enhance its knowledge on external contractors' vision and future objectives.</p> <p>Examination of the 2010 Business Plan identified that it made reference to the same targets and objectives as in 2009, and did not include 2009 results. In addition, some of the objectives stated make reference to 2008, and there was also no evidence to confirm that the Plan was formally approved.</p> <p>Where Business Plans do not include up-to-date data and has not been formally approved, there is an increased risk of lack of consistency and clarity. There is a further risk that the objectives and actions as stated in the plan may not be fit for purpose; thus resulting in objectives not being achieved.</p>	
Management Response			
Agreed			
Responsibility	Community Sports Manager and AD Parks and Culture	Deadline	30 March 2010

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4. Performance Reports

(Priority 1)

Recommendation	Rationale
<p>Management should ensure that regular monitoring of contracts takes place in line with the agreed contractual terms and conditions, including agreement of appropriate performance targets to assess performance against the objectives of the Council in respect of leisure facilities.</p> <p>Evidence of any monitoring undertaken should be documented and retained.</p>	<p>Establishing performance targets and regularly monitoring against them will help to ensure that corrective action is taken to identify and address any poor performance.</p> <p>During the audit we noted the following exceptions:</p> <ul style="list-style-type: none">• We were unable to determine what contractual arrangements were made for the Phoenix Centre and Janet Adegoke Swimming Pool for producing and submitting performance data as there was no contract available for examination;• The Council have not set any performance targets for either contractor; performance targets reported are determined by the contractor; and• We could only obtain the Phoenix Annual Report (April 2008 to March 2009); Phoenix Summary (April 2009 to Sep 2009); LBHF Client Report Quarter 1 (April 2009); and LBHF Client Report Quarter 2 (June 2009). <p>Where key performance targets are not set and regularly monitored against, there is an increased risk that sub standard services provided by contractors may not be identified and rectified in a timely manner.</p>
Management Response	
Agreed	

Final Report

Responsibility	Community Sports Manager and AD Parks and Culture	Deadline	30 April 2010
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Contract Payments/Fee Sharing

5. Income Received

(Priority 1)

Recommendation		Rationale	
<p>Formal agreement should be made on the frequency and amount of income to be paid for the Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre.</p> <p>Where an agreement is currently in place, a copy should be obtained.</p>		<p>Establishing and implementing formal agreements with contractors will help to ensure that the Council has a clear means to identify and verify the income due.</p> <p>Examination of the Resident Services Director briefing on 11th August 2009 identified that one contractor is required to make annual payments to the Council for Hammersmith Fitness and Squash Centre and Lillie Road Fitness Centre. However, we could not confirm details of the agreed terms for setting the payment.</p> <p>Where levels of income to be received by the Council are not formally agreed, there is an increased risk that income due may not be received.</p>	
Management Response			
Agreed			
Responsibility	Community Sports Manager	Deadline	28 February 2010

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Risk Management and Business Continuity Management

6. Contractors Health & Safety Policy

(Priority 2)

Recommendation		Rationale	
Up to date Health & Safety policies should be requested from each contractor and retained as part of the contract monitoring process.		<p>S17 - Health and Safety of the contract between Greenwich Leisure Limited and the Council states that "The Contractor shall maintain a written safety policy and shall ensure that the Council and the Contractor's Staff are notified of any changes to the policy".</p> <p>We were provided with the Policy Statement & Organisation Safety Arrangements for one contractor; however this was dated June 2007. We also obtained a Health and Safety policy for another, but this was dated 2002.</p> <p>Where no Health and Safety policy is obtained from external contractors, or this is not up-to-date, there is an increased risk of legal claims against the Council in the event of injury to members of the public.</p>	
Management Response			
Agreed			
Responsibility	Community Sports Manager	Deadline	28 February 2010

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Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

May 2010

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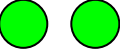



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Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

Audit Opinions

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:




	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

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Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

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Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

Recommendation Priorities

In order to assist management in using out internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the audit committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Appendix B – Audit Objectives & Scope

<p>Internal Objective and Scope</p>	<p>Audit and</p> <p>The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the following management objectives:</p> <p>Contract Standards</p> <p>The contract has identified within it agreed standards of performance against which the contractors’ actual performance can be compared and assessed.</p> <p>That a contract diary is maintained detailing key dates including meeting dates, renewal dates and re-tender dates.</p> <p>A copy of the signed contract is held and readily available to relevant staff involved in the management of the contract.</p> <p>Performance Monitoring and Reporting</p> <p>The actual performance of the contractor against each of the agreed standards is identified and reported to the Council on a regular and periodic basis, with the frequency of reporting laid down in the contract.</p> <p>Where variations from agreed standards are identified they are investigated and explained and where appropriate, reported to senior management of the Council.</p> <p>Contract Payments / Fee Sharing</p> <p>The contract sets out the terms and conditions under which payments will be made to contractors, including frequency of payment and definition of work to be performed to receive payment, and that all actual payments made are in accordance with these terms and conditions.</p> <p>That any income due to the Council under the terms of Contract A with Greenwich Leisure Ltd is accurately, completely and timely made.</p> <p>Risk Management and Business Continuity Management</p> <p>A current risk register is in place that has been approved by the service head. A current business continuity plan is in place that has been approved by the service head.</p>
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The business continuity plan has been tested within the last 12 months; Regular Health and Safety Checks and site visits are undertaken; and Action plans developed to monitor the progress of identified actions.

<p>Internal Approach and Methodology</p>	<p>Audit and</p> <p>The internal audit approach is developed through an assessment of risks and management controls operating within the agreed scope.</p> <p>The following procedures were adopted:</p> <ul style="list-style-type: none">• Identification of the role and objectives of each area;• Identification of risks within each area which threaten the achievement of objectives;• Identification of controls in existence within each area to manage the risks identified;• Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and• Testing of the effectiveness of key controls in existence within each area. <p>Management should be aware that our internal audit work was performed in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.</p> <p>Our internal audit testing was performed on a judgemental sample basis and focused on the key controls mitigating risks. Internal audit testing was designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.</p> <p>Please note that, in relation to the agreed scope, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it was not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.</p>
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Appendix C – Audit Team & Staff Consulted

AUDIT TEAM	STAFF CONSULTED
General Manager	Community Sports Manager
Deputy Sector Manager	AD Parks and Culture
Field Manager	
Senior Auditor	
Contact Details:	
 Ext 2550	
 Ext 2590	

Appendix D – Audit Timetable

	DATES
Planning Meeting	26/02/09
Fieldwork Start	11/01/10
Exit Meeting	29/01/10
Draft report issued	02/03/10
Final report issued	15/05/10

**Final Internal Audit Report 2009/10
London Borough of Hammersmith &
Fulham
Brackenbury School
June 2010**

This report has been prepared on the basis of the limitations set out on page 67.

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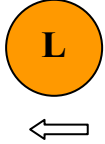
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Executive Summary

Introduction	<p>As part of the 2009/10 Internal Audit Plan, agreed by the Audit Committee on 11 March 2009, we have undertaken an internal audit of Brackenbury School.</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out at Appendix B.</p>
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Audit Opinion	None	Limited	Substantial	Full
				

Rationale Supporting Award of Opinion and Direction of Travel	<p>The audit work carried out by Internal Audit (the scope of which is detailed in Appendix B) indicated that, a Limited level of assurance could be given. Weaknesses in the system of internal controls are such as to put the client's objectives at risk and the level of non-compliance puts the client's objectives at risk.</p> <p>Weaknesses in control were identified in relation to a number of areas. These include the register of business interests for governors not including the Senior Administration Officer and listing two governors that are not part of the Governing Body anymore. The School Development Plan only covers the financial year 2009/10 and does not look further forward. None of the approved amounts from five subjective headings selected for testing from the approved budget 2008-09 matched the amount stated on the 2008 SIMS report. We were informed that no virements have been approved by the Headteacher or Chair of Governors. We were not provided with evidence that a pay policy has been approved by the Governing Body. Income in respect of school uniforms, trips and the breakfast club has not been accurately and completed recorded to provide a sufficient management trail. Results of inventory checks have not been reported to the Governing Body. The school does not have a building maintenance plan in place. Some pupils had received discounts for the most recent school journey to Knapp House Activity Centre in North Devon. However, no school journey grant policy has been developed and approved by the Governing</p>
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	Body. The Direction of Travel provides a comparison to the previous audit visit. In this case, the school last had an internal audit visit in 2006/2007.
Priority Recommendations	1 We have raised one priority 1 recommendation as a result of this internal audit. This is as follows: The school should ensure that it complies with the data protection act and keeps its registration up-to-date.

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Detailed Findings

Background	<p>This report details the Internal Audit of the procedures and controls in place over Brackenbury Primary School and has been undertaken in accordance with the 2009/2010 Internal Audit Plan agreed with Hammersmith and Fulham Council.</p> <p>Brackenbury Primary School has 449 pupils on roll.</p> <p>The School has total income and expenditure budgets for the financial year, 2008/09 of £1,750,706 and £1,801,960 respectively, resulting in budget overspent of £51,254. This is offset by a carry forward of £111,000 from the 2007/08 financial year.</p> <p>The School was inspected by OFSTED in January 2009. The School informed us that the OFSTED recommendations have been taken into account on the School Development Plan 2009/10.</p>
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Area Summary

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Leadership and Governance			0	5	1
School Improvement or Development Plan and OFSTED			0	1	0
Financial Planning, Budgetary Control and Monitoring			0	2	0
Payroll			0	2	0
Procurement			0	1	0
Bank Accounts			0	0	0
Income			0	1	0
Assets			0	2	0
School Journey			0	2	0

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	School Fund			0	1	0
	Petty Cash Account			0	1	1
	Data Protection			1	0	0

Summary Findings

of

In this section we set out a summary of our findings under each area of scope. This is a balanced summary where possible. Where weaknesses are identified, full details of these are included in the recommendations raised.

Leadership and Governance

The Committee Structure, Terms of Reference and Schemes of Delegation held at the School are dated 29/03/07. These documents have not been reviewed by the Governing Body since March 2007.

The school holds a register of business interests for governors which lists any business interests they have. The register does not include the Senior Administration Officer who has financial responsibilities. In addition, the register is not up to date and lists two governors that are not part of the Governing Body anymore.

The School does not currently require that declarations of conflicts of interest be a standing agenda item for meetings of the Governing Body and its Committees.

For one out of seven cases of Committee meeting minutes examined, it had not been signed as an accurate record of the previous meeting by the Committee Chair.

We were informed that the school does not have access to the 'Scheme for Financing Schools'.

The School has a detailed policy document covering financial systems and procedures. However, we found no evidence of the document being regularly reviewed and formally approved by the Governing Body.

We are aware that the school will receive help from the Council's School Management Support Team to prepare for the FMSiS assessment which is due to be undertaken approximately three months after the issue of this internal audit report and we are not therefore not including a recommendation but noted the following

- The staff self-evaluation financial management competency matrix form, R11 has not been completed by staff with financial management responsibilities.
- No Statement of Internal Control (SIC) has been produced and approved by the full Governing Body.
- No Best Value Statement has been prepared

Six recommendations have been raised as a result of our work in this area.

School Improvement or Development Plan and OFSTED Inspections

A School Development Plan (SDP) for 2009/10 has been developed. This has not been approved yet, but we were informed the document was to be approved at the Governing Body meeting to be held on 18th of June 2009. Examination of the Plan found that it has been developed only for the academic year 2009/10, and there is no evidence that a longer term overview of the SDP has been developed.

One recommendation has been raised as a result of our work in this area.

Financial Planning, Budgetary Control and Monitoring

The budget is regularly monitored at Finance Committee meetings of which the latest were held on 14th May 2009, 9th February 2009 and 20th January 2009. However, we were not provided with the budget monitoring reports discussed at the above meetings.

Previous years budget monitoring reports showed an overall picture of the budget, original budget, revised budget, commitment, invoice, actual, budget left, commitments not on SIMS, comment and year end prediction. They also show detailed statements by cost centres on expenditure and income. There is no evidence of frequent monitoring at a local level by the School Administration Officer and the Headteacher. We have been informed that fortnightly meetings are held with a School Management Team officer and that the budget is discussed. There is however no formal record of the budget monitoring and no evidence that the actions resulting are made available to the Administration Officer.

None of the approved amounts from the five subjective headings selected for testing from the approved budget 2008-09 matched the amount stated on the 2008 SIMS report. We were informed that no virements have been approved by the Headteacher or Chair of Governors.

Two recommendations have been raised as a result of our work in this area.

Payroll

Examination of personnel files identified the following:

- In two out of four cases no contract of employment could be located; and
- In all cases sampled no CRB checks, references and academic documents could be located.

Examination of personnel files for three out of five leavers confirmed the following:

- In 1 of the 3 cases no leaving date could be ascertained from the documentation on file.

We were informed that this weakness has already been noted by the new Headteacher and a checklist of required documentation has been produced.

The School has a Pay Policy in place. We were not provided with evidence that the document has been approved by the Governing Body.

The Service Level Agreement between the School and the Council for the provision of Human Resources and Payroll services could not be provided. We have been informed that the School Management Team is looking into the agreements on behalf of the schools and we have therefore not raised a recommendation.

Two recommendations have been raised as a result of our work in this area.

Procurement

In two out of four cases a copy purchase order could not be located (Invoice no. 70607 & 010708). In one further case, there was no evidence of the purchase order having been authorised (Purchase Order no BRA001292)

We were unable to obtain evidence of Governing Body authorisation required in one relevant case tested (Invoice no:TLC201466)

The school maintains a list of authorised signatories. However, this does not document their respective financial limits. No financial limit could be located for the School Administration Officer who certifies purchases.

One recommendation has been raised as a result of our work in this area.

Bank Accounts

Examination of the last six bank statements found that the School accounts had not been overdrawn for the instances tested.

No recommendations have been raised as a result of our work in this area.

Income

The school lettings policy was under review at the time of the audit.

The School receives income from different sources. It was noted that records of income received for the school uniform are not retained. Income received from the breakfast club is not recorded clearly, being

difficult to match daily income and total amounts. Examination of records maintained for income received from trips found that teachers do not date or sum up total amounts. There is no cash handling procedures in place.

One recommendation has been raised as a result of our work in this area.

Assets

Examination of the inventory records could not locate any date of when the inventory and equipment was last checked. In addition, the results of any such check have not been reported to the Governing Body.

For a random sample of five assets, three out of five were not security marked; one out of five could not be located.

The school does not have a building maintenance plan in place; however, we understand that one is to be created.

Two recommendations have been raised as a result of our work in this area.

School Journey

We identified that some pupils had received discounts for the most recent school journey to Knapp House Activity Centre in North Devon. However, no school journey grant policy has been developed and approved by the Governing Body.

We were not provided with an end of journey statement for the last school trip.

Two recommendations have been raised as a result of our work in this area.

School Fund Accounting

We were informed that the School Fund is not independently audited / reviewed.

One recommendation has been raised as a result of our work in this area.

Petty Cash Account

We were informed that the petty cash float limit of £150 set by the Headteacher has not been approved by the Governing Body.

Examination of a sample of 10 petty cash transactions noted the following exceptions:

- In one out of 10 cases, the claimant did not sign for the cash re-imburement received; and
- In one out 10 cases the 'School Based Staff Expenses Claim Form' was not appropriately authorised

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	<p>for re-imbusement.</p> <p>Two recommendations have been raised as a result of our work in this area.</p> <p>Data Protection</p> <p>Evidence of current registration with the Information Commissioner was not held by the School. An on-line search of the Information Commissioner's website confirmed that the School is not currently registered.</p> <p>One recommendation has been raised as a result of our work in this area.</p>
Acknowledgement	<p>We would like to thank the management and staff of Brackenbury School for their time and co-operation during the course of the internal audit.</p> <p>All staff consulted are included at Appendix C.</p>

Recommendations

Leadership and Governance

1. Approval of the Scheme of Delegation

(Priority 2)

Recommendation		Rationale	
<p>The Committee Structure, Terms of Reference and Schemes of Delegation should be revised and submitted to the Governing Body for formal approval. The Chair of the Governing Body should formally sign off the document to evidence its approval. Evidence of the approval should be formally documented in the relevant minutes of the meeting to which approval was given.</p>		<p>Standard A3 of 'Keeping Your Balance - Standards for Financial Management in Schools' states, "The Governing Body should establish the financial limits of delegated authority".</p> <p>The Committee Structure, Terms of Reference and Schemes of Delegation held at the School are dated 29/03/07. These documents have not been reviewed by the Governing Body since March 2007.</p> <p>Where formal approval of the scheme of delegation is not regularly reviewed and the approval is not reflected in the Governing Body minutes, there is an increased risk that officers could act outside the scope of their authority, resulting in unauthorised procurement.</p>	
<p>Management Response</p>			
<p>Agreed</p> <p>We will review and approve the document at the next Governor's Body meeting.</p>			
<p>Responsibility</p>	<p>Headteacher</p>	<p>Deadline</p>	<p>31/12/2009</p>

Final Report

2. Register of Pecuniary / Business Interests

(Priority 2)

Recommendation		Rationale	
<p>Procedures should be put in place to enable the Register of Pecuniary/Business Interests form to be completed by all staff with financial responsibilities upon:</p> <ul style="list-style-type: none"> • Taking on financial responsibilities; • Any changes in interests; and • At least on an annual review basis. 		<p>Paragraph 14 of the Scheme for Financing Schools states, "The Governing Body of the School must establish a register which lists, for each member of the Governing Body (including the Headteacher), any business interests they or any member of their immediate family have and to keep the register up to date on at least an annual review. The Register must be available for inspection by the Authority, Governors, staff and parents". It is also recommended practice that the register includes all staff with financial management responsibilities.</p> <p>The school holds a register of business interests for governors which lists any business interests they have. It was found however that the register had not completed by the Senior Administration Officer who has financial responsibilities. In addition, we identified that the register is not up to date; as it lists two governors that are not part of the Governing Body anymore.</p> <p>Where the Register of Pecuniary and Business Interests is not fully completed by staff with financial management responsibilities and all governors, there is an increased risk that conflicts of interests may not be managed appropriately and that the transparency with which individual governors and staff exercise their fiduciary duties may not be demonstrated. This may have consequences for the reputation of the School, Governing Body and Staff.</p>	
Management Response			
Agreed Register of interests will be updated on next Governors Body meeting.			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

3. Declarations of conflicts of interests at meetings

(Priority 2)

Recommendation		Rationale	
<p>Governors should be provided an opportunity to declare their interest at each Governing Body meeting. The agenda/minutes of the Full Governing Body and its sub committees should include a standing item where governors have an opportunity to declare their interests.</p>		<p>Where governors are given an opportunity to declare their interests at each meeting, this will help to ensure that governors are demonstrating transparency in exercising their fiduciary duties.</p> <p>Examination of the Full Governing Body and its sub committees confirmed that governors have not been given an opportunity to declare any business or pecuniary interests at each meeting.</p> <p>Where governors are not provided an opportunity to declare their interest at each Governing Body meeting, there is an increased risk that conflicts of interests may not be managed appropriately that could lead to poor decisions with financial and curriculum based implications. Also individual governors and staff may exercise their fiduciary duties without sufficient transparency. This could lead to an increased risk of undetected fraud or mis-management and potentially a consequential loss of reputation for the school.</p>	
<p>Management Response</p>			
<p>Agreed. Clerk is from the Council and will seek to re-iterate this point to the Clerk at future meetings.</p>			
<p>Responsibility</p>	<p>Headteacher</p>	<p>Deadline</p>	<p>31/12/2009</p>

Final Report

4. Committe Minutes to be signed

(Priority 3)

Recommendation		Rationale	
<p>Governing Body and its sub-committee minutes should be documented, signed by the Chair of the relevant committees respectively after their acceptance as being correct at the next meeting and retained for review at the School.</p>		<p>Section A6 of the School Procedures Manual requires that minutes should be taken of all meetings of the governing body and its committees to include all decisions and by whom action is to be taken. Minutes should be signed off by the Chair at the following meeting.</p> <p>For one out of seven cases of Committee meeting minutes examined, it had not been signed as an accurate record of the previous meeting by the Committee Chair.</p> <p>Without a formal record of the meetings, there is an increased risk that actions, decisions and assigned responsibilities arising from meetings may not be fulfilled. There is a further risk that the School may not be complying with the law and decisions made by the Governing Body may not be perceived to be open and transparent.</p>	
Management Response			
Agreed			
Minutes will be signed and approved at Committees meetings.			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

5. Scheme for Financing Schools

(Priority 2)

Recommendation		Rationale	
The School should be aware of the need to access 'Scheme for Financing Schools' and should access it as soon as it is available on the HAFED website. The document should then be made easily available to all relevant staff members.		Ensuring the school has access to the 'Scheme for Financing Schools' helps ensure compliance with the LEAs requirements. We were informed that the school did not appear to be aware of 'Scheme for Financing Schools' and did not know where to access it. We understand that the document should be held on the HAFED website but there have been some recent problems with not all the relevant documents being available. Where the school does not have access to the 'Scheme for Financing Schools', there is an increased risk that unauthorised or inconsistent working practices may develop.	
Management Response			
Agreed The School will have access the 'Scheme for Financing Schools'.			
Responsibility	Headteacher	Deadline	30/11/2009

Final Report

6. Finance Policy to be periodically reviewed

(Priority 2)

Recommendation		Rationale	
The Finance Policy should be periodically reviewed and approved by the Governing Body.		Periodically reviewing financial policies helps ensure that they are up to date and reflect the organisations desired processes and methods of operating. The School has a detailed policy document covering financial systems and procedures. However, we found no evidence of the document being regularly reviewed and formally approved by the Governing Body. Where the Finance Policy is not periodically reviewed and approved by the Governing Body, there is an increased risk that unauthorised or inconsistent working practices may develop.	
Management Response			
Agreed The Finance Policy will be periodically reviewed.			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

School Improvement or Development Plan and OFSTED Inspections

7. School Development Plan to be forward looking

(Priority 2)

Recommendation		Rationale	
The School Development Plan (SDP) should be forward looking for a minimum of three to five years ahead.		Best practice guidance from the Department for Children, Schools and Families suggests that the School Development Plan is forward looking for a minimum of three to five years ahead to help the school in its long term corporate and strategic planning. We were provided with the 2009/10 SDP. The school has not created a forward looking SDP. Where the school does not have a forward looking SDP, there is an increased risk that the organisation might not incorporate relevant long term issues on its development plan.	
Management Response			
Agreed The school will produce a forward looking SDP.			
Responsibility	Headteacher	Deadline	31/03/2010

Final Report

Financial Planning, Budgetary Control and Monitoring

8. Regular Budget Monitoring

(Priority 2)

Recommendation	Rationale
<p>Management should ensure that outcomes of the budget monitoring undertaken with the School Management Support Officer is evidenced by both reviewers. The actions resulting from this review should be discussed and monitored with the Administration officer as appropriate.</p> <p>Management should also ensure that Finance reports presented at termly meetings are held with the corresponding meeting minutes.</p>	<p>Regular monitoring of the budget will help to ensure that budgets are adequately managed and any under/overspends are identified promptly and actions can be taken. Furthermore, this will help to ensure that commitments are not made beyond the approved financial constraints. Where the officer responsible for day to day financial matters is not involved in the budget monitoring review with the School Management Support Team they should be given an budget action plan and progress against this monitored.</p> <p>The budget is regularly monitored at Finance Committee meetings of which the latest were held on 14th May 2009, 9th February 2009 and 20th January 2009. However, we were not provided with the budget monitoring reports discussed at the above meetings.</p> <p>We have been informed that the School Management Support Team (SMS) do go through the budgets with the Headteacher. Each school has a named SMS officer who visits the school on a fortnightly basis and as part of this visit is a meeting with the Headteacher to monitor the budget and identify any areas causing concern and to discuss and actions required.</p> <p>Where regular budget monitoring is not undertaken at local level, there is an increased risk that budgets may not be managed effectively and efficiently. Where the budget monitoring reports presented to Governors are not retained there is an increased risk that discussions surrounding the budget cannot be followed through and appropriately managed.</p>

Final Report

Management Response			
Agreed Budgets will be reviewed at Finance Committee meetings and evidence kept on file			
Responsibility	Headteacher and Business Manager	Deadline	31/12/2009

Final Report

9. Clear documentation of virements approval

(Priority 2)

Recommendation		Rationale	
<p>Budget virements should be authorised by the Headteacher and Chair of Governors, where necessary. Furthermore, documented evidence should be retained to confirm that virements have been authorised in compliance with the requirements of the approved Scheme of Delegation.</p>		<p>Authorising the transfer of funds between cost centre codes ensures that ownership has been taken for the transfer, and demonstrates that the virement has been confirmed as appropriate.</p> <p>None of the approved amounts from five subjective headings selected for testing from the approved budget 2008-09 matched the amount stated on the 2008 SIMS report. We were informed that no virements have been approved by the Headteacher or Chair of Governors.</p> <p>Where virements are not authorised or evidence of authorisation not retained, there is an increased risk that they may be inappropriate or unnecessary.</p>	
Management Response			
<p>Agreed</p> <p>Virements reports will be created and appropriately authorised.</p>			
Responsibility	Headteacher	Deadline	Immediate

Final Report

Payroll

10. Retention of recruitment documentation

(Priority 2)

Recommendation	Rationale
<p>The School should ensure that a signed contract, evidence of CRB clearances, qualifications and appointment letters are retained on personnel files for all staff. For leavers, copies of resignation / acknowledgement letters should be retained on file.</p>	<p>Retaining relevant documents on staff personnel files helps ensure compliance with the school's policy and statutory requirements.</p> <p>For a sample of five starters and five leavers between 2007 and 2009 the following was noted:</p> <p>Starters:</p> <ul style="list-style-type: none">• In two out of four cases no contract of employment could be located.• In two out of four cases no CRB checks, references and academic documents could be located. <p>Leavers:</p> <ul style="list-style-type: none">• In one of the three cases no leaving date could be ascertained from the documentation on file. <p>We were informed that this weakness had already been noted by the Headteacher and a checklist has subsequently been designed. On acknowledgement of the steps taken we have lowered the priority level of this recommendation.</p> <p>Where documents are not retained to evidence the appointment of staff, there is an increased risk that the inappropriate staff are appointed. Where the leaving dates can not be determined through the documentation held on file, there is an increased risk that employees are continued to be paid following termination of contract.</p>

Final Report

Management Response			
Agreed. We are already aware of this weakness and we have started to deal with it.			
Responsibility	Headteacher and Business Manager	Deadline	Immediate

Final Report

11. School Pay Policy

(Priority 2)

Recommendation		Rationale	
<p>The School should include the Pay Policy on the policy review schedule. The Policy should be reviewed and approved by the Governing Body on an annual basis.</p>		<p>Formal approval of all policies by the Governing Body will help to ensure that all policies are updated in accordance with the overall aim and objectives of the School.</p> <p>The School has a pay policy in place. We were not provided with evidence that the document has been approved by the Governing Body.</p> <p>Where the School does not formally approve a copy of the current Pay Policy, there is an increased risk that the current basis upon which teachers' pay is determined, and the current appeals procedures may not be a true reflection of what is documented in the outdated pay policy.</p>	
Management Response			
<p>Agreed</p> <p>Pay Policy will be reviewed by the Governing Body.</p>			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

Procurement

12. Purchase orders raised for all purchased goods

(Priority 2)

Recommendation		Rationale	
Purchase orders should be raised for all purchased goods, and kept on file.		<p>Standard D8 of 'Keeping Your Balance – Standards for Financial Management in Schools' states, "Official, pre-numbered orders should be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires an oral order, this should be confirmed by a written order".</p> <p>For a sample of invoices selected:</p> <ul style="list-style-type: none"> • In two out of four cases a copy purchase order could not be located (Invoice no. 70607 & 010708). In one case, there was no evidence of the purchase order having been authorised (Purchase Order no BRA001292) • We were unable to obtain evidence of Governing Body authorisation required in 1 relevant case tested (Invoice no:TLC201466) <p>There is a risk that inappropriate purchase orders may be placed with suppliers leading to direct financial loss.</p>	
Management Response			
Agreed			
Orders will be raised for relevant purchased goods.			
Responsibility	School Administration Officer	Deadline	Immediate

Final Report

Income

13. Recording of income

(Priority 2)

Recommendation	Rationale
<p>Receipts should be issued for all cash income received on behalf of the School. As soon as the income has been received, it should be recorded on the financial system. It should be coded to an income code, even if it is planned to offset specific expenditure items. A reconciliation between the amounts collected and the amounts to be paid into the bank should be undertaken by someone other than the person who receipts the income. Further, all income should be banked promptly and in full.</p>	<p>Issuing receipts and reconciling amounts to be banked for all income collected helps ensure that all funds received are recorded and banked intact.</p> <p>Examination of income records noted the following exceptions:</p> <ul style="list-style-type: none">• No income records for the selling of school uniforms are kept;• Trips income records are inaccurate. Lists are kept displaying different activities and the names of the students who took part in them; however, the total income collected has not been recorded on the list. Although the lists detail the name of the trips, the date they took place was not recorded; and• Breakfast club income records are unclear. Income cannot be matched weekly, since larger amounts are set on the weekly record for payments on longer periods. <p>Where income collected on behalf of the School is not adequately recorded, there is an increased risk that it may be misappropriated.</p>

Final Report

Management Response			
Agreed			
Responsibility	School Admin Officer	Deadline	31/12/2009

Final Report

Assets

14. Maintenance of inventory records and security marking of assets

(Priority 2)

Recommendation	Rationale
<p>Inventory records should be promptly updated to record all acquisitions and disposals of valuable and portable assets prior to the inventory being circulated for use.</p> <p>All assets should be indelibly and visibly security marked with the name of the school.</p> <p>Further, an annual inventory check should be undertaken and recorded, certified as correct and its results reported to the Governing Body.</p>	<p>Section M2 of 'Keeping Your Balance – Standards for Financial Management in Schools' states, "Up-to-date inventories should be maintained of all items of equipment" and it requires items to, "be identified as School property with a security marking".</p> <p>Examination of equipment recorded within the inventory identified 1 out of 5 not to be located in the documented room.</p> <p>In three out of five cases tested, items were not visibly security marked.</p> <p>We were informed that the inventory records are being maintained. Examination of the records could not locate any date of when the inventory and equipment was last checked. In addition, there was no evidence that the results of the inventory check was reported to the Governing Body.</p> <p>Where up-to-date inventories are not maintained, assets are not indelibly and visibly marked, and new purchase of equipment not recorded on the inventory, there is an increased risk that items of equipment may be lost or misappropriated and that the loss or misappropriation is not identified for insurance purposes.</p>

Final Report

Management Response			
Agreed			
The school is currently reviewing the inventory records.			
Responsibility	School Admin Officer	Deadline	30/11/2009

Final Report

15. Building maintenance plan

(Priority 2)

Recommendation		Rationale	
A building maintenance plan should be produced and approved by the Governing Body.		<p>Section M7 of 'Keeping Your Balance – Standards for Financial Management in Schools' states "The governing body should have a plan for the use, maintenance and development of the school's buildings".</p> <p>The school does not have a building maintenance plan in place.</p> <p>Where a building maintenance plan is not produced and approved by the Governing Body, there is an increased risk that the school's premises and assets may not be maintained or modernised in accordance with statutory regulations and / or guidance or with the school's priorities for service delivery.</p> <p>There is a further risk in that the premises and assets may deteriorate to an extent that requires additional expenditure to re-instate the asset to proper working order / fitness for purpose.</p>	
Management Response			
<p>Agreed</p> <p>A Maintenance Plan will be created before summer, since then major renewals will take place.</p>			
Responsibility	Headteacher	Deadline	31/03/2010

Final Report

School Journey

16. School Journey Grant Policy

(Priority 2)

Recommendation		Rationale	
The Governing Body should develop and formally approve a school journey grant policy.		Approval of a school journeys grants policy helps ensure that any discounts are only given in accordance with the Governing Body's direction. We identified that some pupils had received discounts for the most recent school journey to Knapp House Activity Centre in North Devon. However, no school journey grant policy has been developed and approved by the Governing Body. Where a school journey grant policy is not developed there is an increased risk that discounts may be given that do not accord with the School's ethos and objectives.	
Management Response			
Agreed			
Responsibility	School Admin Officer	Deadline	31/12/2009

Final Report

17. End of Journey Statements to be prepared

(Priority 2)

Recommendation		Rationale	
For each school journey an end of Journey Statement should be produced.		<p>'Keeping Your Balance – Standards for Financial Management in Schools' states that parents, pupils and other benefactors are entitled to receive the same standards of stewardship for the funds to which they have contributed. Therefore, it is important to report the income and expenses of each journey to the Governing Body.</p> <p>Evidence of the last end of journey statement could not be provided.</p> <p>Where an end of journey statement is not produced there is an increased risk that the School may not be able to evidence the satisfactory financial planning of each trip by demonstrating that expenditure and income were closely aligned and that best value had been achieved for parents' contributions.</p>	
Management Response			
<p>Agreed</p> <p>End of Journey Statement will be produced.</p>			
Responsibility	School Admin Officer	Deadline	31/07/2010

School Fund – Accounting

18. Audit and Governing Body review of an annual School Fund Statement

(Priority 2)

Recommendation		Rationale	
<p>The annual School Fund Statement should be independently audited and presented to the Governing Body for approval. Evidence of the approval should be documented in the minutes of the relevant meeting.</p>		<p>To facilitate the effective monitoring and management of the School Fund account it is necessary to present the annual statement to the Governing Body for approval.</p> <p>We were informed that the School Fund is not independently audited / reviewed.</p> <p>Where the school fund accounts are not independently reviewed, there is an increased risk that errors or omissions may not be identified for corrective management action to be taken.</p> <p>Where the audited unofficial fund account is not reviewed and approved by the Governing Body, there is an increased risk that appropriate stewardship may not be exercised over the fund and that inaccurate management decisions may be made by the School's Governing Body.</p>	
<p>Management Response</p>			
<p>Agreed</p>			
<p>Responsibility</p>	<p>Headteacher</p>	<p>Deadline</p>	<p>31/12/2009</p>

Petty Cash Account

19. Petty cash limit to be approved by Governors Body

(Priority 3)

Recommendation		Rationale	
<p>The Governing Body should set out an appropriate level for the amount of petty cash to be held. The amount should represent a balance between operational requirements and the risk of holding cash on the premises.</p>		<p>By agreeing an appropriate level for the amount of petty cash to be held helps the School to formalise a secure monetary amount to be kept on its premises.</p> <p>We were informed that the petty cash float limit of £150 set by the Headteacher has not been approved by the Governing Body. Where the Governing Body has not approved the petty cash float limit, there is an increased risk of inappropriate amounts of cash being held on the School's premises.</p>	
Management Response			
Agreed			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

20. Petty cash vouchers to be appropriately completed

(Priority 2)

Recommendation		Rationale	
<p>Petty cash claims should be signed by the claimant and authorised for re-imburement by a designated signatory.</p>		<p>Section J4 of 'Keeping Your Balance – Standards for Financial Management in Schools' states, "all expenditure must be signed for by the recipient and countersigned by an authorised member of staff".</p> <p>Examination of a sample of ten petty cash transactions noted the following exceptions:</p> <ul style="list-style-type: none"> • In one out of ten cases, the claimant did not sign for the cash re-imburement received; and • In one out ten cases the 'School Based Staff Expenses Claim Form' was not appropriately authorised for re-imburement. <p>Where petty cash transactions are not adequately authorised there is an increased risk that petty cash could be used for unauthorised purposes.</p>	
Management Response			
Agreed			
Responsibility	Headteacher	Deadline	Immediate

Final Report

Data Protection

21. Data Protection Registrar in place

(Priority 1)

Recommendation		Rationale	
The School should register the computer data with the Data Protection Registrar. Once registration is complete, the School should retain a copy of the certificate on site so as to demonstrate compliance with the Data Protection Act 1998.		The Data Protection Act 1998 requires that the School maintains a current registration in the Public Register of Data Controllers which is managed and maintained by the Information Commissioner. Evidence of current registration with the Information Commissioner was not held by the School. An on-line search of the Information Commissioner's website indicated that the School is not currently registered. Where the School does not hold a current registration in the Public Register of Data Controllers, it is not complying with the Data Protection Act 1998.	
Management Response			
Agreed			
Responsibility	Headteacher	Deadline	31/12/2009

Final Report

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

St Albans

June 2010

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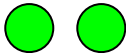



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Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

Recommendation Priorities

In order to assist management in using out internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the audit committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Appendix B – Audit Objectives & Scope



Internal Objective Scope	Audit and	<p>The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the following management objectives:</p> <p>Leadership and Governance</p> <p>The Governing Body is collectively responsible for the overall decision of the school and its strategic management. This involves determining guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget. Effective governance stems from making corporate decision-making based on comprehensive and accurate information about the school. Effective governance also results in clear public accountability for the performance of the school.</p> <p>School Improvement or Development Plan and OFSTED Inspections</p> <p>To ensure that clear statements of key tasks and targets exist which reflect the obligations and strategy of the school and that key objectives arising from OFSTED/Council Inspections are incorporated within the School's Improvement Plan so as to ensure the school will meet its educational aims, objectives and goals.</p> <p>Financial planning , Budgetary control and Monitoring</p> <p>The school should have a School Development Plan (SDP) which includes a statement of its educational goals to guide the planning process. The SDP should cover in outline the school's educational priorities and budget plans for at least three years, showing how the resources are linked to the achievement of the school's goals. The SDP should state the school's educational priorities in sufficient detail to provide the basis for constructing budget plans for the financial year.</p> <p>There should be annual and multi-year budgets. An annual budget is an absolute requirement as part of the LA's own budgeting arrangements. Ideally these annual budgets for the school will be prepared in the context of a longer term financial plan covering at least three years that takes account of issues in the SDP such as:</p> <ul style="list-style-type: none"> - Forecast pupil numbers, likely staffing profile etc; and - Longer-term improvement and development aspirations. <p>In this way the longer term financial plan or budget can help to demonstrate the sustainability of the SDP. From 2006, every school will receive a guaranteed minimum increase in funding per pupil each year help</p>
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	to make multi-year budgeting more accurate.
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Internal Objective Scope	Audit and	<p>Payroll</p> <p>In most schools, staff costs make up around 70% of the entire budget. From 1 April schools have been able to buy their payroll, personnel and other services from an external provider. However, contracting another organisation to administer payroll and personnel does not relieve the governing body and the headteacher of the responsibility for ensuring that proper controls are in place. Schools need to be aware of a number of areas where Inland Revenue regulations may affect or determine the way payments are made. For example, there are strict rules about payments to individuals who are self-employed. Schools are advised to seek advice from their LEA in such cases.</p> <p>Procurement</p> <p>Payments are made in accordance with Financial Regulations and the School's Scheme of Delegation and there is appropriate documentation which has been appropriately authorised, supporting all payments.</p> <p>Bank Accounts</p> <p>The proper administration of bank accounts is at the heart of the financial control. In particular bank reconciliations are essential. These prove that balances shown in the accounting records are correct and provide assurance that the underlying accounts are accurate.</p> <p>Income</p> <p>Income is a valuable asset and is therefore vulnerable to fraud and theft. It is imperative that proper controls are in place to minimise those risks. It is also important to ensure that schools do not exceed their insurance limits on holdings of cash on school premises.</p> <p>Schools generate income from a variety of sources, including grant funding, school meals income and lettings. The governing body should establish a charging policy and review it every year. The headteacher is responsible to the governing body for accounting for all income due and cash collected, and the maintenance of up to date and accurate accounting records.</p> <p>To ensure that where income is generated, there is a clearly defined policy in place to support the arrangements and that the policy has been approved by the Governing Body.</p>
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<p>Internal Objective Scope</p>	<p>Audit and</p> <p>Assets Schools have a considerable number of attractive and portable items of equipment and materials ranging from library books to computers video recorders and television. These assets need to be kept securely and recorded in an inventory. The delegation of funding for structural maintenance since April 1999 and for some capital projects from April 2000 has given most schools much more responsibility for their buildings and other parts of the premises than was previously the case. It is important therefore that schools plan how they intend to use, maintain and develop their buildings.</p> <p>School Journey To ensure that school journeys are carried out in accordance with an approved policy and Health and Safety legislation. To ensure that a full end of journey accounting statement has been produced to support the overall income and expenses incurred for the journey.</p> <p>School Fund To ensure that all private funds held by the school have been subject to proper accounting procedures and independent audit review and that the funds have been used for the sole benefit of the school.</p> <p>Petty Cash Account Petty cash is useful for making small purchases occasionally with a minimum of fuss. However, as cash presents a significant risk to theft and fraud, proper controls need to be in place to minimise these risks. Controls should encompass authorisation, documentation and secure storage of cash.</p> <p>Data Protection To ensure that the School has registered under the Data Protection Act. To ensure that ICT systems are appropriately safeguarded and that arrangements are in place to recover data in the event of a disaster.</p>
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Appendix C – Audit Team & Staff Consulted

AUDIT TEAM	STAFF CONSULTED
General Manager	Headteacher
Deputy Sector Manager	Senior Administration Officer
Internal Auditor	
Contact Details:	
 Ext 2550	
 Ext 2590	

Appendix D – Audit Timetable

	DATES
Fieldwork Start	08/06/09
Exit Meeting	10/06/09 and 15/09/2009
Draft report issued	27/10/2009 and 14/01/2010
Final report issued	14/06/2010

APPENDIX C

Internal Audit reports in issue more than two weeks as at 30 June 2010

	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer (to be deleted before distribution to Audit Committee)	Target date for responses	Awaiting Response From
1	2009/10	Environment	Nigel Pallace	Parking Pay and Display	Limited	12/04/2010	Trainee Accountant; Principal Parking Control Officer; Head of Parking Services; Assistant Director of Finance;	26/04/2010	Auditee and Director

APPENDIX D

Audit Recommendations Outstanding

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
Page 882	2009/10	School	Brackenburg School	Limited	The Committee Structure, Terms of Reference and Schemes of Delegation should be revised and submitted to the Governing Body for formal approval. The Chair of the Governing Body should formally sign off the document to evidence its approval. Evidence of the approval should be formally documented in the relevant minutes of the meeting to which approval was given.	2	14/06/2010	Headteacher	
	2009/10	School	Brackenburg School	Limited	Procedures should be put in place to enable the Register of Pecuniary/Business Interests form to be completed by all staff with financial responsibilities upon: <ul style="list-style-type: none"> • Taking on financial responsibilities; • Any changes in interests; and • At least on an annual review basis. 	2	14/06/2010	Headteacher	
	2009/10	School	Brackenburg School	Limited	Governors should be provided an opportunity to declare their interest at each Governing Body meeting. The agenda/minutes of the Full Governing Body and its sub committees should include a standing item where governors have an opportunity to declare their interests.	2	14/06/2010	Headteacher	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
4	2009/10	School	Brackenburg School	Limited	The School should be aware of the need to access 'Scheme for Financing Schools' and should access it as soon as it is available on the HAFED website. The document should then be made easily available to all relevant staff members.	2	14/06/2010	Headteacher	
5	2009/10	School	Brackenburg School	Limited	The Finance Policy should be periodically reviewed and approved by the Governing Body.	2	14/06/2010	Headteacher	
6	2009/10	School	Brackenburg School	Limited	The School Development Plan (SDP) should be forward looking for a minimum of three to five years ahead.	2	14/06/2010	Headteacher	
7	2009/10	School	Brackenburg School	Limited	Management should ensure that outcomes of the budget monitoring undertaken with the School Management Support Officer is evidenced by both reviewers. The actions resulting from this review should be discussed and monitored with the Administration officer as appropriate. Management should also ensure that Finance reports presented at termly meetings are held with the corresponding meeting minutes.	2	14/06/2010	Headteacher and Business Manager	
8	2009/10	School	Brackenburg School	Limited	Budget virements should be authorised by the Headteacher and Chair of Governors, where necessary. Furthermore, documented evidence should be retained to confirm that virements have been authorised in compliance with the requirements of the approved Scheme of Delegation.	2	14/06/2010	Headteacher	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
9	2009/10	School	Brackenbury School	Limited	The School should ensure that a signed contract, evidence of CRB clearances, qualifications and appointment letters are retained on personnel files for all staff. For leavers, copies of resignation / acknowledgement letters should be retained on file.	2	14/06/2010	Headteacher and Business Manager	
10	2009/10	School	Brackenbury School	Limited	The School should include the Pay Policy on the policy review schedule. The Policy should be reviewed and approved by the Governing Body on an annual basis.	2	14/06/2010	Headteacher	
11	2009/10	School	Brackenbury School	Limited	Purchase orders should be raised for all purchased goods, and kept on file.	2	14/06/2010	School Administration Officer	
Page 384	2009/10	School	Brackenbury School	Limited	Receipts should be issued for all cash income received on behalf of the School. As soon as the income has been received, it should be recorded on the financial system. It should be coded to an income code, even if it is planned to offset specific expenditure items. A reconciliation between the amounts collected and the amounts to be paid into the bank should be undertaken by someone other than the person who receipts the income. Further, all income should be banked promptly and in full.	2	14/06/2010	School Administration Officer	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
13	2009/10	School	Brackenbury School	Limited	Inventory records should be promptly updated to record all acquisitions and disposals of valuable and portable assets prior to the inventory being circulated for use. All assets should be indelibly and visibly security marked with the name of the school. Further, an annual inventory check should be undertaken and recorded, certified as correct and its results reported to the Governing Body.	2	14/06/2010	School Administration Officer	
14	2009/10	School	Brackenbury School	Limited	A building maintenance plan should be produced and approved by the Governing Body.	2	14/06/2010	Headteacher	
15	2009/10	School	Brackenbury School	Limited	The Governing Body should develop and formally approve a school journey grant policy.	2	14/06/2010	Headteacher	
16	2009/10	School	Brackenbury School	Limited	The annual School Fund Statement should be independently audited and presented to the Governing Body for approval. Evidence of the approval should be documented in the minutes of the relevant meeting.	2	14/06/2010	Headteacher	
17	2009/10	School	Brackenbury School	Limited	Petty cash claims should be signed by the claimant and authorised for re-imbusement by a designated signatory.	2	14/06/2010	Headteacher	
18	2009/10	School	Brackenbury School	Limited	The School should register the computer data with the Data Protection Registrar. Once registration is complete, the School should retain a copy of the certificate on site so as to demonstrate compliance with the Data Protection Act 1998.	1	14/06/2010	Headteacher	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
19	2009/10	School	Addison Primary School	Substantial	The Governing Body should review and update the current Committee Structure Terms of Reference and Scheme of Delegation to include the financial authorisation limits for the Governing Body, Finance Committee, Headteacher and all staff with delegated authority Evidence of the approval should be formally documented in the relevant minutes of meeting at which approval was given	2	24/05/2010	Headteacher/Chair of Governors	
20	2009/10	School	Addison Primary School	Substantial	The School Development Plan (SIP) should be forward looking (ideally three years) and be produced sufficiently in advance of the budget to ensure financial allocations can be included within the budget. It should outline estimated financial commitments and clearly link to the annual budget setting process	2	24/05/2010	Headteacher/Chair of Governors	
Page 386	2009/10	School	Addison Primary School	Substantial	The current lettings policy should be reviewed and approved by the Governing Body. This should include any update to the Schedule of Charges. Further, the School should ensure that contractual arrangements are put in place with all hirers of the School's premises. The fees charged should be agreed by the full Governing Body.	1	24/05/2010	Headteacher/Chair of Governors	
	2009/10	School	Addison Primary School	Substantial	Whenever any money passes from one staff member to another, it should be evidenced by a signature of the recipient who will then assume responsibility for the cash until it is either banked or handed over to another member of staff.	2	24/05/2010	Headteacher/School Business Manager	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
	2009/10	School	Addison Primary School	Substantial	Inventory records should be promptly updated to record all acquisitions and disposals of valuable and portable assets. The record should include the date of purchase, purchase price and location of the assets. Further, an annual inventory check should be undertaken, recorded, certified as correct and the results reported to the Governing Body.	2	24/05/2010	Headteacher/School Business Manager	
22	2009/10	School	Addison Primary School	Substantial	An 'End of Journey' statement detailing all school journey income and expenditure should be produced, certified as correct by the Headteacher and reported to the Governing Body.	2	24/05/2010	Headteacher/School Business Manager	
23	2009/10	Children's Services (non-school)	Framework-I Financial Aspects	Substantial	A risk register that includes strategic and operational level risks should be developed for the Framework-I system. This should be reviewed and updated on a regular basis. Also, risk owners should be identified and given responsibility for monitoring actions against the risks.	2	14/06/2010	Head of Children's Services Accountancy and Project Manager – CHS Resources	
24	2008/09	Environment (HFBP)	Confirm Application	Substantial	It is recommended that a process should be investigated with the suppliers for the timely maintenance of handheld devices. User login and authentication options should also be investigated and implemented on the handhelds used for uploading data onto the Confirm system.	2	30/06/2010	Head of highways & Construction	Contacting the bridge to go to supplier and request software change. Awaiting quotes etc. Implementation date will need agreeing once supplier replies. (ENV dept rep) Specialism changed to "HFBP" and implementation date to 30/6/10 pending response from supplier (IAM 3/6/10)

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
25	2008/09	Environment (HFBP)	Confirm Application	Substantial	<p>It is recommended that management review the configuration of input data formatting and consider establishing the following specific controls on the Confirm application system to help improve data quality:</p> <ul style="list-style-type: none"> • Make the 'Location' field mandatory and introduce a drop down for the title field for the input screen on the Graffiti module; and • Make the 'Location', 'description' and 'SOR item quantity' fields mandatory on the Highways and Plan Maintenance modules. 	2	30/06/2010	Head Of Highways And Construction	<p>Contacting the bridge to go to supplier and request software change. Awaiting quotes etc. Implementation date will need agreeing once supplier replies. (ENV dept rep)</p> <p>Specialism changed to "HFBP" and implementation date to 30/6/10 pending response from supplier (IAM 3/6/10)</p>
26	2008/09	Environment (HFBP)	Confirm Application	Substantial	<p>It is recommended that HFBP should investigate with the supplier the ability to enable the auditing function on the Confirm system to be able to report changes to user details and to master data. A process should then be established to periodically report and review any changes to user profiles and master data.</p>	2	30/06/2010	Application Services Manager/ Head of Highways and Construction	<p>Contacting the bridge to go to supplier and request software change. Awaiting quotes etc. Implementation date will need agreeing once supplier replies. (ENV dept rep)</p> <p>Implementation date to 30/6/10 pending response from supplier (IAM 3/6/10)</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
27	2008/09	Environment	ICPS Application	Substantial	It is recommended that a periodic review of the user accounts and permissions on the ICPS application be performed to ensure that all users are active and current and that their access is allocated in line with their job role. A process should also be established for the authorisation of changes to user permissions.	2	30/04/2010	Parking Control Group Officer and Principal Parking Control Officer	<p>Agreed: Will investigate with MTS for the possibility of reporting users and their current permission levels and to review thereafter. Other Councils might have reported this to MTS before. In the absence of a solution by MTS, it will take long for individual users to be reviewed manually. To investigate by the end of July 2008 to be followed up with responsible officers</p> <p>Update - January 2010. A range of "Dummy User" accounts have been set up which have the necessary permissions for each group of users. This needs to be tested and, once this is done, we can clone existing users to those accounts {Target ate extended to April 2010 by IAM to allow for testing to be completed.}</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
28	2008/09	Environment (HFBP)	ICPS Application	Substantial	It is recommended that a unique user-id and password should be used for the 2 supervisors who are able to switch from admin mode to user mode on the ICPS handheld device.	2	30/04/2010	Parking Control Group Officer	<p>Agreed, however, the ICPS handheld system runs on Windows C which only supports one admin account that is used to change the mode. We are limited in the level of sophistication built into the handheld to perform this change. The only possibility will be to reset the admin passwords on all 80 handhelds every 90 days. The handhelds are about to be individually refurbished on a rolling basis, where a password change will be made.</p> <p>Update - January 2010. The systematic refurbishment of the Dap handhelds has still not commenced due to HFBP resourcing issues. . {Target date extended to April 2010 by IAM}</p>
29	2009/10	Finance & Corporate Services (HFBP)	EDMS Application Audit	Substantial	Management should ensure record retention and disposal procedures are created for all document types that are scanned into the EDMS system. The procedures should meet relevant legal and regulatory requirements regarding retention and disposal.	2	30/06/2010	Head of IT Strategy	IA Comment 10/07/09: Recommendation in discussion. To be revised.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
30	2009/10	Finance & Corporate Services (HFBP)	EDMS Application Audit	Substantial	A data classification exercise should be undertaken at department level by all departments using the EDMS system. The following may be taken into consideration when undertaking the exercise: <ul style="list-style-type: none"> • the type of data to be scanned into the system; • the use of the data; • the location of hard copies (if applicable); and • the regulatory or statutory implications surrounding the data. 	2	30/06/2010	Head of IT Strategy	
31	2009/10	Finance & Corporate Services (HFBP)	IT Service Desk	Substantial	A formal strategy should be developed which clearly defines the service desk's medium to long term objectives and how these will be achieved. This could be included in the overall IT strategy and should outline the plan to achieve the service desk objectives. In addition, the strategy should be monitored and reviewed periodically to ensure that the plan is achieving its objectives and goals.	2	01/02/2010	Service Desk Manager	
32	2009/10	Finance & Corporate Services	Camsys	Substantial	It is recommended that system review surveys are issued to all system users upon completion of the CAMSYS project.	2	31/03/2010	Project Manager	This rec is the responsibility of HFBP.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
33	2009/10	Finance & Corporate Services	Register of Gifts and Hospitality	Substantial	All Departmental Registers of Gifts and Hospitality should be reviewed at least on a six-monthly basis by the Departmental Nominated Officer, to identify any inappropriate items and potential areas for concern (such as individual officers repeatedly receiving benefits, gifts and hospitality or areas of potential conflict of interest). The 'Corporate Guidance on the Maintenance of Registers of Interest and Registers of Offers of Gifts and Hospitality for Employees' produced by LBHF CAFS should be reviewed, updated where necessary and formally approved.	1	13/06/2010	Director of Finance and Corporate Services	
34	2009/10	Finance & Corporate Services	Data Storage and Backup Recovery Audit	Substantial	Retention schedules should be implemented comprehensively by the Council's departments in line with the retention guidelines for local authorities.	2	30/04/2010	Information Manager	Initial work has been carried out and will be picked up as the IM Strategy is rolled out. (Information Manager - 7 June 2010).
35	2009/10	Finance & Corporate Services	Data Storage and Backup Recovery Audit	Substantial	A formal procedure should be established to monitor the retention and destruction of data records (paper and electronic files) within the Council's departments to ensure that these are done in line with the guidelines for local authorities. Once established, responsibility for monitoring compliance should be assigned to relevant persons within the various departments.	2	30/04/2010	Information Manager	In principle support has been provided by Geoff Drake but devising the actual questions has been delayed (Information Manager - 7 June 2010.)
36	2009/10	Finance & Corporate Services	Council Tax	Substantial	A risk register for the FCS Revenues and Benefits business unit should be produced and reviewed on an annual basis.	2	24/05/2010	Head of Assessments	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
37	2009/10	Finance & Corporate Services	Council Tax	Substantial	Reconciliations should be undertaken between Academy and Cedar Financials on a monthly basis. The reconciliations should be certified for correctness by the preparer and an independent reviewer.	1	24/05/2010	Corporate Accountancy Services Manager	
38	2009/10	Finance & Corporate Services	Council Tax	Substantial	Annual data matching reconciliations should be undertaken between properties listed in Academy and those in the VO.	2	24/05/2010	Head of Assessments	
39	2009/10	Finance & Corporate Services	Council Tax	Substantial	All Inspector's Worksheets should be retained on file or the results of void visits recorded on the system.	2	24/05/2010	Specialist Teams Manager	
40	2009/10	Finance & Corporate Services	Council Tax	Substantial	The Head of Assessments should liaise with the Corporate Anti Fraud Service (CAFS) to determine if additional pro active fraud work can be undertaken in respect of Single Persons Discounts. Where scope for additional pro active fraud work is identified, this should be incorporated into the operational plans of the Council Tax Service.	2	30/06/2010	Head of Assessments	Implementation date to be agreed.
41	2009/10	Finance & Corporate Services	Budget Management	Substantial	Records of financial delegation within each department should be produced detailing financial limits for responsible officers including those for authorising virements. These records of delegation should be approved and communicated to all relevant staff. A copy of an up to date signatory list for Finance and Corporate Services should be obtained.	2	07/06/2010	Assistant Director Finance & Corporate Services	
42	2009/10	Finance & Corporate Services	Budget Management	Substantial	A consistent format for recording the matters discussed, decisions made and action points arising as a result of budget monitoring meetings should be introduced.	2	30/06/2010	Assistant Director Finance & Corporate Services	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
43	2009/10	Finance & Corporate Services	Budget Management	Substantial	All staff should have a personal development plan as part of the individual performance management process. Where an individual has identified budget management responsibilities, training needs should be discussed and agreed with the individual as part of the personal development plan. The personal development plan should identify a variety of mechanisms to meet the skill gap, for example attending a briefing, training course, shadowing an experienced colleague etc. It is further recommended that a formal induction process is developed for all new staff with budget management responsibilities	2	30/06/2010	Assistant Director Finance & Corporate Services	
44	2009/10	Finance & Corporate Services	Debtors	Substantial	Staff should be reminded that services should not be provided to organisations which have been rated as 'Unapproved Debtors' unless payment is received in advance Consideration should be given to implementing a system whereby senior management approval is required to raise an invoice against an 'Unapproved Debtor'	2	31/05/2010	AD of Finance	
45	2009/10	Finance & Corporate Services	Debtors	Substantial	Staff should be reminded that invoices should only be raised on the OLAS system upon receipt of an authorised invoice request form and that these forms should be retained	2	31/05/2010	AD of Finance	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
46	2009/10	Finance & Corporate Services	Debtors	Substantial	Management should determine a time period after which items should be removed from the Sundry Debtors Suspense Account and placed in a miscellaneous income account. Items older than this should then be moved from the suspense account into the miscellaneous income account and actions determined to resolve the outstanding amounts.	2	31/05/2010	Corporate Accountancy Services Manager	
47	2009/10	Finance & Corporate Services	Debtors	Substantial	A senior member of staff should review the Sundry Debtors Suspense Account on a periodic basis.	2	31/05/2010	Corporate Accountancy Services Manager	

Amendments to 2010/11 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	Finance & Corporate Services	Core Financials - NNDR (testing for external audit only)	Deleted	Supplementary testing not carried out at request of External Audit
2	Finance & Corporate Services	Core Financial - Payroll	Deleted	Supplementary testing not carried out at request of External Audit
3	Finance & Corporate Services	Core Financials - Council Tax	Deleted	Supplementary testing not carried out at request of External Audit
4	Finance & Corporate Services	Core Financials - Parking (PCN's)	Deleted	Supplementary testing not carried out at request of External Audit
5	Finance & Corporate Services	Core Financials - Parking (Pay & Display)	Deleted	Supplementary testing not carried out at request of External Audit
6	Finance & Corporate Services	Cultural Change Management	Deleted	Removed from plan at the request of the responsible AD
7	Finance & Corporate Services	CAA Use of Resources	Deleted	Removed from plan. CAA Use of Resources has now been discontinued and significant areas in last year's report are already covered elsewhere in the audit plan
8	Finance & Corporate Services	Local/ National Election Accounts	Added	Added to plan
9	Finance & Corporate Services	Budget Variances	Added	Added to plan
10	Community Services	Personalisation Agenda	Added	Added to plan
11	Finance & Corporate Services	World Class Financial Management	Added	Added to plan