London Borough of Hammersmith & Fulham

Audit and Pensions Committee

Agenda

Thursday 17 February 2011
7.00 pm
Committee Room 1 - Hammersmith Town Hall - King Street, London W6 9JU

MEMBERSHIP

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

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

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

Date Issued: 04 February 2011

London Borough of Hammersmith & Fulham

Audit and Pensions Committee
Agenda

17 February 2011

14. IFRS UPDATE 190 - 196

A briefing on IFRS compliance was brought to the Audit Committee in March 2010. This report provides an update on the work which has been undertaken since then, key issues and achievements against deadlines.

15. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT 197 - 202

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

16. INTERNAL AUDIT PLAN 2011-12 203 - 212

This report presents the plans for Internal Audit for the 2011/12 year.

17. INTERNAL AUDIT QUARTERLY REPORT 213 - 223

This report summarises internal audit activity in respect of audit reports issued during the period to 31 December 2010, as well as reporting on the performance of the Internal Audit service.

18. ALMO CHIEF EXECUTIVE & SENIOR HOUSING MANAGEMENT 224 - 229

This report sets out the rationale and process for the appointment of Nick Johnson as Chief Executive of H&F Homes.

19. 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.

20. LEGAL AND GENERAL MATCHING FUND MANDATE

21. PENSIONS ANNUAL BUSINESS PLAN

London Borough of Hammersmith & Fulham

h&f putting residents first

Audit and Pensions Committee

Minutes

Thursday 9 December 2010

PRESENT

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

Other Councillors: Councillor Alex Karmel (in part)

Officers:
Jane West, Director Of Finance and Corporate Services
Hitesh Jolapara, Deputy Director of Finance
Pat Gough, Assistant Director- Finance
Geoff Drake, Chief Internal Auditor
Jill Lecznar, Corporate Accountancy Manager
Michael Sloniowski, Principal Consultant- Risk Management
Bob Pearce, Group Accountant- Technical
Owen Rees, Committee Coordinator

Simon Jones and Helen Smith, P-Solve
Jon Hayes, District Auditor, and Julian McGowan, Audit Manager, Audit Commission

36. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

(I) That the minutes of the meeting held on 22 September 2010 be agreed as a true and correct record, and;
(II) That the outstanding actions be noted.

37. APOLOGIES FOR ABSENCE

There were apologies from Councillor Cartwright, who was on other council business.

Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

38. DECLARATIONS OF INTEREST

Councillor Murphy declared a personal interest in all items as a member of the Council's pension fund.

39. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith, P-Solve, introduced the report, which set out the performance of the Council's Pension Fund in the period to 30th September 2010. Fund growth had been strong compared to the 2nd quarter, with the value of the fund at the date of the meeting up to £577 million. She noted the rise in the liability benchmark in 2010-11, due to strong gilts prices, and the consequent impact on fund managers' ability to exceed the benchmark.

With regard to the Legal & General mandate held within the Matching Fund, Simon Jones updated the Committee on negotiations with Legal & General regarding the requested inflation and interest hedging product. The Council had first agreed to purchase a product that hedged against both inflation and interest rate rises in the first quarter of 2009, but market conditions had instead necessitated the purchase of a very long-dated gilt. Over the last three months, P-Solve had held discussions with Legal & General about the implementation of the original mandate, though as a hedge against inflation only. Legal & General had made a proposal, which P-Solve was reviewing. Legal & General were concerned that the product, which would be bespoke to the Council's requirements, would require a higher fee.

In response to a question from Councillor Ginn, Simon Jones clarified that the Council paid higher fees where the work was of higher value; a passive holding, such as the long-term gilt currently held, drew a smaller percentage fee than the proposed new investment. Pat Gough, Assistant Director of Finance, confirmed that a variance in the fee charged, within the existing mandate, would not require the mandate to be retendered.

Eugenie White asked if the principle behind the mandate was still sound. Simon Jones said that he recommended the implementation of the modified mandate, adding that the Council was not the only source of demand for a similar product.

Councillor Murphy asked whether, in view of Legal & General's failure to meet the Council's demands, it would be appropriate for the mandate to be retendered, and if not, when a decision might be reached. Simon Jones said that he felt that Legal and General would meet the Council's demand, and that a definitive answer would be given at the Committee's next meeting on the matter.

Eugenie White asked about the performance of MFS and Majedie. Bob Pearce, Group Technical Accountant, said that only Majedie received a performance fee which is assessed over rolling three-year periods, meaning that recent underperformance would require future over performance if Majedie were to continue to draw performance fees.

He also updated on the performance of the private equity investments made by the Council, which made up approximately 2% of the fund. The Council received quarterly updates from the managers and the investments had generally performed well, given the economic circumstances since their inception. Officers agreed to circulate a more detailed update on the private equity elements of the fund to members following the meeting.

Councillor Murphy asked whether MFS' performance had been over reliant on currency effects. Helen Smith said that performance had benefited from their exposure to the dollar, and that the Council did not necessarily wish the investments made in emerging markets to be hedged against currency changes, as this formed part of the investment strategy.

Councillor Murphy then asked about the concentration of gold held by Ruffer, and whether this was considered too high. Helen Smith said that the portfolio was well-diversified, and that while gold prices may not trend upwards, they would not fall to the level of 5 years before.

RESOLVED THAT

The report be noted

40. ANNUAL AUDIT LETTER

Jon Hayes, District Auditor, Audit Commission, introduced the external auditor's annual letter. He said that the auditor's view and message was much as it had been at the delivery of the accounts. Challenges identified for the 2010/11 financial year included the implementation of International Financial Reporting Standards and the plans for sharing services with Westminster and Kensington and Chelsea Councils, with the action plan for the latter seen as sensible.

With regard to the future of the Audit Commission itself, he said that the management would be putting forward a proposal to the Secretary of State to organise itself as a mutual; this could mean a lower limit to the liabilities faced by local authorities, and lower fees as a consequence. With regard to fee levels, he said that the Audit Commission was hopeful of meeting its commitment to lower fees.

RESOLVED THAT

The report be noted.

41. AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2010 ACTION PLAN

Geoff Drake, Chief Internal Auditor, introduced the report which set out updates on previous Audit Commission recommendations and on progress against the Annual Governance Statement 2010 (AGS) Action Plan. 7 Audit Commission recommendations were listed, 4 of which had been implemented, with 1 of those outstanding to be completed at the submission of 2010-11 accounts. With regard to the AGS Action Plan, there were four entries, with IT Business Continuity to be addressed by the introduction of new systems In February.

Councillor Ginn asked what resilience the Council currently possessed, and what additional capacity would be introduced by change in systems. Jane West, Director of Finance and Corporate Services, said that the Council had two data centres, with one located in east London, as well as the one in the Town Hall. The changes to be introduced would allow more effective mirroring between the two centres, meaning that around 50 key systems (of 150 in use) would continue to operate in the event of a failure in one data centre.

Councillor Murphy asked how, given the number of systems in operation, IT integration with the other Councils would proceed. Jane West said that that type of integration would proceed slowly, with communications the first issue under consideration, and with the process being business-led.

RESOLVED THAT

The report be noted.

42. TREASURY MANAGEMENT MID-YEAR REVIEW

Pat Gough, Assistant Director- Finance, introduced the report which set out a mid-year review of the Council's Treasury Management. The report showed the Council's lending and borrowing activity since the outturn report. Borrowing activity had been reduced considerably, with the Council's requirement to borrow for Decent Homes spending at an end.

Councillor Murphy noted that the Council's lending was concentrated with Lloyds TSB. Pat Gough clarified that the credit ratings of the banks in which the Government held a stake were the highest available. With regard to the lending made to Thurrock Council, Pat Gough said that it had offered the best available rate at the time with the Debt Management Office the only other option.

Eugenie White asked whether the Council could not meet part or all of its borrowing requirement from its own cash reserves. Pat Gough said that the Council already did this, resulting in the difference between outstanding debt and the underlying need to borrow.

RESOLVED THAT

The report be noted.

43. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out work on risk management within the Council since the last Committee meeting. The report set out the outcome of internal audit's assessment of the Council's risk standard's compliance with the British Standard for risk management, which was appended to the report. The Corporate Risk Register was also appended to the report: significant changes included the addition of an opportunity risk with regards to the proposed merger of services with Westminster and Kensington & Chelsea and the removal of the risk that related to PCT integration.

Councillor Ginn asked about the structure of the Council's risk management function, in the light of integration with other Councils and the potential for rising demand on the service. Michael Sloniowski said that while he was the only officer whose principle role was risk management, there were also officers working on insurance matters, business continuity and emergency services; these services were working increasingly closely together prior to integration.

Eugenie White raised four issues that she felt were not captured in the Corporate Risk Register- firstly, the IT Business Continuity already discussed; secondly, the risk of an interest rate rise and/or decline in market value on asset sales failing to reach target values in the Council's financial strategy; thirdly, the risk of a serious incident connected to the Council's child protection and responsibilities for looked-after children, particularly should it generate media interest, and; fourthly, that the Civic Accommodation project should, as with the Shepherds Bush Market, be included as a risk.

With regard to the point raised on the risk to the Council's budget strategy, Michael Sloniowski said that officers had recently refreshed the finance risks, and the issue of potential market saturation was on the MTFS risk register. With regard to the corporate parenting risk, he said that the issue was likely on the departmental risk register, but that he would review its status with the Director of Children's Services. With regard to the risk surrounding the Civic Accommodation project, he said that he would take the matter up with EMT.

In response to a question from the Chairman on the risk arising from the merger, Councillor Botterill said that the project was at an early stage. The intention was for those elements that offered short-term gain to be fast tracked, whilst other issues, such as IT systems, would need to be addressed in the longer term. Though this approach did not entirely synchronise with the Comprehensive Spending Review, the intention to proceed was firm.

Councillor Murphy raised concerns that mergers often did not deliver the proposed cost savings, with different organisational cultures a key factor; this formed a significant risk to the project achieving its aims, particularly as mergers lay outside the normal experience of many Council staff.

Councillor Botterill said that the parallel nature of the organisations meant that the difficulty of operational integration was considerably diluted, noting that cultural differences had also existed between departments within the Council and between the Council and PCT. Councillor Iggulden also noted that an excessive price paid for an acquisition was often the cause of mergers failing to achieve the forecast financial return, something that would not apply in the Council's case.

Jane West, Director of Finance and Corporate Services, said that mapping the different organisational cultures was a key stage of the project, and already under way. She noted that senior management at all three Council included individuals with experience of private sector mergers and acquisitions. She also noted that the Council had already partially undertaken a merger with the PCT, gaining valuable experience.

RESOLVED THAT

The review of the Hammersmith and Fulham Risk Standard, and the latest iteration of the Corporate Risk Register, be noted.

44. CORPORATE ANTI FRAUD SERVICE Q2 FRAUD REPORT 2010-11

Geoff Drake, Chief Internal Auditor, introduced the report which set out the work of the Corporate Anti-Fraud Service in Quarter 2 of the 2010/11 financial year. There had been 13 successful prosecutions, with £300,000 in direct cash benefit. 20 properties had been recovered and 73 persons removed from the register. Using the Audit Commission's recommended scales, the value of the Service's work during the period to the Council was £9.7 million. A new Head of Service, Kirsten Quinn, had also been recruited.

Councillor Iggulden asked whether investigative costs were included in the costs the Council claimed in court. Geoff Drake confirmed that there were.

Councillor Murphy asked whether, in the light of the strong performance, targets had been adjusted upwards. Geoff Drake confirmed that they had been.

RESOLVED THAT

The report be noted.

45. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2010

Geoff Drake, Chief Internal Auditor, introduced the report, which set out internal audit activity in the quarter to 30 September 2010. Since the last Committee meeting, 1 nil assurance report had been issued, in relation to IT Business Continuity, with actions to address discussed elsewhere on the agenda. 3 reports had offered limited assurances, with all recommendations reported as implemented. Overall, only 1 recommendation was more than 6 months past the target date for implementation.

In relation to the execution of the year's audit plan, there was some lag in performance, and the Council was holding meetings with the contractor to discuss mitigating measures.

Councillors asked what consideration had been given to a change of contractor, both in the light of the performance shown by the contractor, and the fact that they had been the Council's auditor for some time, a position often rotated in the commercial sector.

Geoff Drake said that consideration had been given to a change, on both grounds, but a change would have entailed a considerable rise in costs, at a time when savings were being sought, and that the quality of audit work undertaken was good. As such, work was underway to refocus the internal audit resource on risk based auditing, cutting unnecessary audits. Jane West, Director of Finance and Corporate Services, noted that the changes in audit manager had meant that the

Council regularly received different perspectives, whilst Hitesh Jolapara, Deputy Director of Finance, said that the Audit Commission as External Auditor diluted the risk of retaining the same internal audit firm.

Councillor Ginn asked whether there would be a significant change in audit activity as a result of the reorganisation of schools and health. Geoff Drake said that schools activity would depend on the rate at which schools converted to Academy status, and that there would be a governance requirement for the Council as a result of the proposed work with the new Westminster/Kensington and Chelsea/H&F PCT and CLCH.

RESOLVED THAT

The report be noted

46. PROPOSALS FOR REPORTING TO THE AUDIT AND PENSIONS COMMITTEE

Geoff Drake, Chief Internal Auditor, introduced the report, which set out proposals for modifying the reports received by the Committee. The report proposed alterations to reports submitted to the Committee, including

- Reducing Corporate Anti-Fraud Service reporting to a six-monthly basis, with a more regular newsletter distributed to members
- Circulating Limited and Nil assurance Internal Audit reports separately to the agenda
- Reducing the number of appenidices to the regular Risk Management report, with these circulated separately

Councillor Murphy and Eugenie White raised concerns that the Committee's role should not be compromised by a reduction in information received, and that members should receive hard copies. Geoff Drake clarified that members would receive the same quantity of information, and would continue to receive hard copies of the documents that were no longer part of the hard copy agenda.

Councillor Ginn requested that officers attempt to dispatch hard copy agendas to members sooner. Officers agreed to examine what was possible, noting that certain reports were only available shortly before the statutory deadline for dispatch.

RESOLVED THAT

The proposals regarding reporting be agreed for implementation for the Committee's February meeting.

47. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

Under Section 100A (4) of the Local Government Act 1972, 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.

48. MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2010- EXEMPT ASPECTS

RESOLVED THAT

(III) That the exempt minutes of the meeting held on 22 September 2010 be agreed as a true and correct record, and;
(IV) That the outstanding actions be noted.

49. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- EXEMPT ASPECTS

RESOLVED THAT

The report be noted.

Meeting started: 7.00 pm
Meeting ended: 8.52 pm

Chairman ....

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AUDIT AND PENSIONS COMMITTEE

17th February 2011

CONTRIBUTORS

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ACTUARIAL VALUATION

This report prepared by Barnett Waddingham gives the results of the Actuarial Valuation of the Pension fund as at 31st March 2010. The report shows the proposed contribution rates from April 2011.

WARDS
All

RECOMMENDATION:

1. To agree the draft Actuarial Report and delegate final approval of the report to the Director of Finance and Corporate Services. The final report to be approved by 31st March 2011, in accordance with the regulations,

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

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

London Borough of Hammersmith & Fulham

Actuarial Valuation as at 31 March 2010
Draft Valuation Report

Barnett Waddingham
Public Sector Consulting

21 January 2011

Jane West
Director or Resources and Corporate Services
London Borough of Hammersmith and Fulham
6th Floor, Town Hall Extension, King Street
London
W6 9JU

Dear Jane

Actuarial Valuation as at 31 March 2010

We are currently carrying out an actuarial valuation of the London Borough of Hammersmith & Fulham ("the Fund") as at 31 March 2010.

The valuation is being carried out in accordance with Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended.

The purpose of this report is to set out some initial results of the actuarial valuation of the Fund.

These initial results have been prepared further to our discussions at the Pre Valuation meeting in February 2010 and include some sensitivity analysis of the underlying assumptions.

This report is addressed to the London Borough of Hammersmith and Fulham as administering authority to the Fund. It is not intended to assist any user other than London Borough of Hammersmith and Fulham in making decisions. Neither we nor Barnett Waddingham LLP accepts any liability to third parties in respect of this report.

This report has been written in accordance with "Technical Accounting Standard R: Reporting Actuarial Information" and "Technical Actuarial Standard D: Data" issued by the Board for Actuarial Standards and actuarial guidance note "GN9: Funding Defined Benefits – presentation of actuarial advice", insofar as they apply to a preliminary report such as this. A report will be issued in due course which will comply fully with GN9, in particular the requirements of section 3 relating to actuarial valuation reports.

These results take into account all of the changes in the Regulations governing the Local Government Pension Scheme ("the LGPS") since the previous valuation and the changes that came into effect on 1 April 2008.

Our report is set out in the following sections.

1 Introduction

1.1 Purpose of the Valuation

1.1.1 The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

1.1.2 The figures in this report count as part of a "planning exercise" for the purposes of the Board for Actuarial Standards' Technical Actuarial Standard R. This means the primary purpose of the figures is for "budgeting" or "target setting" – in this case setting the future levels of employer contributions payable to the Fund.

1.2 Previous Valuation

1.2.1 The last formal actuarial valuation of the Fund was carried out as at 31 March 2007 and the results of that valuation were set out in the formal valuation report carried out by Tim Lunn FIA of Hewitt Bacon and Woodrow Limited, dated March 2008.

1.2.2 The results of the formal valuation indicated that the assets of the Fund represented 70% of the accrued liabilities of the Fund. The Total Required Contribution Rate was certified as 22.2% of payroll which assumed that the past service funding level would be restored over a period of 25 years.

1.2.3 A schedule of the certified contribution rates is included in Appendix 1.

1.3 Changes to the LGPS

1.3.1 The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the Consumer Price Index or CPI rather than RPI.

1.3.2 Also, it is likely that State Pension Age will be increased to age 66 sooner than previously anticipated which is likely to influence future retirement patterns.

1.3.3 A new independent pensions commission, led by Lord Hutton has also been created to investigate pension reform across the public sector. We anticipate some changes to the LGPS in future although at this stage it is difficult to assess what they might be.

1.3.4 Full current details of the current benefits and contribution structure are set out in Appendix 7.

2 Valuation Data

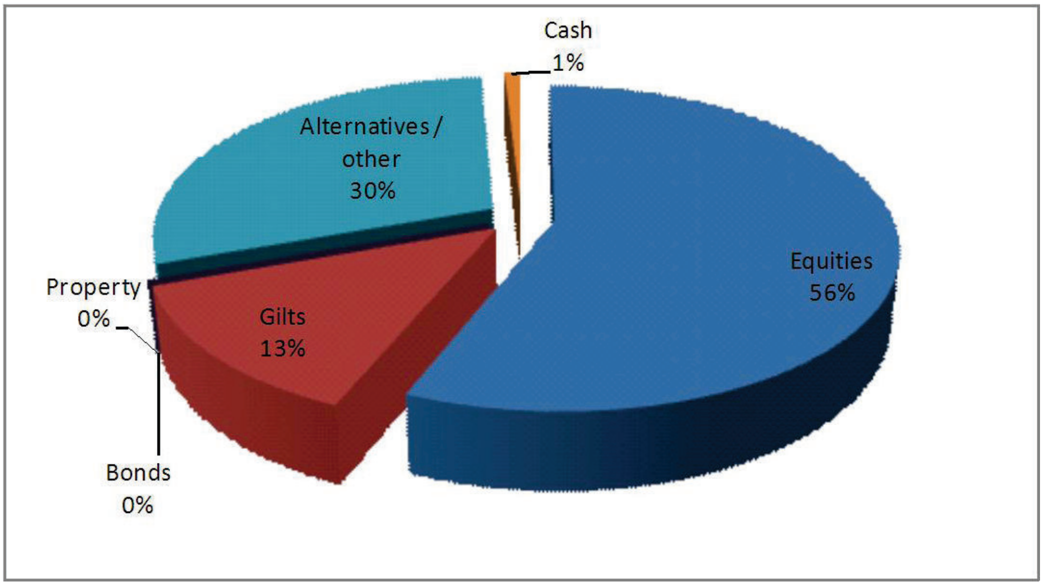
2.1 Data Sources

2.1.1 We have used the following items of data as provided by the London Borough of Hammersmith and Fulham. A summary of the data is set out in Appendix 3:

- Membership extract as at 31 March 2010. The membership data has been checked for reasonableness and any missing or inconsistent data has been estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.
- Fund accounts for the 3 years to 31 March 2010.

2.2 Assets

2.2.1 The asset allocation of the Fund as at 31 March 2010 is as follows:



Assets at This Valuation	31 March 2010 £(000)	%
UK Equities	156,399	28%
Overseas Equities	156,877	28%
Corporate Bonds	-	-
Cash	4,982	1%
UK Gilts	73,713	13%
Overseas Bonds	-	-
Property	-	-
Other assets	-	-
Alternative Assets	164,860	30%
Total	**556,831**	**100%**

2.2.2 We estimate that the annual return on the Fund in market value terms for the 3 years to 31 March 2010 is estimated to be 6% per annum.

2.3 Benefits

2.3.1 Since the previous valuation changes to the benefits have been introduced with effect from 1 April 2008.

2.3.2 The benefits being valued including these changes are as set out in the Regulations governing the Local Government Pension Scheme ("the LGPS") and are summarised in Appendix 7.

3 Actuarial Methods and Assumptions

3.1 Valuation Method

3.1.1 For the purposes of this valuation we have, as in the past, adopted an approach which separately considers the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach enables us to focus on:-

3.1.2 The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.

3.1.3 The future service funding rate i.e. the level of contributions required from the employing bodies to support the cost of benefits building up in future.

3.1.4 There are various "funding methods" that can be used to determine the cost of providing benefits. The method we have adopted at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost we calculate the contribution rate which meets the cost of one year of benefit accrual. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is open to new members.

3.2 Valuation Assumptions

3.2.1 The next step is to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

3.2.2 Future levels of pay increases will determine the level of benefits to be paid in future in respect of active members as well as the contributions that will be received by the Fund. Once in payment, pension benefits, in excess of Guaranteed Minimum Pensions ("GMPs") are linked to the Retail Prices Index through increases granted in line with the Pensions (Increase) Act 1971. Although in future pension benefits will be linked to the CPI rather than RPI.

3.2.3 The cost of providing for benefits, however, depends not only upon the amount but also the incidence of benefits paid i.e. at what point in the future benefits begin to be paid and, for pension benefits, for how long they continue to be paid.

3.2.4 As money is being set aside now to provide for benefits payable in the future i.e. the benefits are being prefunded, then part of the cost of providing the benefits can be met from investment returns achieved by the Fund's assets. These assets build up from contributions paid by scheme members and participating employers to the Fund.

3.2.5 The assumptions adopted at the valuation can therefore be considered as:-

- The statistical assumptions which generally provide estimates of the likelihood of benefits and contributions being paid, and,
- The financial assumptions which determine the estimates of the amount of benefits and contributions payable as well as their current or present value.

3.2.6 We examine the assumptions in more detail in the next two sections of our report.

3.3 Funding Model

3.3.1 At this valuation we have used a market related funding model. The key features of the model are as follows:

3.3.2 Assumed future levels of retail price inflation are derived by considering the difference between index-linked gilt and fixed-interest gilt yields at the valuation date, as published by the Bank of England. At this valuation we have also included an adjustment known as an inflation premium. This inflation premium is deducted from the market implied inflation assumption to reflect the expectation that market implied inflation tends to overstate actual retail price inflation.

3.3.3 Pay increases are assumed to exceed future retail price inflation based on past experience and expectations of future experience.

3.3.4 Pension increases are assumed to be in line with CPI rather than RPI. It is assumed that CPI will be 0.5% per annum less than RPI, consistent with the historical average.

3.3.5 The expected future return from equities is based on dividend yields at the valuation date in addition to an allowance for real capital growth in asset values.

3.3.6 Rather than take “spot” yields and market values of assets at the valuation date we have used smoothed yields and asset values spanning the 6 month period around the valuation date.

3.3.7 The discount rate used to discount future payments to and from the Fund and so determine the value placed on the liabilities reflects the risk adjusted expected return that will be earned by the actual investment strategy adopted by the Fund.

3.3.8 Under TAS R a “funding model” is referred to as a “measure”.

4 Financial Assumptions

4.1.1 The derivation of the key financial assumptions adopted at this valuation and how they compared as at the previous valuation are set out below. Further details in Appendix 4.

4.2 Future Retail Price Inflation

4.2.1 The base assumption is the future level of retail price inflation. This is derived by considering the difference in yields from conventional and index linked gilts and then adjusting by an inflation premium. The following table shows smoothed and spot bond yields at both valuation dates and the derivation of future implied retail price inflation derived from gilt yield differentials.

	March 2010		March 2007	
	Smoothed % p.a.	Spot % p.a.	Smoothed % p.a.	Spot % p.a.
Corporate bonds	5.6%	5.5%	5.4%	5.4%
Conventional gilt yields	4.5%	4.5%	4.7%	4.7%
Index linked gilt yields	0.8%	0.7%	1.3%	1.3%
Implied inflation	3.7%	3.9%	3.4%	3.4%
Inflation Premium	-0.3%	-0.5%		-0.2%
RPI assumption	3.5%	3.4%	3.1%	3.2%
CPI assumption	3.0%	2.9%		

4.3 Future Pension Increases

4.3.1 Previously, pension increases were assumed to be in line with retail price increases. The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the CPI rather than RPI. We have therefore assumed that pension increases will be 0.5% less than the price inflation assumption. i.e. 3.0% per annum.

4.4 Future Pay Inflation

4.4.1 As benefits are currently linked to pay levels at retirement, an assumption has to be made about future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions.

4.4.2 The assumption adopted at the previous valuation was that pay increases, over and above increases due to promotion and other increments (or "salary scales"), would exceed price inflation by 1.5% per annum.

4.4.3 At this valuation we have adopted the same salary scales and salary inflation assumption. However in anticipation of Government policy we have completed calculations assuming a short term "pay freeze" for 2 years for those earning over £21,000 per annum.

4.5 Future Investment Returns/Discount Rate

4.5.1 To determine the value of accrued liabilities and future contribution requirements at any given point in time it is necessary to discount future payments to and from the Fund. There are a number of different approaches which can be adopted in deriving the discount rate to be used. FRS 17 for example requires that the discount rate is related only to yields from corporate bonds.

4.5.2 In our view the discount rate adopted should depend on the purpose of the valuation and the overall funding objectives. The regulations require the actuary to adopt methods and assumptions which produce stable levels of employer contributions. In our view therefore, to help achieve this objective, the discount rate should reflect the expected investment return to be achieved from the underlying investment strategy.

4.5.3 In determining the assumption to be made in relation to future investment returns it is necessary to consider the investment strategy of the Fund and the resulting expected future return earned by the assets held. The investment strategy of the Fund is to invest the assets in a mix of equities, bonds and property.

4.5.4 Redemption yields from gilts give an indication of the future rates of return from these asset classes. Redemption yields from corporate bonds are also readily available. There is however no comparable market indicator to derive the market expected future return from investing in equities, property or other alternative assets.

4.5.5 It is however possible to model future returns from equities by deriving an "equity risk premium". This is effectively the expected return to be earned from equities over and above the returns available from bonds in return for taking on the additional risk of investing in equities rather than bonds.

4.5.6 The following table sets out the derivation of the equity risk premium and the expected return from equities at the current and previous valuation date.

Smoothed Equity Returns	March 2010 % p.a.	March 2007 % p.a.
Equity Risk Premium		
Net equity yield	3.3%	2.8%
Inflation	3.5%	3.1%
plus assumed real capital return	0.5%	0.9%
Equity Return	7.3%	6.9%
Equity Risk Premium	2.8%	2.2%

4.5.7 It would also be possible to derive the expected future return from other asset classes such as property and alternative asset classes. Intuitively we might expect that returns from asset classes other than equities and gilts might be expected to return somewhere between gilts and equities – what we usually see from corporate bonds.

4.5.8 Accordingly we have assumed that the return from property will be the same as corporate bonds and that returns from other alternative asset classes is the same as the expected return from equities.

4.5.9 We then derive the discount rate as firstly, the weighted average of future expected returns from the various asset classes based on the actual asset allocation as at the valuation date.

4.5.10 We then include a risk adjustment to the discount rate to reflect the amount of equity risk being taken relative to gilts. For a Fund with 75% or less exposure to equity type investments the risk adjustment is nil. For a Fund with more than 75% in equity type investments the reduction in discount rate is 50% of the extra return expected from the actual strategy compared to one invested 75% in equity type investments.

4.5.11 Finally to accommodate any extreme market conditions at the valuation date the resulting real discount rate is constrained to 4% per annum.

4.5.12 In summary therefore we have adopted the following assumptions.

Financial Assumptions	March 2010		March 2007	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	7.3%	3.8%		
Gilts	4.5%	1.0%		
Bonds & Property	5.6%	2.1%		
Risk Neutral Discount Rate	6.6%	3.1%		
Risk Adjusted Discount Rate	6.7%	3.2%	6.5%	3.3%
Pay Increases	5.0%	1.5%	4.7%	1.5%
Price Inflation	3.5%	-	3.2%	
Pension Increases	3.0%	(0.5%)	3.2%	

4.6 Intervaluation Experience - Financial

4.6.1 The following table sets out the financial experience of the Fund during the intervaluation period compared to the assumptions adopted at the previous valuation.

Financial Experience	Actual	Assumed	Difference
	% p.a.	% p.a.	% p.a.
Investment Return	5.9%	6.5%	(0.5%)
Estimated Pay Increases	4.7%	4.7%	(0.0%)
Price Inflation/Pension Increases	2.9%	3.2%	(0.3%)

4.6.2 The principal conclusions are:

- Investment returns were less than expected.
- Pay increases were slightly less than expected.
- Pension increases were less than expected.

4.6.3 Overall the financial experience of the Fund during the intervaluation period compared to the assumptions adopted at the previous valuation was a negative factor during the intervaluation period.

5 Demographic Experience and Assumptions

5.1 Statistical Experience – Active Members

5.1.1 The following table sets out the actual number of membership movements amongst active members during the intervaluation period compared to the assumptions adopted at the previous valuation.

Active Membership Movements	Actual	Assumed	Difference %
Early Leavers	1,661	1,023.3	62%
Deaths in Service	11	11	2%
Retirements			
Ill health	12	34.7	(65%)
Age	450	450	-
Voluntary	23		
Redundancy	228		
Efficiency	3		
Total	**716**	**485**	48%

5.1.2 There were more early leavers than expected and fewer ill-health retirements than expected.

5.1.3 Overall the demographic experience of the Fund during the intervaluation period compared to the assumptions adopted at the previous valuation was a positive factor during the intervaluation period.

5.1.4 We have adjusted our pre retirement assumptions to better reflect actual experience.

5.2 Pensioner Mortality

5.2.1 Mortality investigations over the last few years have concluded that the population across the UK is living longer and that this improvement will continue at a faster rate than seen in the past. Our analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer although experience does vary across the country and from Fund to Fund.

5.2.2 The following table sets out the actual and expected mortality of pensioners during the intervaluation period.

Pensioner Deaths By Number	Pensioners	Dependants	Total
Actual	287	107	**394**
Assumed	214	86	**300**
% Difference	34%	25%	**31%**
By Amount of Pension	**£**	**£**	**£**
Actual	1,613,702	256,918	**1,870,620**
Assumed	1,227,746	277,762	**1,505,508**
% Difference	31%	(8%)	**24%**

5.2.3 The number of pensioners dying during the intervaluation period was higher than expected.

5.3 Pensioner Mortality Assumptions

5.3.1 Overall the mortality experience over the intervaluation period had a positive financial impact in that more pensioners died compared to the assumptions adopted at the previous valuation.

5.3.2 National surveys indicate that the pace of improvement in longevity continues. However, we believe there is a case to amend the assumptions adopted at this valuation to allow for lighter mortality longer term but to amend current assumptions to better reflect current mortality levels.

5.3.3 We have therefore completed calculations assuming all members will follow the mortality experience of a table which is based on the mortality assumptions underlying the 90% S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement.

5.4 Retirement Ages – Active Members

5.4.1 At the previous valuation it was assumed that active members will retire as soon as they are able to on unreduced benefits without requiring employer consent – typically satisfying the Rule of 85 but no earlier than age 60 nor later than age 65.

5.4.2 Experience suggests that whilst the Rule of 85 is an influencing factor on when active members choose to retire, State Pension Age is also a major factor, as for many active members, they need the additional income payable from the State before they can afford to retire.

5.4.3 There are existing plans in place to increase State Pension Age albeit very slowly. The new Government have however indicated that these changes are likely to be brought forward which is likely to mean that active members in future are likely to retire later than they have in the past.

5.4.4 It is difficult to assess what the impact will be but we have completed calculations assuming that active members will retire 1 year later than they would be entitled to retire and receive unreduced benefits.

6 Initial Valuation Results

6.1 Past Service Position

6.1.1 The following table sets out the past service position for the Fund as a whole. We show the published results at the previous valuation and then track the past service position and funding level allowing for

- Intervaluation experience – changes in market conditions, actual inflation and investment returns etc
- Impact of future pension increases being in line with CPI
- Effect of assuming active members retire 1 year later than previously assumed
- Impact of 2 year pay freeze
- Impact of allowing for revised mortality and other statistical assumptions

Description	2007 Valuation	2010 Valuation
Valuation Date	**31 March 2007**	**31 March 2010**
Demographic Assumptions	2007	2007
Mortality	125% PNA00 MC Min 1%/0.5%	S1PA_H MC U2010 Min 1%
Commutation	50%	90%
Financial Assumptions	**% p.a.**	**% p.a.**
Price Increases	3.2%	3.5%
Pension Increases	3.2%	3.0%
Salary Increases	4.7%	5.5%
Discount Rate	6.5%	6.7%
Past Service Funding Position	**£(000)**	**£(000)**
Asset Value	457,100	534,255
Past Service Liabilities		
Active Members	290,800	248,701
Deferred Pensioners	120,500	128,702
Pensioners	241,900	340,452
Value of Scheme Liabilities	653,200	717,855
Surplus (Deficit)	(196,100)	(183,600)
Funding Level	70%	74%

6.1.2 During the intervaluation period the funding level has decreased from 70% to 74% at the current valuation date.

6.1.3 The funding level then increased when making an allowance for pension increases being in line with CPI, active members retiring a year later and the proposed 2 year "pay freeze".

6.1.4 The funding level also increased slightly once allowance is made for the changes in mortality assumptions in addition to the change in the statistical basis which allows for more leavers and fewer ill health retirements than at the 2007 valuation.

6.1.5 We have also made a change to the assumed tier level for ill health benefits to follow the experience of the past three years.

6.1.6 The effects of the changes are shown in the next section.

6.2 Reconciliation of Past Service Position

6.2.1 A reconciliation of the intervaluation experience on the past service position in the 3 years to the valuation date is set out in the following table.

Change in Past Service Position	£(000)	£(000)	£(000)
Surplus(Deficit) at 31 March 2007			(196,100)
Benefits Accrued	(67,762)		
Settlements/Curtailments	(10,295)		
Contributions Paid	93,604		
Deficit Funded (Use of Surplus)		15,547	
Interest Cost of Liabilities	(133,065)		
Actual Return on Assets	68,170		
Change in Market Conditions	(5,381)		
Financial Gain(Loss)		(70,276)	
Salary Increases	173		
Pension Increases	1,382		
Membership Changes/ Mortality	297		
Experience		1,852	
Allow ance for Inf Prem/CPI/Ret age/Pay	54,880		
Updated statistics/mortality	10,497		
Surplus(Deficit) at 31 March 2010			(183,600)

6.3 Future Service Contribution Rates

6.3.1 The following table sets out the change in the costs of benefits accruing in future.

6.3.2 We show the contribution rates from the previous valuation and then track the required contribution rates allowing for the same changes outlined above.

Valuation Date	31 March 2007	31 March 2010
Demographic Assumptions	2007	2007
Mortality	125% PNA00 MC Min 1%/0.5%	S1PA_H MC U2010 Min 1%
Commutation	50%	90%
Financial Assumptions	**% p.a.**	**% p.a.**
Price Increases	3.2%	3.5%
Pension Increases	3.2%	3.0%
Salary Increases	4.7%	5.5%
Discount Rate	6.5%	6.7%
Future Service Contribution Rates	**% of payroll**	**% of payroll**
Total	20.5%	19.9%
Employee	6.6%	6.8%
Employer	13.9%	13.1%

6.3.3 The results show that the impact of the change in market conditions and change in membership profile during the intervaluation period.

6.3.4 The contribution rate has decreased when we make an allowance for pension increases being in line with CPI, active members retiring a year later, allowing for the short term pay freeze and the revised mortality and statistical tables.

6.4 Deficit Recovery Plan

6.4.1 At the previous valuation the deficit recovery plan was to fund the deficit over a 25 year period.

6.4.2 In the following table we set possible deficit contributions expressed as a percentage of payroll together with resulting total contribution rates assuming deficit recovery period 25 years.

Description	2007 Valuation	2010 Valuation
	0.2% of payroll	-0.8% of payroll

Valuation Date	31 March 2007	31 March 2010
Demographic Assumptions	2007	2007
Mortality	125% PNA00 MC Min 1%/0.5%	S1PA_H MC U2010 Min 1%
Commutation	50%	90%
Financial Assumptions	**% p.a.**	**% p.a.**
Price Increases	3.2%	3.5%
Pension Increases	3.2%	3.0%
Salary Increases	4.7%	5.5%
Discount Rate	6.5%	6.7%
Future Service Contribution Rates	**% of payroll**	**% of payroll**
Employer	13.9%	13.1%
Deficit Contribution	**% of payroll**	**% of payroll**
25 years	8.3%	8.3%
Total Employer Contribution	**% of payroll**	**% of payroll**
25 years	22.2%	21.4%

7 Comments and Conclusions

7.1.1 The funding level has increased once we have allowed for changes to the fund since the 2007 valuation.

7.1.2 This is due to a combination of factors but primarily due to lower than assumed investment returns.

7.1.3 However these are offset by

- Future pension increases being linked to CPI
- Later retirement age assumptions
- Short term pay freeze

7.1.4 The revised mortality and demographic assumptions to better reflect current experience does not change the overall results in a material way.

7.1.5 We await the Hutton review of Public Sector schemes and will add in our post valution events section when details are known.

7.1.6 This report remains in draft until such changes are known and will not be signed off until required as of 31 March 2011 to allow for future changes.

Graeme D Muir FFA

Alison Hamilton FFA

Appendix 1. 2007 Contribution Schedule

Below we have set out the Statement of Certified Contributions included in the 2007 valuation report under Regulation 77 for the period 1 April 2008 to 31 March 2011.

Employer Code	Employing Authority	Future Service Contribution Rate % of payroll		
		1 April 2008	1 April 2009	1 April 2010
80	London Borough of Hammersmith and Fulham	22.5%	23.6%	24.7%
81	Mortlake Crematorium Board	23.2%	25.1%	27.0%
82	Blythe Neighbourhood Council	23.0%	24.3%	25.6%
83	Family Mosaic Housing	22.6%	23.5%	24.4%
84	Hammersmith and Fulham Community Law Centre	23.0%	24.3%	25.6%
88	Urban Partnership Group	23.0%	24.3%	25.6%
89	London Oratory School	15.0%	15.0%	15.0%
90	Disabilities Trust	19.0%	19.0%	19.0%
91	Medequip Assistive Technology Ltd	26.2%	-	-
92	H&F Homes	15.0%	15.0%	15.0%
93	Greenw ich Leisure Ltd	14.2%	14.2%	14.2%
94	Glencross Cleaning Ltd	23.5%	23.5%	-
95	Inspace Partnerships Ltd - Fulham Repairs	20.8%	20.8%	-
96	Inspace Partnerships Ltd - Voids Repairs	20.4%	20.4%	-
97	Burlington Danes Academy	14.0%	14.0%	14.0%
98	H & F Bridge Partnership	17.1%	17.1%	17.1%

Appendix 2. Valuation Methods

Valuation of Liabilities

Using our assumptions we estimate the payments which will be made from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants. We then calculate the amount of money which, if invested now would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called “the present value” (or, more simply, “the value”) of members benefits. Separate calculations are made in respect of benefits arising in relation to service before the valuation date (“past service”) and for service after the valuation date (“future service”).

Past Service Funding Level

A comparison is made of the value of the existing assets with the value of benefits in relation to past service (allowing for future pay and pension increases). If there is an excess of assets over past service liabilities then there is a past service surplus. If the converse applies there is a past service deficiency.

Future Service Funding Rate

The first stage is to calculate the value of benefits accruing to existing active members in the future, by reference to projected pay as at the date of retirement or earlier exit. In the valuation we consider the benefits accruing in the year following the valuation date. The value of benefits accruing in the year following the valuation date is then expressed as a percentage of payroll over the same period having first deducted the equivalent contribution paid by the active members.

The method described above results in a stable, long term contribution rate over time, if the assumptions adopted are borne out in practice and there is a steady flow of new entrants to the Fund. If the admission of new entrants is such that the average age of the membership profile increases then the contribution rate calculated at future valuations would be expected to increase.

Overall Result

Any past service surplus or deficiency if significant can be used to offset against the contribution rate payable by the employing bodies over the period following the valuation date.

Name of Measure

The method described above is known as the Projected Unit Method of valuation.

Valuation of Assets

Assets have been valued at a 6 month smoothed market value straddling the valuation date. Where additional contributions to fund previous early retirement costs are due to the Fund at the valuation date we have included these as an asset of the Fund.

Appendix 3. Valuation Data

A summary of the membership records submitted for the valuation is as follows.

Active Members	Number		Actual Pensionable Pay £ (000)		Average £	
Full Time	**2010**	**2007**	**2010**	**2007**	**2010**	**2007**
Males	1,339	1,879	46,764	52,706	34,924	28,050
Females	1,164	2,883	40,224	56,283	34,556	19,522
Part Time						
Males	244	-	3,358	-	13,760	-
Females	1,378	-	17,358	-	12,597	-
Total	**4,125**	**4,762**	**107,703**	**108,989**	**26,110**	**22,887**

Pensioners	Number		Annual Pensions £ (000)		Average £	
	2010	**2007**	**2010**	**2007**	**2010**	**2007**
Males	1,399	1,456	11,314	9,917	8,087	6,811
Females	1,626	1,644	7,578	6,761	4,660	4,112
Dependants	589	564	1,646	1,217	2,795	2,158
Total	**3,614**	**3,664**	**20,538**	**17,895**	**5,683**	**4,884**

Deferred Pensioners (incl "undecideds")	Number		Annual Pensions £ (000)		Average £	
	2010	**2007**	**2010**	**2007**	**2010**	**2007**
Males	2,380	1,648	5,455	4,188	2,292	2,541
Females	3,652	2,338	5,864	4,472	1,606	1,913
Total	**6,032**	**3,986**	**11,319**	**8,660**	**1,877**	**2,173**

Notes

2007 valuation results were not broken down by full time or part time status.

The numbers relate to the number of records and so will include members in receipt of or potentially in receipt of more than one benefit.

Annual pensions are funded items only include pension increases up to and including the PI Order.

Pensionable pay is actual earnings.

A summary of the assets held by the fund at the valuation date and the revenue account for the 3 years preceding the valuation date is as shown below.

Assets at This Valuation	31 March 2010 £(000)	%
UK Equities	156,399	28%
Overseas Equities	156,877	28%
Corporate Bonds	-	-
Cash	4,982	1%
UK Gilts	73,713	13%
Overseas Bonds	-	-
Property	-	-
Other assets	-	-
Alternative Assets	164,860	30%
Total	**556,831**	100%

Revenue Accounts	Year to	March 2010 £ (000)	March 2009 £ (000)	March 2008 £ (000)	TOTAL £ (000)
EXPENDITURE	Retirement Pensions	21,752	19,828	18,647	60,227
	Retirement Lump Su	6,146	4,281	4,898	15,325
	Death Benefits	855	518	298	1,671
	Leavers benefits	4,987	3,353	4,379	12,719
	Admin/Investment E	947	970	995	2,912
	Other Expenditure	-	-	-	-
		34,687	28,950	29,217	92,854
TOTAL					
INCOME	Employees Ctbns	7,576	7,527	6,713	21,816
	Employers Ctbns	24,425	23,577	23,786	71,788
	Transfer Values	3,267	1,961	2,916	8,144
	Investment Income	5,167	9,106	8,291	22,564
	Other Income	29	35	31	95
TOTAL		40,464	42,206	41,737	124,407
Fund Value		**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**
Assets at Start of Year		420,871	460,445	457,070	457,070
Cashflow		5,777	13,256	12,520	31,553
Change in value		127,664	(52,828)	(9,141)	65,695
Assets at End of Year		554,312	420,873	460,449	554,312
Annual Returns					
Approx Rate of Return		30.1%	-11.3%	-2.0%	13.1%

Appendix 4. Actuarial Assumptions

The valuation process is essentially a projection of future cashflows into and out of the Fund. The amount of future cashflows out of the Fund i.e. benefits provided will depend on rates of future pay increases and price inflation. The timing or incidence of the cashflows will depend upon future rates of retirement, mortality etc.

As money is being set aside now to provide for benefits payable in the future then part of the cost of providing the benefits can be met from investment returns achieved by the Fund's assets which then build up. The higher the rate of return achieved by the assets the lower the contribution requirement that has to be paid in future to meet the cost of the benefits.

Financial Assumptions

The principal financial assumptions adopted in the valuation are therefore as follows:-

Price Inflation

There are number of ways try to estimate what future levels of inflation might be.

One approach would be to look at the long term trend in the past although much depends on the measurement period as shown on the previous charts.

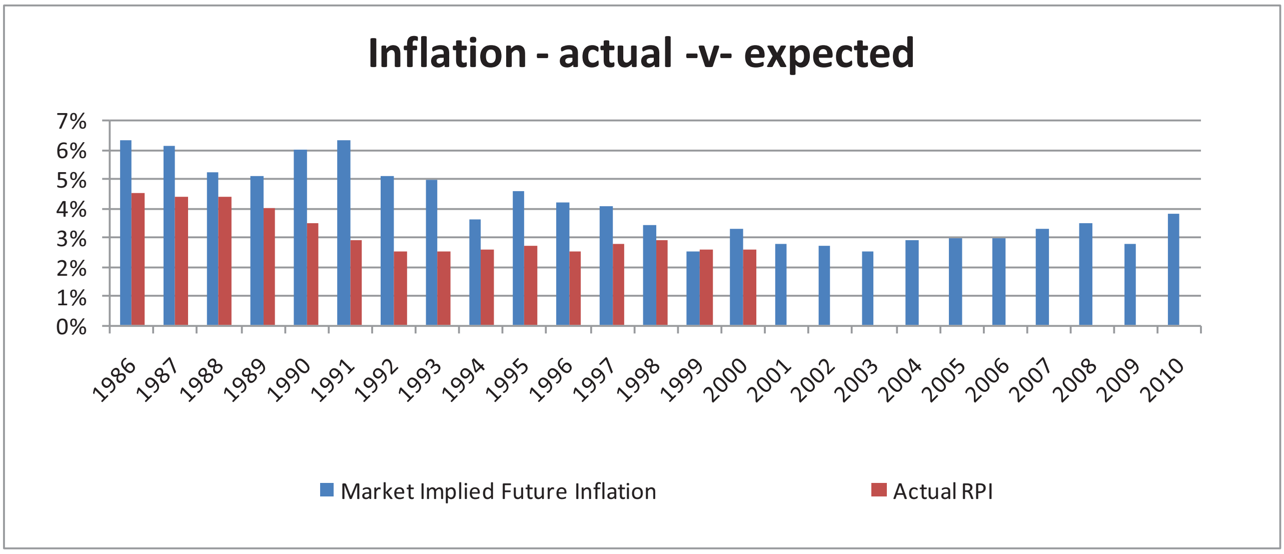
In these days of "marked to market" valuations, the usual approach is to look at the difference between yields from fixed-interest and index-linked gilts. The difference between these in principle is simply that payments from index-linked gilts are linked to inflation (RPI) whereas fixed-interest gilts pay a fixed amount, as you would expect. If you had two otherwise identical gilts then the prices would give an indication of what the market expects future inflation to be.

However one of the issues in adopting such an approach is the arguably imperfect nature of the gilt market. The supplier of gilts (the Government) would rather not have to borrow money - it will be a while before we get anywhere near those days mind you – and so there is no unrestricted supply, especially for long-dated gilts (which are the ones which are most useful for estimating future inflation for pension schemes).

On the demand side, there are certain institutions (insurance companies for example) who are pretty much "forced holders" of gilts to meet various solvency requirements. Accordingly, the pricing of gilts is not perfect – but it's the best we have.

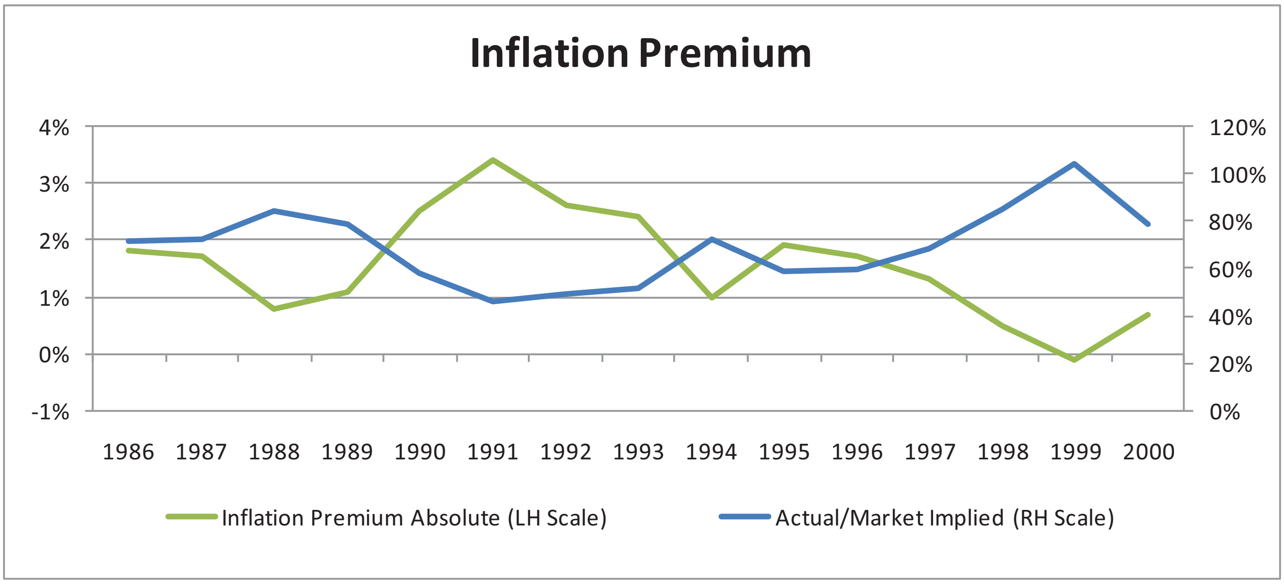
There is also the issue of what is known as the "inflation premium". The argument is that investors will pay a premium for inflation protection and so arguably index-linked gilts are "more expensive" than fixed-interest gilts or equivalently index-linked gilt yields are lower than they might otherwise be.

The following chart shows how the gilt market implied 10 year inflation level at the beginning of each year has compared with the resulting 10 year actual level of inflation.



As we see the market implied level of inflation has consistently over-estimated the actual level of inflation.

The following chart shows the inflation premium both at an absolute level – the difference between actual and expected inflation and in relative terms (actual/expected).



As we see the absolute level of inflation premium has been around 1.5% in absolute terms but on a declining trend and to about 70% in relative terms but on an increasing trend.

Of course since 1997, control of inflation has been the job of the Bank of England rather than the Treasury. This data is very limited but it does tend to suggest that there is a case for adopting a future RPI inflation assumption slightly below the market implied rate whilst still retaining an element of prudence. We have therefore adopted an inflation premium of 0.25%.

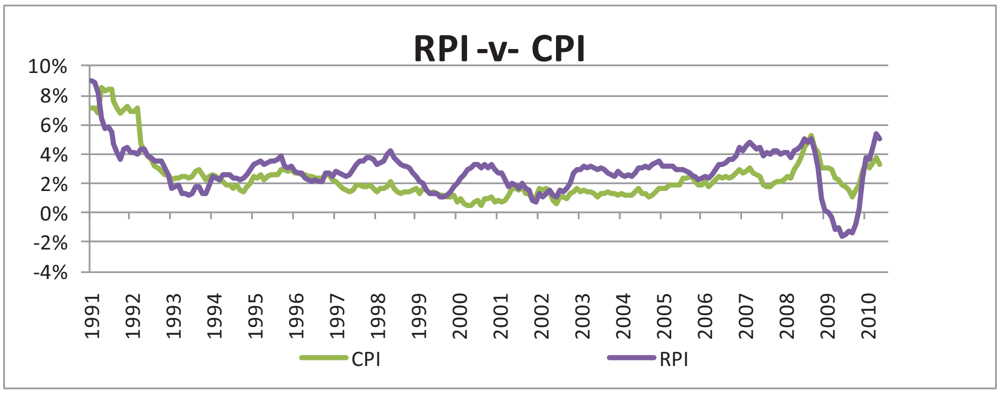
Pension Increases

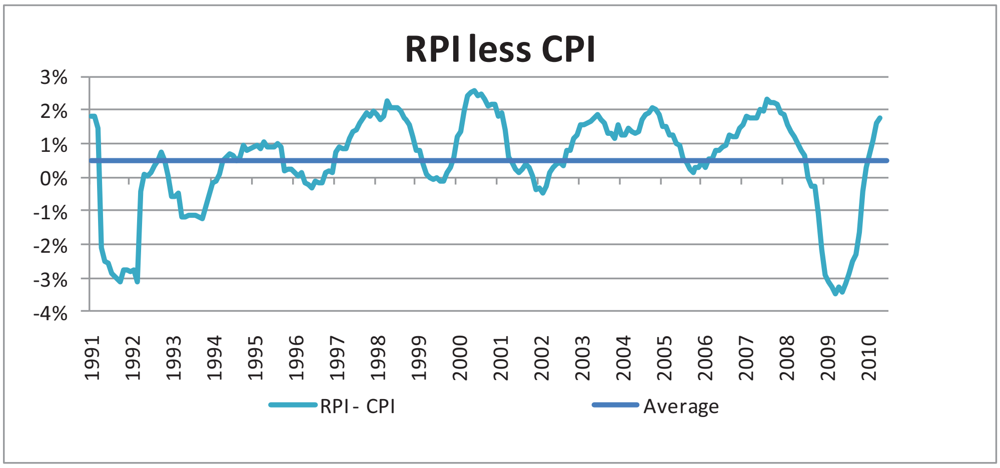
The Retail Price Index has long been the established measure of inflation in the UK. It measures the change in prices of number of things including housing costs such as mortgage interest payments.

However in the 1990's the Government introduced the Consumer Price Index which is based on the prices of a range of consumer goods – similar to the RPI but it specifically excludes housing costs. The CPI is now the favoured measure the Government uses for measuring inflation in the economy.

The 2010 Emergency Budget delivered by George Osborne announced that in future, the pension increase orders will be linked to the CPI rather than RPI. This was expected to save some pennies implying that the Government expects CPI to be below RPI.

The following chart show how the 2 have compared since 1990.





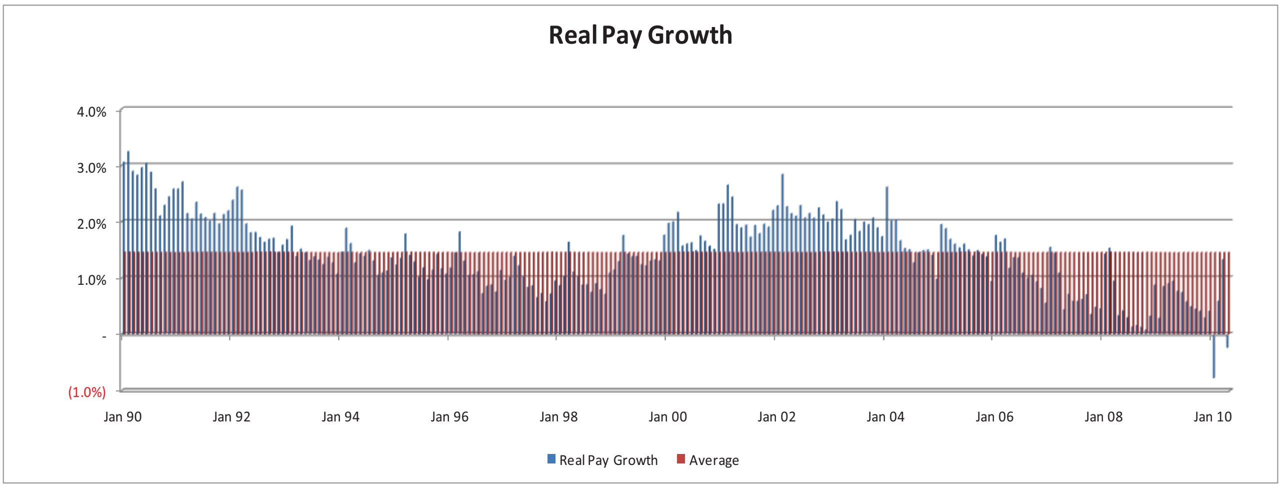
As we see RPI has indeed generally been higher the CPI and the average "gap" over the last 20 years has been around 0.5% per annum.

Thus, if this past trend continues then we would expect future pension increases to be 0.5% less than previously projected.

Pay Increases

Having determined our assumption about future levels of price inflation, the next stage is to assess future levels of pay increases relative to price inflation.

Historically there is, not surprisingly, a strong correlation between pay and price inflation as we see in the following charts.



The trend has been that real pay increases have been around 1% to 3% per annum although as overall levels of inflation have reduced so too has the level of real pay growth.

Investment Returns

In a market-related valuation it is necessary to assess future average levels of return in current market conditions.

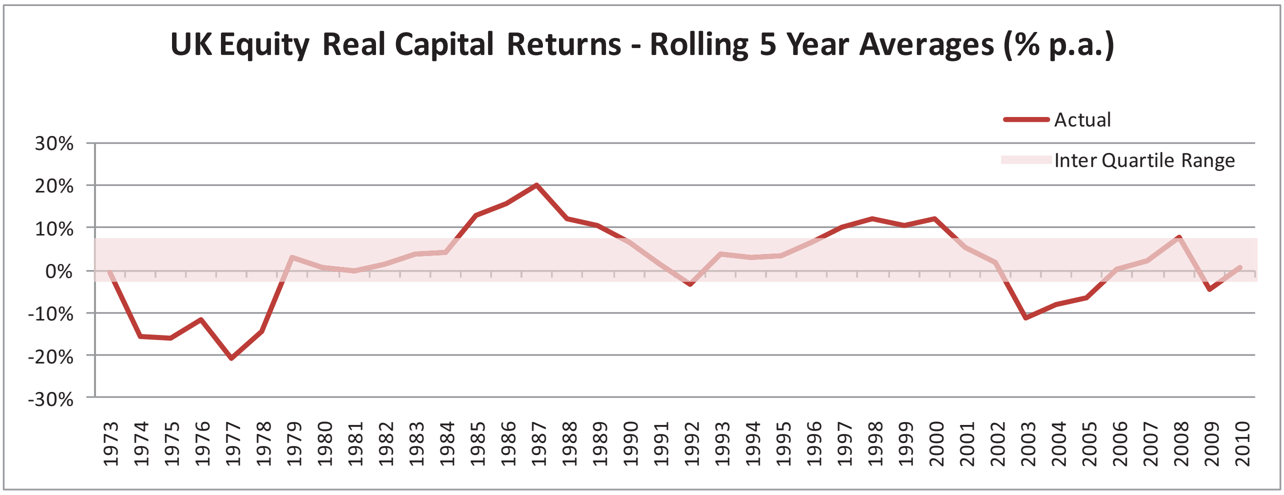
Redemption yields from gilts give an indication of the market's expectations of long term interest rates and so some indication about future risk free rates of return. There is however no comparable market indicator to derive the market's expected future return from investing in equities at any particular point in time.

It is generally accepted however that the expected future return from investing in equities should exceed that available from investing in gilts. This extra expected return is known as the equity risk premium. By comparing yields from gilts and equities it is possible to derive the equity risk premium.

The real return to be earned in future from equities from current market levels will be the current net dividend yield plus future real growth in share values.

The next chart shows the long term the capital return from UK equities in real terms over the last 35 years or so together with the "inter quartile range" – the range of observations that account for 50% of all observations around the median.

As we see the actual which has averaged out at around 2 per cent per annum although there have been prolonged periods when the real capital returns have been significantly different to this average.



For the purposes of the valuation therefore we have assumed that real capital returns will be 0.5% per annum.

The derivation of the equity risk premium and the assumption regarding future equity returns were therefore as follows:-

Smoothed Equity Returns	March 2010 % p.a.	March 2007 % p.a.
Equity Risk Premium		
Net equity yield	3.3%	2.8%
Inflation	3.5%	3.1%
plus assumed real capital return	0.5%	0.9%
Equity Return	7.3%	6.9%
Equity Risk Premium	2.8%	2.2%

It would also be possible to derive the expected future return from other asset classes such as property and alternative asset classes. Intuitively we might expect that returns from asset classes other than equities and gilts might be expected to return somewhere between gilts and equities – what we usually see from corporate bonds.

Accordingly we have assumed that the return from property will be the same as corporate bonds and that and other alternative asset classes is the same as the expected return from equities.

We then derive the discount rate as the weighted average of future expected returns from the various asset classes based on the actual investment strategy.

We then include a risk adjustment to the discount rate to reflect the amount of equity risk being taken relative to gilts. For a Fund with 75% or less exposure to equity type investments the risk adjustment is nil. For a Fund with 100% in equity type investments the reduction in discount rate is 50% of the extra return expected from a Fund invested 100% in equity type investments compared to one invested 75% in equity type investments.

Finally to accommodate any extreme market conditions at the valuation date the resulting real discount rate is constrained to 4%.

In summary therefore we have adopted the following assumptions.

Financial Assumptions	March 2010		March 2007	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	7.3%	3.8%		
Gilts	4.5%	1.0%		
Bonds & Property	5.6%	2.1%		
Risk Neutral Discount Rate	6.6%	3.1%		
Risk Adjusted Discount Rate	6.7%	3.2%	6.5%	3.3%
Pay Increases	5.0%	1.5%	4.7%	1.5%
Price Inflation	3.5%	-	3.2%	
Pension Increases	3.0%	(0.5%)	3.2%	

Statistical Assumptions

The statistical assumptions we have adopted are based on our analysis of the incidence of retirement, and withdrawal of our Local Authority client funds. The mortality assumptions are based on national mortality tables.

Sample rates are shown in the following tables: -

	Incidence per 1000 active members per annum								Salary Scales			
	Males				Females							
	Death	Ill Health		Withdrawal	Death	Ill Health		Withdrawal	Males		Females	
Age		FT	PT			FT	PT		FT	PT	FT	PT
20	0.5	0.3	0.0	0.0	400.0	0.1	0.0	0.1	400.0	100.0	100.0	100.0
25	0.4	0.2	0.0	0.1	360.0	0.1	0.1	0.2	360.0	122.8	100.0	114.2
30	0.3	0.2	0.1	0.2	264.0	0.2	0.2	0.5	264.0	145.5	100.0	125.8
35	0.5	0.3	0.1	0.4	184.0	0.3	0.3	0.8	184.0	166.3	100.0	133.6
40	0.9	0.5	0.3	0.8	108.0	0.3	0.4	1.1	108.0	183.1	100.0	136.6
45	1.3	0.7	0.4	1.3	48.0	0.4	0.6	1.7	48.0	194.4	100.0	136.6
50	2.5	1.3	0.8	2.4	-	0.7	1.1	3.3	-	198.8	100.0	136.6
55	4.3	2.2	1.8	5.3	-	1.1	2.1	6.3	-	198.8	100.0	136.6
60	6.9	3.5	3.7	11.1	-	1.6	4.2	12.7	-	198.8	100.0	136.6
64	11.1	5.6	6.6	19.7	-	2.0	5.8	17.3	-	198.8	100.0	136.6

Other assumptions			
Age Retirements	It is assumed that active members w ill retire at age 60 or w hen they w ould first satisfy the rule of 85 if later, no later than 65. We have also considered active mebers retiring a year later.		
Mortality	All	90% S1PA Heavy tables allow ing for medium cohort projection, w ith a minimum 1% improvement	
	Ill Health Retirement		As above but w ith 200% multiplier
Probability of partners pension coming into payment (including a loading for dependants benefits)			90%
Partner Age Difference	Males are assumed to be 3 years older than their partners		
Commutation	It is assumed that members at retirement w ill commute pension to provide a lump sum of 50% * (3/80ths lump sum + HMRC maximum lump sum) at a rate of £12 of lump sum for £1 of pension.		
Ill health tiers	It is assumed that 50% of ill health retirements w ill be eligible for benefits based on full prospective service and 50% w ill qualify for a service enhancement of 25% of prospective service.		

Appendix 5. Individual Employer Data as at 31 March 2010

Employer	Code	Active Members Number	Active Members Actual Pay £ 000's	Active Members Average £	Pensioners Number	Pensioners Annual Pensions £ 000's	Pensioners Average £	Deferred Pensioners Number	Deferred Pensioners Annual Pensions £ 000's	Deferred Pensioners Average £
London Borough of Hammersmith and Fulham	80	3,121	83,239	26,671	3,945	22,816	5,784	5,717	30,705	5,371
Mortlake Crematorium Board	81	11	207	18,843	5	31	6,288	4	7	1,630
Blythe Neighbourhood Council	82	-	-	-	2	2	846	1	4	3,748
Family Mosaic Housing	83	39	717	18,379	8	98	12,283	15	192	12,811
Hammersmith and Fulham Community Law Centre	84	3	115	38,333	2	12	6,123	10	144	14,428
Hammersmith and Fulham Police Consultative Group	85	-	-	-	1	13	12,577	-	0	1
ROOM the National Council	86	-	-	-	2	13	6,436	2	3	1,460
Peter Pan Trust	87	-	-	-	-	-	-	5	85	17,059
Urban Partnership Group	88	8	274	34,194	1	3	2,549	9	91	10,158
London Oratory School	89	27	655	24,247	-	-	-	16	56	3,522
Disabilities Trust	90	2	24	12,243	-	-	-	11	29	2,620
Medequip Assistive Technology Ltd	91	2	54	27,035	-	-	-	1	0	426
H&F Homes	92	297	9,423	31,727	66	717	10,857	84	932	11,099
Greenw ich Leisure Ltd	93	-	-	-	1	1	1,303	13	102	7,822
Glencross Cleaning Ltd	94	3	17	5,584	-	-	-	3	3	1,075
Inspace Partnerships Ltd - Fulham Repairs	95	8	166	20,777	7	43	6,090	10	157	15,657
Inspace Partnerships Ltd - Voids Repairs	96	5	139	27,788	2	9	4,647	5	54	10,741
Burlington Danes Academy	97	36	740	20,569	3	4	1,272	19	35	1,832
H & F Bridge Partnership	98	60	2,538	42,297	10	144	14,411	29	541	18,652
P H Jones Ltd	99	1	26	26,467	-	-	-	-	-	-
Status 8 - no liability	199	-	-	-	-	-	-	43	15	344
Unknow n employer	311	-	-	-	1	22	22,329	-	0	1
Irish Cultural Centre	830	1	22	22,187	-	-	-	1	16	16,449
Kier Support Services Ltd	831	22	668	30,384	1	21	20,921	1	12	11,981
Quadron Services Ltd	832	48	1,155	24,057	1	13	12,959	15	170	11,318
Serco	833	141	3,576	25,362	6	22	3,617	9	18	2,043
Tendis	834	3	104	34,730	-	-	-	1	-	-
Turners Cleaning	835	114	951	8,338	3	13	4,423	4	4	883
FM Conw ay	836	16	555	34,674	1	4	3,550	-	0	1
Family Mosaic - Supporting People contract	837	5	137	27,361	-	-	-	-	-	-
Receiving Unfunded pensions	838	-	-	-	162	416	2,570	-	0	162
Receiving Teachers' pensions	839	-	-	-	37	136	3,674	-	0	37
Kier - Non Responsive Repairs contract	840	1	27	26,742	-	-	-	-	-	-
Thames Reach	841	1	30	29,570	-	-	-	-	-	-
Eden Food Services	842	139	1,716	12,347	2	1	704	4	8	1,933
Financial Data Management Ltd	843	2	73	36,331	-	-	-	-	-	-
EC Harris LLP	844	7	307	43,892	-	-	-	-	-	-
Crime Reduction Initiatives (CRI)	845	2	48	23,960	-	-	-	-	-	-
Total		4,125	107,703	26,110	4,269	24,554	5,752	6,032	33,383	5,534

Appendix 6. Employer Intervaluation Experience

Employer	Code	Ill Health Retirements Actual	Expected	Act/Exp	Early Leavers Actual	Expected	Act/Exp	Salary Increas Act/Exp
London Borough of Hammersmith and Fulham	80	10	24	41%	1,414	858	165%	99%
Mortlake Crematorium Board	81	1	0	351%	-	1	-	98%
Blythe Neighbourhood Council	82	-	-	-	-	-	-	-
Family Mosaic Housing	83	-	0	-	8	8	105%	99%
Hammersmith and Fulham Community Law Centre	84	-	0	-	1	1	153%	98%
Hammersmith and Fulham Police Consultative Group	85	-	-	-	-	-	-	-
ROOM the National Council	86	-	-	-	-	-	-	-
Peter Pan Trust	87	-	-	-	-	-	-	-
Urban Partnership Group	88	-	0	-	3	2	184%	99%
London Oratory School	89	-	0	-	12	5	253%	99%
Disabilities Trust	90	-	0	-	-	1	-	99%
Medequip Assistive Technology Ltd	91	-	0	-	-	0	-	115%
H&F Homes	92	1	3	31%	65	49	134%	98%
Greenw ich Leisure Ltd	93	-	0	-	1	0	1540%	-
Glencross Cleaning Ltd	94	-	0	-	1	0	316%	95%
Inspace Partnerships Ltd - Fulham Repairs	95	-	0	-	5	1	429%	92%
Inspace Partnerships Ltd - Voids Repairs	96	-	0	-	2	0	509%	97%
Burlington Danes Academy	97	-	0	-	34	6	603%	100%
H & F Bridge Partnership	98	-	0	-	27	16	169%	98%
P H Jones Ltd	99	-	0	-	-	0	-	95%
Status 8 - no liability	199	-	-	-	-	-	-	-
Unknow n employer	311	-	-	-	1	-	-	-
Irish Cultural Centre	830	-	0	-	1	0	397%	-
Kier Support Services Ltd	831	-	0	-	2	2	95%	96%
Quadron Services Ltd	832	-	1	-	9	3	297%	100%
Serco	833	-	1	-	11	24	46%	100%
Tendis	834	-	0	-	1	1	111%	97%
Turners Cleaning	835	-	1	-	5	18	28%	100%
FM Conw ay	836	-	0	-	-	2	-	100%
Family Mosaic - Supporting People contract	837	-	0	-	-	1	-	97%
Receiving Unfunded pensions	838	-	-	-	-	-	-	-
Receiving Teachers' pensions	839	-	-	-	-	-	-	-
Kier - Non Responsive Repairs contract	840	-	0	-	-	0	-	-
Thames Reach	841	-	0	-	-	0	-	-
Eden Food Services	842	-	1	-	5	25	20%	104%
Financial Data Management Ltd	843	-	0	-	-	0	-	95%
EC Harris LLP	844	-	0	-	1	(0)	-1544%	96%
Crime Reduction Initiatives (CRI)	845	-	0	-	-	0	-	100%
Total		**12**	**35**	**35%**	**1,609**	**1,023**	**157%**	99%

Appendix 7. Employer Results

Code	Employer	Future Service Rate	Recovery Period	Deficit recovery	Contribution rate	Rate 2010/11	Proposed Certified Rates % payroll			Certified Rates Monetary £		
							2011/12	2011/12	2011/12	2011/12	2011/12	2011/12
80	London Borough of Hammersmith and Fulham	13.4%	25 years	11.3%	24.7%	24.7%	24.7%	24.7%	24.7%	9,395,000	9,395,000	9,395,000
81	Mortlake Crematorium Board	16.9%	25 years	7.1%	24.0%	27.0%	24.0%	24.0%	24.0%	14,700	14,700	14,700
82	Blythe Neighbourhood Council	13.8%	25 years	11.8%	25.6%	25.6%	25.6%	25.6%	25.6%	32,300	32,300	32,300
83	Family Mosaic Housing	15.2%	25 years	3.8%	19.0%	24.4%	19.0%	19.0%	19.0%	27,250	27,250	27,250
84	Hammersmith and Fulham Community Law	15.5%	25 years	3.5%	19.0%	25.6%	19.0%	19.0%	19.0%	4,000	4,000	4,000
88	Urban Partnership Group	13.8%	25 years	11.8%	25.6%	25.6%	25.6%	25.6%	25.6%	32,300	32,300	32,300
89	London Oratory School	14.3%	25 years	0.7%	15.0%	15.0%	15.0%	15.0%	15.0%	4,600	4,600	4,600
90	Disabilities Trust	15.1%	7 years	3.9%	19.0%	19.0%	19.0%	19.0%	19.0%	950	950	950
91	Medequip Assistive Technology Ltd	17.3%	1 years	1.7%	19.0%	0.0%	19.0%	19.0%	19.0%	900	900	900
92	H&F Homes	14.2%	25 years	0.8%	15.0%	15.0%	15.0%	15.0%	15.0%	75,000	75,000	75,000
93	Greenwich Leisure Ltd	15.0%	10 years		15.0%	14.2%	15.0%	15.0%	15.0%	-	-	-
94	Glencross Cleaning Ltd	18.9%	2 years	4.6%	23.5%	0.0%	23.5%	23.5%	23.5%	750	750	750
95	Inspace Partnerships Ltd - Fulham Repairs	15.9%	2 years	4.9%	20.8%	0.0%	20.8%	20.8%	20.8%	8,150	8,150	8,150
96	Inspace Partnerships Ltd - Voids Repairs	17.3%	2 years	3.1%	20.4%	0.0%	20.4%	20.4%	20.4%	4,300	4,300	4,300
97	Burlington Danes Academy	13.9%	25 years	0.1%	14.0%	14.0%	14.0%	14.0%	14.0%	750	750	750
98	H & F Bridge Partnership	12.6%	8 years	4.5%	17.1%	17.1%	17.1%	17.1%	17.1%	115,000	115,000	115,000

New Employers

Code	Employer	Future Service Rate	Recovery Period	Deficit recovery	Contribution rate	Rate 2010/11	Proposed Certified Rates % payroll			Certified Rates Monetary £		
							2011/12	2011/12	2011/12	2011/12	2011/12	2011/12
99	P H Jones Ltd	17.2%	5 years	3.5%	20.7%	20.7%	20.7%	20.7%	20.7%	950	950	950
830	Irish Cultural Centre	12.2%	25 years	9.1%	21.3%	28.5%	28.5%	28.5%	28.5%	3,600	3,600	3,600
831	Kier Support Services Ltd	14.6%	5 years	6.9%	21.5%	21.5%	21.5%	21.5%	21.5%	46,050	46,100	46,100
832	Quadron Services Ltd	16.6%	7 years	5.7%	22.3%	22.3%	22.3%	22.3%	22.3%	65,000	65,000	65,000
833	Serco	13.8%	7 years	5.2%	19.0%	22.0%	19.0%	19.0%	19.0%	185,000	185,000	185,000
834	Tendis	11.0%	25 years	10.3%	21.3%	24.9%	21.3%	21.3%	21.3%	10,750	10,750	10,750
835	Turners Cleaning	16.0%	3 years	3.0%	19.0%	18.3%	18.5%	18.8%	19.0%	23,900	26,200	28,500
836	FM Conway	15.8%	5 years	4.1%	19.9%	19.2%	19.4%	19.7%	19.9%	20,100	21,400	22,750
837	Family Mosaic - Supporting People contract	13.3%	3 years	1.8%	15.1%	14.9%	15.1%	15.1%	15.1%	2,450	2,450	2,450
840	Kier - Non Responsive Repairs contract	8.7%	3 years	5.2%	13.9%	13.9%	13.9%	13.9%	13.9%	1,400	1,400	1,400
841	Thames Reach	16.2%	3 years	4.5%	20.7%	20.7%	20.7%	20.7%	20.7%	1,350	1,350	1,350
842	Eden Food Services	16.0%	3 years	2.9%	18.9%	18.4%	18.6%	18.7%	18.9%	45,000	45,000	50,000
843	Financial Data Management Ltd	11.9%	3 years	4.8%	16.7%	14.2%	15.0%	15.9%	16.7%	2,300	2,900	3,500
844	EC Harris LLP	14.6%	25 years	2.7%	17.3%	17.3%	17.3%	17.3%	17.3%	8,300	8,300	8,300
845	Crime Reduction Initiatives (CRI)	14.5%	25 years	2.2%	16.7%	16.7%	16.7%	16.7%	16.7%	1,050	1,050	1,050

Appendix 8. LGPS Benefits

LGPS Benefits	
General Features	
Type of Scheme	Final salary
Relationship with S2P	Contracted-out
Member Contributions	Banded Contributions based on full time pay as at 1st April

Range	Cont Rate
£0 - £12,000	5.50%
£12,001 - £14,000	5.80%
£14,001 - £18,000	5.90%
£18,001 - £30,000	6.50%
£30,001 - £40,000	6.80%
£40,001 - £75,000	7.20%
£75,000 and above	7.50%

	Bands to be increased annually in line with the Pension (Increase) Act 1971.
	Transitional protection for manual and craft workers (old 5% members) until 01/04/2011.
Benefit Accrual	Pension = 1/60th
	Lump Sum = By commutation 12:1 up to a maximum of 25% of lifetime allowance
	Spouse's Pension = 1/160th
Final Pay	Best of last 3 years pensionable pay.
Pensionable Pay	Normal salary plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified as being pensionable.
Retirement Benefits	
Normal Retiring Age	Age 65
Early Retirement	From age 55 (employer consent required if below age 60)

LGPS Benefits	
Flexible Retirement	From age 55 (employer consent required) - Reduce hours or move to a lower graded post - Draw pension and salary - Employers discretion to waive any actuarial reduction
Late Retirement	Continue to day before eve of 75th birthday Benefits accrue to date of retirement
Ill Health Retirement	From any age Based on an opinion from an independent specially qualified doctor, must be satisfied that the member is permanently unable to do their own job and that they have a reduced likelihood of being capable of obtaining gainful employment after they leave. **Tier 1** – no reasonable prospect of being capable of obtaining gainful employment before age 65, membership enhanced by 100% of prospective service to age 65. **Tier 2** – unlikely to be capable of obtaining gainful employment within 3 years of leaving, but maybe capable of doing so before age 65, membership enhanced by 25% of prospective service to age 65. **Tier 3** – likely to be capable of obtaining gainful employment within 3 years of leaving, benefits are based on membership at date of leaving. Payment will be stopped after 3 years, or earlier, if member is in gainful employment or becomes capable of undertaking such employment.

Death and Survivor Benefits	
Lump Sum Death Benefit	Active = 3 x Final Pay Deferred = 5 x Current value of deferred annual pension Pensioner = 10 year guarantee less pension paid (for death before age 75)
Dependants' Provision	Widow(er)s Registered civil partners Nominated cohabiting partners
Dependants' Pension (Death in Service)	1/160th x full prospective service to age 65 x Final Pay

LGPS Benefits	
Children's Pensions	**Surviving Parent** 1 child = 1/320th x full prospective service to age 65 x Final Pay 2+ children = 1/160th x full prospective service to age 65 x Final Pay (divided by number of children) **No Surviving Parent** 1 child = 1/240th x full prospective service to age 65 x Final Pay 2+ children = 1/120th x full prospective service to age 65 x Final Pay (divided by number of children)
Increasing Benefits	
In-House AVCs	Maximum contributions – 50% of taxable earnings Options available: - Open market annuity - LGPS Top Up Pension - Tax Free Lump Sum (100% of fund up to max of 25% of Lifetime Allowance) - LGPS Service Credit (if commenced AVCs prior to 13/11/2001)
Additional Regular Contributions (ARCs)	Maximum purchase £5,000 extra pension (in multiples of £250).
Leaving the Scheme	
Options	**Less than 3 months membership and no transfer in** - Refund of contributions - Transfer to a new pension arrangement - Defer decision **More than 3 months membership or transfer in** - Transfer to a new pension arrangement - Defer Benefits until NRA

LGPS Benefits	
Members who joined the LGPS before 1 April 2008	
Benefits	Membership built up to 31 March 2008, member will receive a pension based on 1/80th x membership x Final Pay plus an automatic lump sum of 3 times their pension.
Early Payment - Reduction to Benefits (Rule of 85)	For members of the LGPS on 30 September 2006, some or all of their benefits paid early could be protected from reduction under what is called the Rule of 85.
	The Rule of 85 is satisfied if their age at the date they draw their benefits plus their scheme membership (each in whole years) add up to 85 or more.
	If they **could not satisfy the Rule of 85 by the time they are 65**, then all of their benefits are reduced, if they choose to retire before age 65.
	If they **will be age 60 or over by 31 March 2016** and choose to retire before age 65, then **provided they satisfy the Rule of 85 when they start to draw their pension**, the benefits they build up to 31 March 2016 will not be reduced.
	If they **will be under age 60 by 31 March 2016** and choose to retire before age 65, then **provided they satisfy the Rule of 85 when they start to draw their pension**, the benefits they have built up to 31 March 2008 will not be reduced. Also, if they will be aged 60 between 1 April 2016 and 31 March 2020 and meet the Rule of 85 by 31 March 2020, some or all of the benefits that they have built up between 1 April 2008 and 31 March 2020 will not have a full reduction.

Agenda Item 5

AUDIT AND PENSIONS COMMITTEE

17th February 2011

CONTRIBUTORS	FUNDING STRATEGY STATEMENT	WARDS
DF	This report seeks approval of the Funding Strategy Statement, prior to consultation with all participating employers in the Fund. The Statement has been revised to take account of the actuarial valuation as at 31st March 2010	**All**

RECOMMENDATION:

1. To agree the Funding Strategy Statement, prior to consultation with all participating employers in the Fund.

2. To delegate the finalisation of the Statement to the Director of Finance and Corporate Services.

1. INTRODUCTION

1.1 Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations) and Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to prepare, maintain and publish a Funding Strategy Statement. The Statement describes the London Borough of Hammersmith & Fulham's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Hammersmith & Fulham Pension Fund (the Fund).

1.2 As required by Regulation 76A(2)(a) the Statement has been prepared having regard to guidance published by CIPFA in March 2004 and in accordance with Regulation 76A(1), all employers participating within the London Borough of Hammersmith & Fulham Pension Fund will be consulted on the contents of this Statement and their views will be taken into account in finalising the Statement.

1.3 The regulations require authorities to review and revise the Statement on a regular basis particularly following any material change in the Council's policy. The Statement which has been prepared in conjunction with Barnett Waddingham, the Fund's actuary, has been revised now as the last stage of the actuarial valuation process and includes the assumptions made by the actuary at the 31st March 2010 actuarial valuation. This is in accordance with Regulation 36(6)(c) of the Local Government Pension Scheme (Administration) Regulations 2008 which states that the actuary at the actuarial valuation must have regard to the current version of the Administering authority's Funding Strategy Statement mentioned in Regulation 35. Minor amendments have also been made to update the Statement.

2. RECOMMENDATION

2.1 Approval of the statement is now recommended prior to consultation with all participating employers in the Fund and delegated authority is recommended to be given to the Director of Finance and Corporate Services to finalise and publish the statement following such consultation. The statement will be published on the Council's website and included in the Pension Fund Annual Report.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1	Funding Strategy Statement File	P. Gough Extension 2542	Room 42, Town Hall

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations) and Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes the London Borough of Hammersmith & Fulham's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Hammersmith & Fulham Pension Fund (the Fund).

As required by Regulation 76A(2)(a) the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 76A(1), all employers participating within the London Borough of Hammersmith & Fulham Pension Fund will be consulted on the contents of this Statement and their views will be taken into account in finalising the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, as required by Regulation 76A(2)(b), the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

The Fund Actuary, Barnett Waddingham has been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employers' pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. <u>To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the scheduled bodies, admission bodies and to the taxpayers.</u>

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency,

- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see below)

Producing low volatility in employer contribution rates can require material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt-edged investments.

Other classes of assets, such as equities, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short-term periods.

This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation within the valuation funding model.

The Administering Authority recognises that there is a balance to be struck between the investment objectives adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. <u>To ensure that sufficient resources are available to meet all liabilities as they fall due</u>.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of selling assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. <u>To manage employers' liabilities effectively.</u>

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Audit and Pensions Committee members are properly informed, and through regular monitoring of the funding position.

4. <u>To maximise the income from investments within reasonable risk parameters.</u>

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investing a substantial proportion of the Fund's investments in other asset classes such as equities. The Administering Authority ensures that risk parameters are reasonable by:

- Restricting investment to the levels permitted by the Investment Regulations.
- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- Analysing the potential risk represented by those asset classes in collaboration with the Fund Actuary, Investment Advisor and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out all scheme benefits, transfer values, costs, charges and expenses.
2. To receive contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

   Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19^{th} of the month following the month that it is paid by the member. If contributions are not paid on time, the Administering Authority will notify the employer that the requirements of the Pensions Act 1995 have been breached and that unless the employer pays all of the overdue contributions without any further delay, they may be reported to the Pensions Regulator.

   The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

   - Requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
   - Notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

2. Invest surplus monies in accordance with the regulations.

   The Administering Authority will comply with Regulation 11 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund Actuary.

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitoring all aspects of the Fund's performance and funding.

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the Fund Actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the Administering Authority promptly of all changes to membership, or other changes, which affect future funding.

The Fund Actuary

It is the responsibility of the Fund Actuary to:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board for Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and

individual benefit-related matters.

Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions. 'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available from the investments held by the Fund. The Administering Authority has also agreed with the Fund Actuary that these assumptions make allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement, if appropriate.

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved, due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a period of no longer than 25 years. The Administering Authority's policy is to agree recovery periods with each employer, which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation other than in exceptional circumstances when it may permit recovery over a period not exceeding 10 years, subject to security, e.g. an indemnity or bond or other contingent asset, of amount and form acceptable to the Administering Authority, being maintained.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

<u>Demographic</u>

The main risks include changing retirement patterns (such as early retirements), take up of the commutation option and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admission Bodies.

<u>Regulatory</u>

The risks relate to changes to regulations, National pension requirements or HMRC rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items as the performances of markets, movement in market yields, fund investment managers, asset reallocation in volatile markets, pay and/or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to ask the actuary to monitor such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to ask the actuary to monitor the underlying position to ensure that the funding target remains realistic relative to the low risk position.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, up to six annual steps.

Links to investment policy set out in the Statement of Investment Principles

The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment objective set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts and fixed interest gilts.

However, the Fund's asset allocation as set out in the Statement of Investment Principles invests in a broad range of asset classes which are expected but not guaranteed to produce higher returns than index-linked and fixed interest gilts and above the investment objective of the Fund over the long term albeit with greater volatility.

The Administering Authority has agreed with the Fund Actuary that the funding target on the ongoing basis will be set after making some allowance for this higher expected return. However the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

Consistent with the aim of enabling employer contribution rates to be kept as stable as possible, the Administering Authority has agreed with the Fund Actuary the use of a market related funding model which uses smoothed yields and asset values.

To meet the funding plan for the Fund and to bring the funding level back to 100% an investment return as shown in the 2010 valuation report by the Fund Actuary is required over the next 25 years, the recovery period, in addition to the employers and employees contributions. This required investment return is the weighted average of future expected returns from the various asset classes based on the actual asset allocation of the Fund.

The Fund Actuary has derived the following key long term financial assumptions for the main asset classes held by the fund at the 31 March 2010 actuarial valuation.

Financial Assumptions	March 2010 % p.a.
Investment Return	
Equities/absolute return funds	7.3%
Gilts	4.5%
Bonds	5.6%

The Fund actuary takes a weighted average of the above assumptions to derive the discount rate used to place a current value of the liabilities at the valuation date. The weighting is the weight in each of the asset classes.

This results in the following discount rate which has been shown alongside the Fund actuary's long term assumption for pension increases, inflation and salary increases. These are the key financial assumptions used to place a current value on the liabilities, or pension promises as made by the fund.

Financial Assumptions	March 2010 % p.a.
Discount rate	6.7%
Pay Increases	5.0%
Price Inflation	3.5%
Pension Increases	3.0%

Some short term adjustments have also been allowed for as described in the 31 March 2010 actuarial valuation.

The asset allocation of the Fund consists of four 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 25% of the total Fund. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

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

In addition, £15 million is committed to private equity, through an investment of £7.5million with each of two fund of funds managers.

Future monitoring

The Administering Authority plans to review this Statement as part of each triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that requires action.

AUDIT AND PENSIONS COMMITTEE

17th February 2011

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 December 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 4 2010

January 2011

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

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 Peformance by Manager as at 31st December 2010

Fund / Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	3 year return (%)
Total Fund	**582,668**	**100.0**	**100.0**	**6.2**	**11.4**	**6.5**
Liability Benchmark + 1.75% p.a.				*1.6*	*11.9*	*(0.3)*
Difference				*4.6*	*(0.5)*	*6.8*
UK Equities	**154,028**	**26.4**	**25.0**			
Majedie				7.3	12.0	5.6
FTSE All Share + 2% p.a.				*7.9*	*16.8*	*3.5*
Difference				*(0.6)*	*(4.8)*	*2.1*
Overseas Equities	**157,600**	**27.0**	**25.0**			
MFS				11.2	17.1	9.3
FTSE World ex UK + 2% p.a.				*9.6*	*18.0*	*6.5*
Difference				*1.6*	*(0.9)*	*2.8*
Dynamic Asset Allocation Mandates	**146,636**	**25.2**	**25.0**	**3.9**	**12.1**	-
Barings (note 2)	108,658	18.6	18.8	3.9	10.4	-
3 month Sterling LIBOR + 4% p.a.				*1.2*	*4.7*	-
Difference				*2.7*	*5.7*	-
Ruffer (note 2)	37,978	6.5	6.2	*4.1*	*17.2*	-
3 month Sterling LIBOR + 4% p.a.				*1.2*	*4.7*	-
Difference				*2.9*	*12.5*	-
Matching Fund	**124,404**	**21.4**	**25.0**	**1.8**	**3.4**	-
Liability Benchmark + 1% p.a.				*1.4*	*11.1*	-
Difference				*0.4*	*(7.7)*	-
Goldman Sachs	59,157	10.2	12.5	1.1	2.9	(0.3)
3 month Sterling LIBOR + 2% p.a.				*0.7*	*2.7*	*(2.4)*
Difference				*0.4*	*0.2*	*2.1*
Legal & General (note 3)	65,247	11.2	12.5	2.3	3.8	2.8
2 x FTSE + 15yr IL Gilts - LIBOR p.a.				*2.4*	*13.3*	*(0.4)*
Difference				*(0.1)*	*(9.5)*	*3.2*

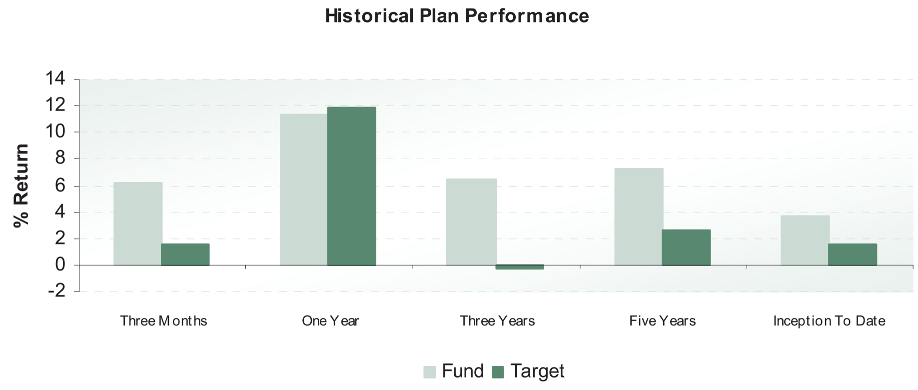
Notes:

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

Asset Reconciliation and Valuation

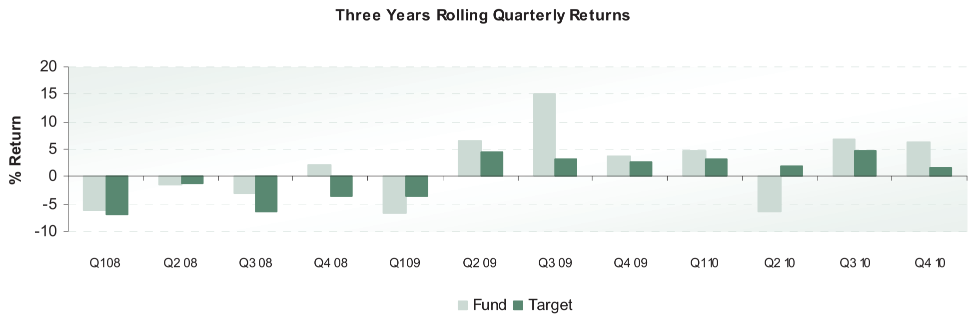
Fund	Manager	Closing Market Value as at 30th September 2010 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Closing Market Value as at 31st December 2010 £000	% of Total Fund	Target % of Total Fund
Total Fund		**547,987**	**100.0**	**657**	**33,388**	**636**	**582,668**	**100.0**	**100.0**
UK Equities	**Majedie**	**143,560**	**26.2**	**0**	**9,735**	**733**	**154,028**	**26.4**	**25.0**
Overseas Equities	**MFS**	**141,783**	**25.9**	**(49)**	**15,411**	**456**	**157,600**	**27.0**	**25.0**
Dynamic Asset Allocation Mandates		**140,380**	**25.6**	**707**	**6,104**	**(555)**	**146,636**	**25.2**	**25.0**
	Barings	104,629	19.1	(25)	4,003	51	108,658	18.6	18.75
	Ruffer	35,751	6.5	732	2,101	(605)	37,978	6.5	6.25
Matching Fund		**122,265**	**22.3**	**0**	**2,138**	**1**	**124,404**	**21.4**	**25.0**
	Goldman Sachs	58,512	10.7	0	645	0	59,157	10.2	12.5
	Legal & General	63,753	11.6	0	1,493	1	65,247	11.2	12.5

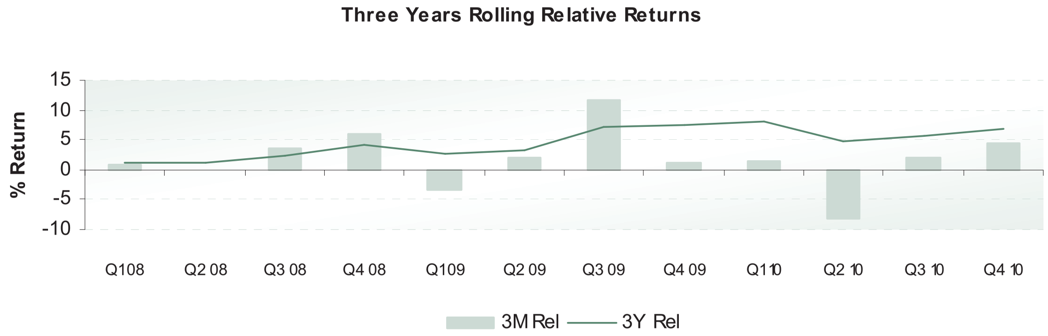
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.



The Scheme outperformed its liability benchmark over the quarter, returning 6.2% compared to the target of 1.6%. The outperformance was driven, in the main, by strong equity returns and the performance of the DAA group which outperformed its cash based target. Majedie underperformed its target over the quarter and year, although they posted strong positive returns (in absolute terms) over the quarter. The Scheme's performance of 11.4% over the year was just below it's target by 0.5%, as it was affected by the poor equity markets in the second quarter of 2010. Overall the Scheme has performed well on a 3 and 5 year basis.

	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	6.20	11.35	6.51	7.30	3.71
Target	1.57	11.93	-0.30	2.63	1.51



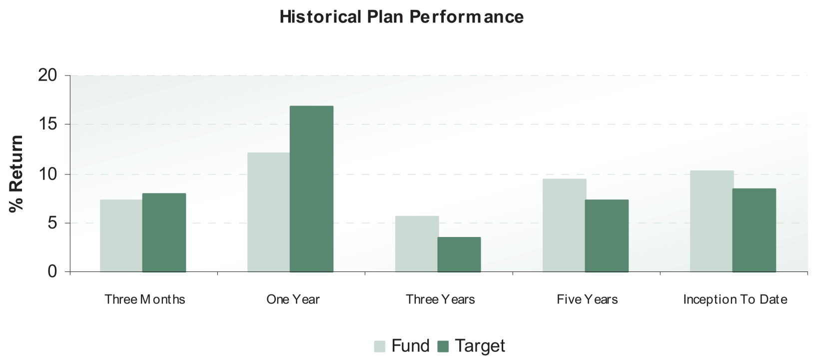


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-6.13	-1.39	-3.11	2.03	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87	6.20
Target	-6.85	-1.23	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	0.78	-0.16	3.45	5.85	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56
3Y Rel	1.08	1.03	2.21	4.13	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83

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

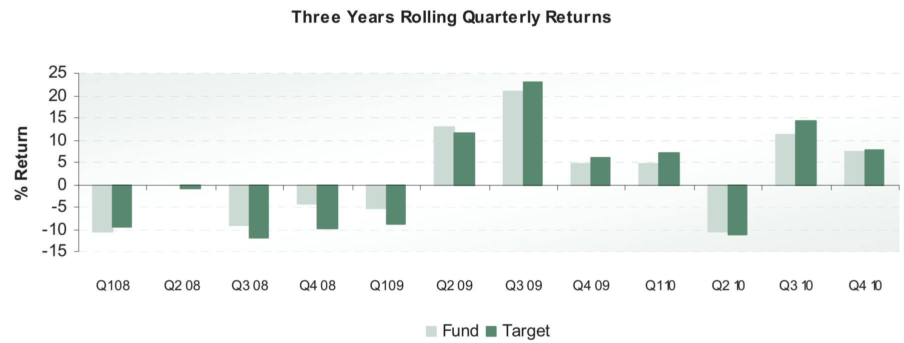
Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.



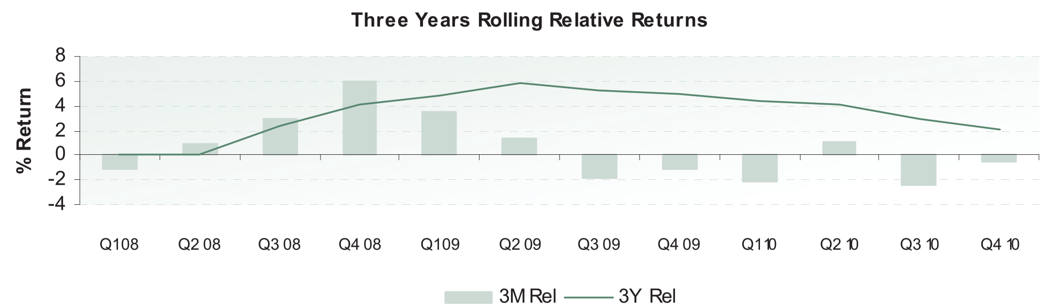
	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	7.29	12.03	5.64	9.34	10.26
Target	7.90	16.78	3.46	7.21	8.40

Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 7.3% over the quarter, 0.6% behind its target. Over 12 months, the portfolio was 4.8% below its target. The relative underperformance over the quarter can mainly be attributed to the portfolio's under-representation in the Mining sector, including stocks such as Rio Tinto and BHP Billiton. However, Majedie's negative stance on the Banking sector was a positive contributor. Low exposure to Lloyds Banking Group and Barclays which yielded negative returns over the quarter boosted performance relative to the benchmark. Holdings in BP and a cautious approach towards the mining sector contributed to the 12 month underperformance.
Process	No significant changes over the quarter.



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-10.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73	-10.47	11.36	7.29
Target	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35	14.17	7.90

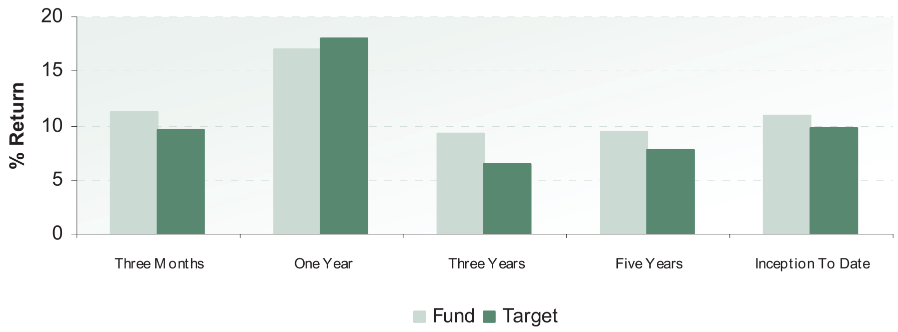


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-1.05	0.96	2.96	5.94	3.46	1.38	-1.81	-1.12	-2.06	0.99	-2.46	-0.57
3Y Rel	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35	4.11	2.93	2.11

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

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

Historical Plan Performance

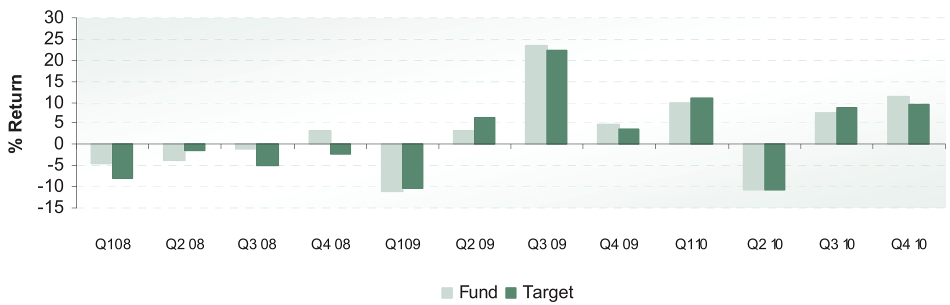


	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	11.19	17.08	9.28	9.41	10.94
Target	9.57	17.98	6.52	7.83	9.75

Quarterly Manager update

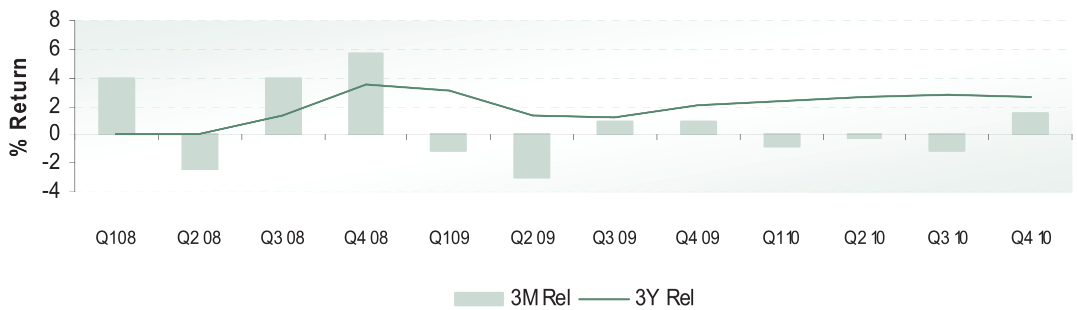
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 11.2% over the quarter, 1.6% above its target. Over 12 months, the fund was 0.9% behind its target. The portfolio's strong performance over the quarter can be attributed to stock selection in energy, special products and services, and the underweight position in utilities and communications. Holdings in Taiwan Semicoductor, Linde, Julius Baer, Monsanto, Acer, State Street, Danaher added to the strong performance. The portfolio's underweight position in autos and housing, overweight position in consumer staples and stock selection in basic materials, together with holdings in Cisco Systems, Credit Suisse and Banco Santander (Brasil) and Visa all detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-4.44	-3.72	-1.02	3.29	-11.21	3.23	23.43	4.74	9.83	-10.85	7.54	11.19
Target	-8.05	-1.27	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80	-10.65	8.77	9.57

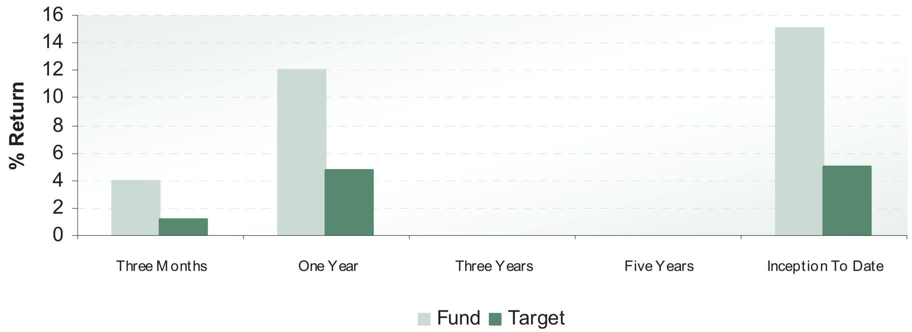
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	3.92	-2.48	3.93	5.64	-1.07	-3.02	0.92	0.98	-0.87	-0.22	-1.13	1.48
3Y Rel	-	-	1.32	3.50	3.02	1.32	1.21	2.11	2.39	2.71	2.76	2.59

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

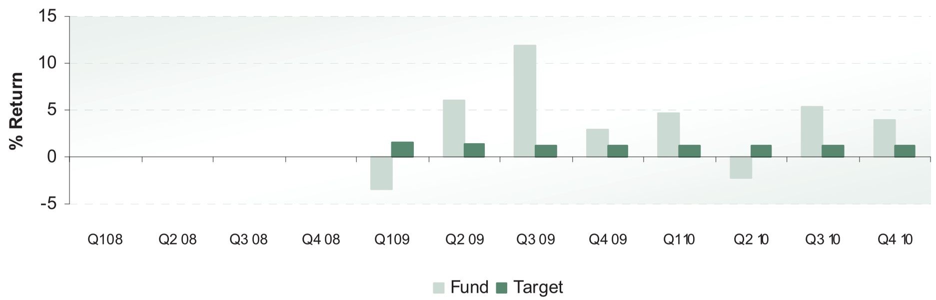
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	3.94	12.09	-	-	15.04
Target	1.17	4.73	-	-	4.99

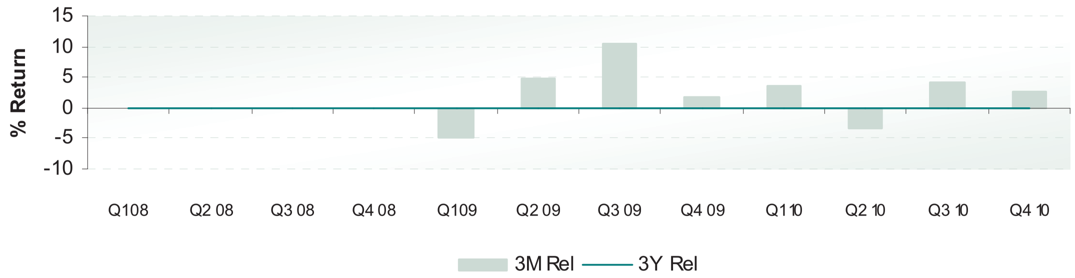
The group has returned 3.9% over the quarter compared to its LIBOR-based target of 1.2%, due to strong performances from both Ruffer and Barings. The performance was again aided by strong equity returns over the quarter. Over the past 12 months, performance has been 7.4% above target, as both managers (particularly Ruffer) have significantly outperformed the target.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	-	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32	3.94
Target	-	-	-	-	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

Three Years Rolling Relative Returns

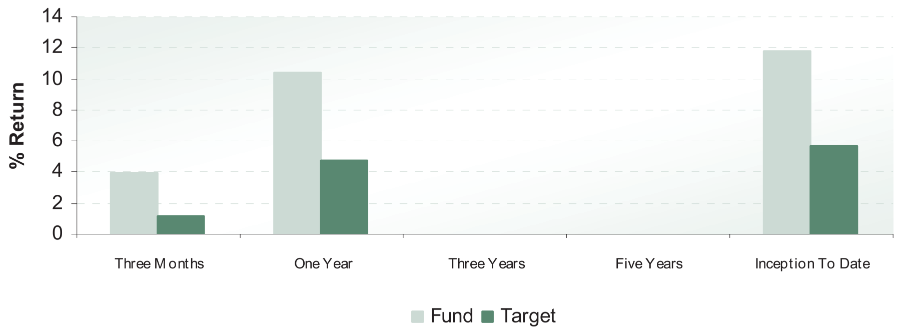


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10	2.74
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

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

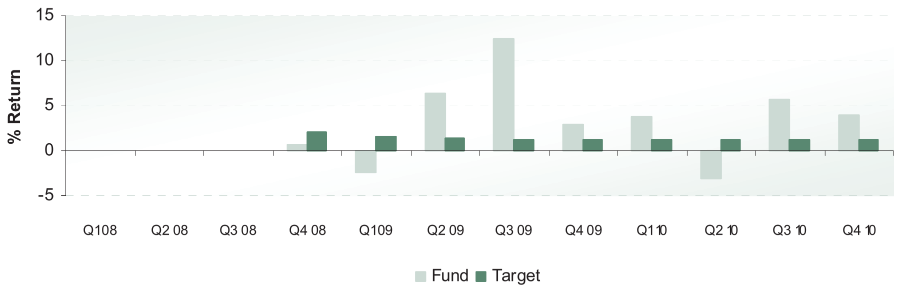


	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	3.88	10.42	-	-	11.85
Target	1.17	4.73	-	-	5.67

Quarterly Manager update

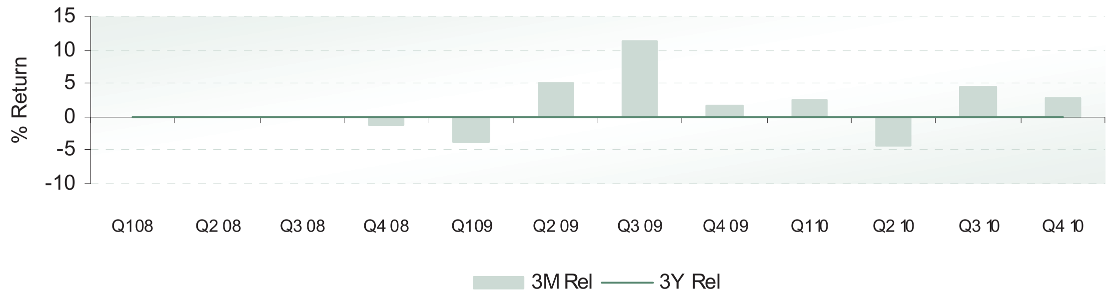
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 3.9% over the quarter, 2.7% ahead of its target. Over 12 months, the fund is 5.7% ahead of target. The largest positive contribution came from equities, with the portfolio benefitting from a skew towards large multinational companies and agriculture, and good stock selection among financials and in Europe. Positive contributions also came from the underweight holding in pharmaceuticals and the holding in specialist equities, which mainly represents gold bullion. However, some of these positive returns were eroded by the poor performance of corporate bonds over the quarter which cost 30 basis points, and the decision to hedge Australian bond holdings back to Sterling to control volatility cost the fund 60 basis points.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	0.67	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73	3.88
Target	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

Three Years Rolling Relative Returns

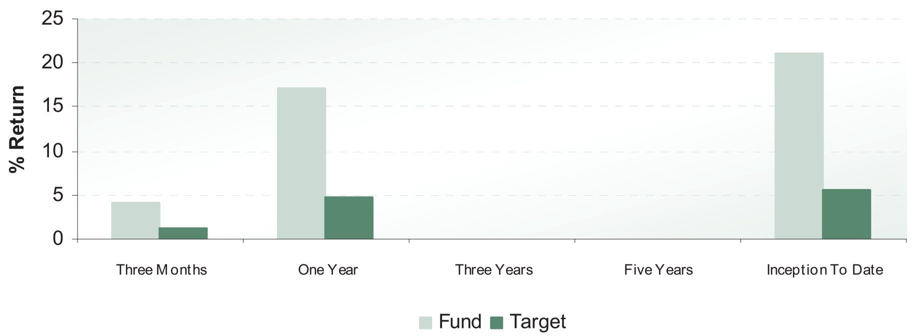


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-1.32	-3.86	5.02	11.18	1.78	2.59	-4.23	4.51	2.68
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

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.

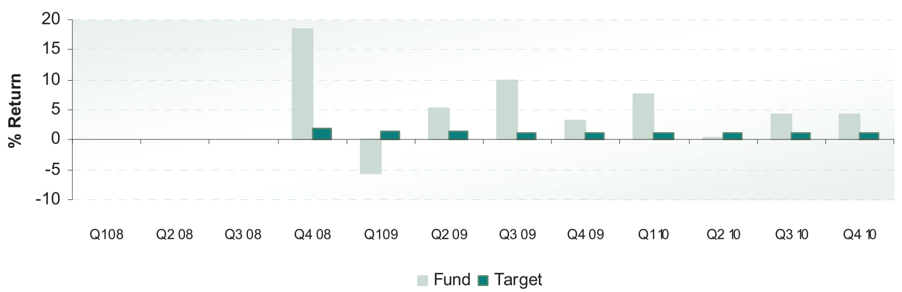
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	4.11	17.17	-	-	21.02
Target	1.17	4.73	-	-	5.67

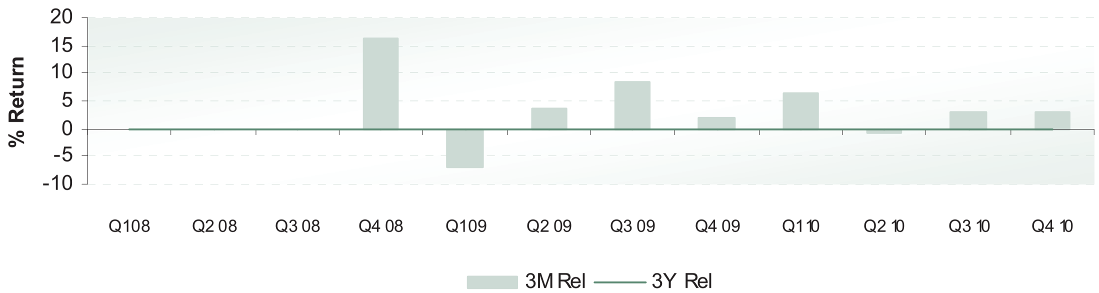
Quarterly Manager update	
Organisation	Sir David Clementi, formerly the Prudential chairman and deputy-governor of the Bank of England, joined Ruffer as its new deputy chairman. Robin Hindle Fisher, who was a partner at corporate-governance activist firm Governance for Owners, has also joined the company's management board. The appointments were made ahead of the retirement of Ruffer's chairman, Ian Hay Davison, who is stepping down in March. He will be succeeded by Jonathan Ruffer, the firm's founder and chief executive. The current chief investment officer, Henry Maxey, will step into Ruffer's shoes as chief executive.
Product	No significant changes over the quarter.
Performance	The fund performance was 4.1% over the quarter, 2.9% ahead of its target. Over 12 months, the fund was 12.5% ahead of target. The portfolio's holdings of gold, Japanese equities and German property stocks performed strongly over the quarter while BP and Texas Instruments stocks aided performance. However, the decision to hedge the Yen currency risk away from the portfolio, together with the portfolio's equity put protection and index linked bond holding detracted from the positive performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	18.47	-5.49	5.17	9.81	3.12	7.64	0.41	4.13	4.11
Target	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

Three Years Rolling Relative Returns

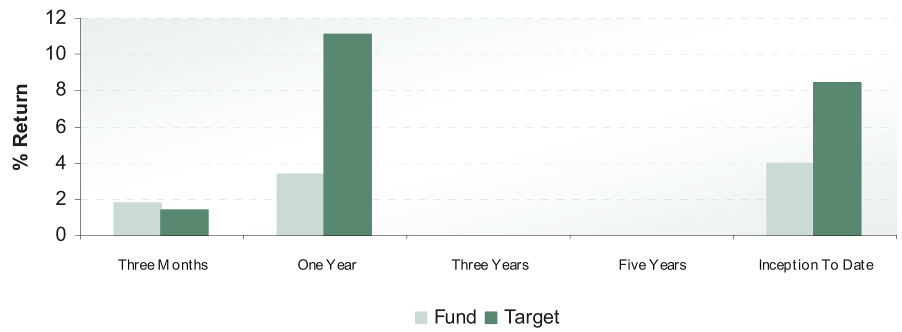


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	16.14	-6.90	3.79	8.52	1.96	6.42	-0.74	2.93	2.91
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

Matching Fund

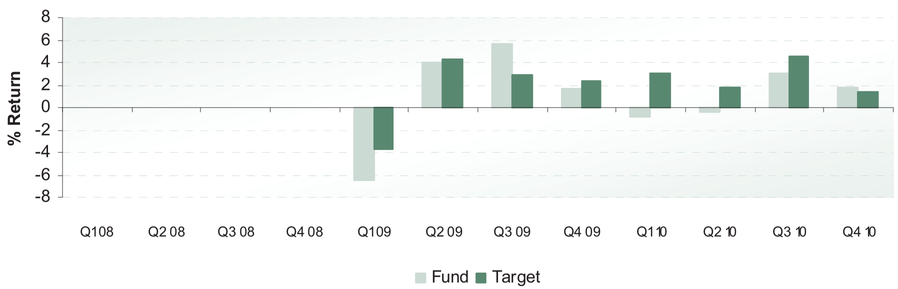
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	1.75	3.36	-	-	3.96
Target	1.38	11.11	-	-	8.43

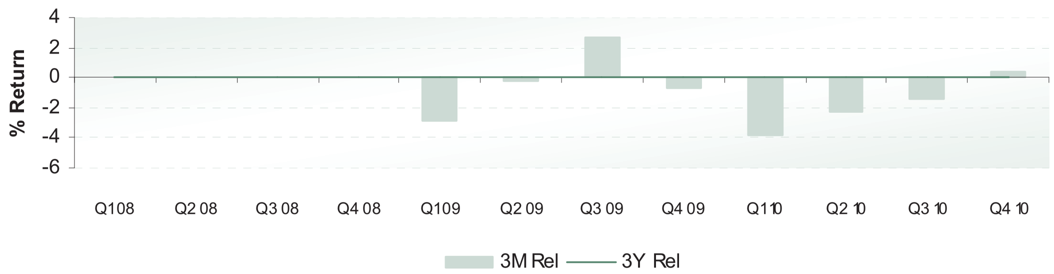
The performance of the Matching Fund over the quarter of 1.8% is 0.4% above its gilts-based liability benchmark. This can be attributed to positive performance from both managers in the Matching Fund, although the Legal & General gilt portfolio slightly underperformed its individual target by 0.1%. The Matching Fund return of 3.4% over the year was 7.7% below target due to the Legal & General fund failing to keep pace with its target earlier in the year.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	-	-6.45	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75
Target	-	-	-	-	-3.68	4.28	2.90	2.38	3.02	1.81	4.49	1.38

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

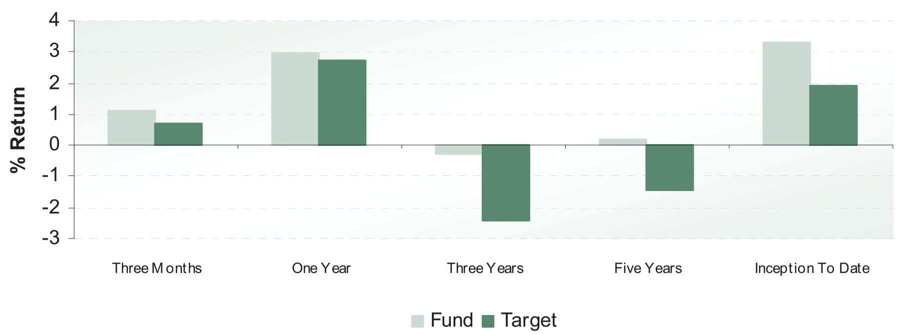
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.

Goldman Sachs

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 February 2009 manage an active bond fund.

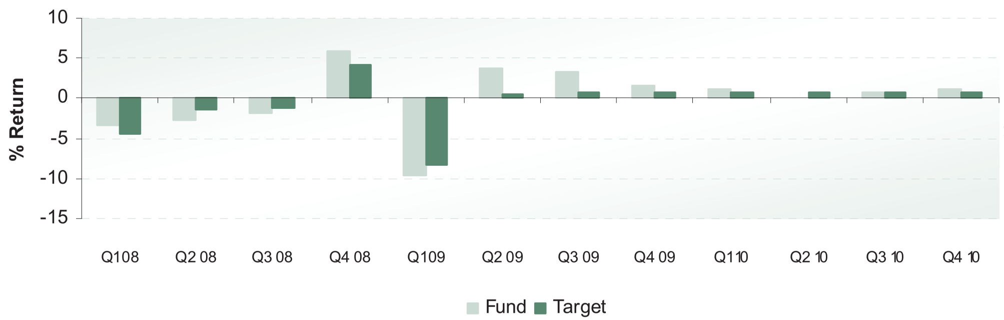
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 1.1% over the quarter, 0.4% above its target. Over 12 months, performance was 0.2% ahead of target. The fund's cross-sector strategy and government/agency selection strategy were the main sources of outperformance over the quarter, while the duration strategy detracted from performance.
Process	No significant changes over the quarter.

Historical Plan Performance



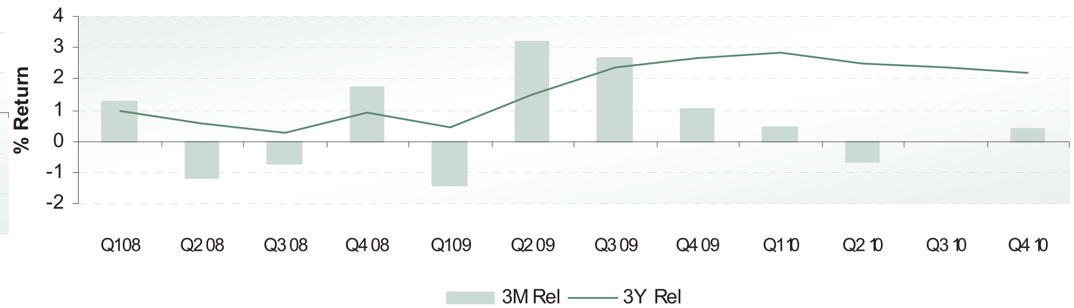
	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	1.10	2.94	-0.28	0.20	3.29
Target	0.68	2.72	-2.42	-1.44	1.93

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-3.27	-2.67	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10	0.03	0.68	1.10
Target	-4.46	-1.48	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68

Three Years Rolling Relative Returns

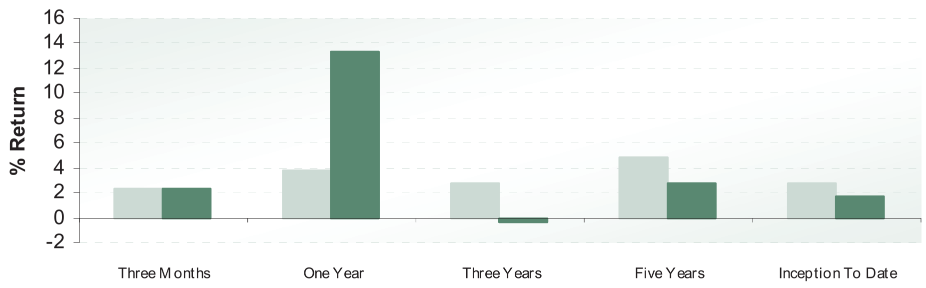


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	1.24	-1.21	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42
3Y Rel	1.00	0.54	0.27	0.90	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19

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.

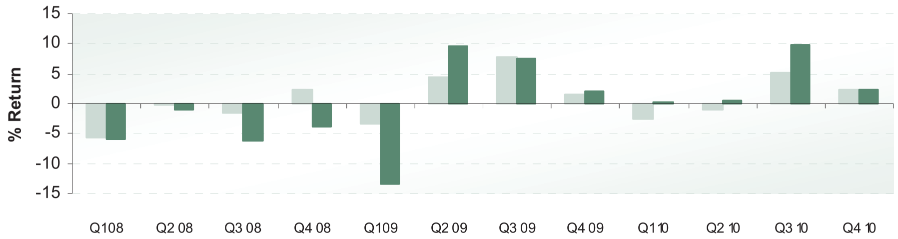
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	2.34	3.75	2.80	4.78	2.71
Target	2.38	13.34	-0.41	2.80	1.69

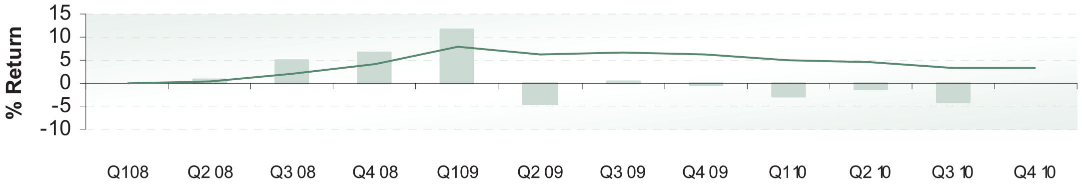
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.3% over the quarter, slightly below its target. Over 12 months, performance is 9.5% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again tracked its market benchmark over the quarter and has continued to track its market benchmark since inception.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-5.79	-0.17	-1.60	2.34	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34
Target	-5.98	-0.99	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	0.19	0.83	4.97	6.49	11.78	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04
3Y Rel	0.12	0.42	2.03	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22

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.

Market Commentary – Quarter 4 2010

(11th January 2011)

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

After strong returns over the third quarter, performance towards the end of the year was varied across the main asset classes. UK and global equities performed well over the quarter to end the year on a high. Bond markets, both corporate and government, weakened as investors grew more confident over economic recovery and started to move into higher return seeking asset classes.

Equities

In equity markets, the FTSE All-Share produced a return of 7.4% over the quarter. Overseas markets as a whole delivered 9.6% to Sterling investors. However, continued Sterling strength meant that those who chose to hedge their investment only received 8.9%.

Positive UK returns were driven by the strongest December performance of the FTSE All-Share since 1993, the last time the UK emerged from a recession. This was despite above target inflation and an uncertain economic outlook due to government spending cuts and higher taxes.

Smaller companies tended to outperform their mid and large cap counterparts. However, there were encouraging signs from a number of 'blue-chips' notably BT, following news that it's pension scheme deficit had government support.

Overseas equities again performed well with news of a second round of quantitative easing by the US Federal Reserve Bank buoying markets in the US and Europe.

However, the improved sentiment in Europe remained volatile with Ireland requiring a EUR 85bn bailout in December. The exception to this was once again Germany, whose export led economy remained strong.

Quantitative easing did not receive universal backing though, with some countries expressing concern that this would lead to a devaluation of the US Dollar and would shift exports away from the Asia Pacific regions, particularly Japan. However, the continued growth of the new economic powerhouse, China, resulted in investors seeing strong returns from the region over the quarter.

In Emerging Markets, Sterling investors achieved a return of 4.9% over the quarter compared with 24.0% over the year. The main driver for this slow down was the spread of reduced investor confidence stemming from the problems in Europe.

Government Bonds

In contrast to the overall strength of the equity markets, sovereign bonds struggled. The FTSE UK Gilts All Stocks Index returned -2.1% over the quarter with longer term gilts producing even lower returns.

Early in the quarter the government bond market was affected by uncertainty surrounding further quantitative easing in the UK as well as the continued European sovereign debt problems,. However, expectations of quantitative easing in the UK receded on the back of above expected estimated quarter 3 GDP growth.

As the year end approached, improved investor sentiment pushed bond yields higher with the yield on 15 year fixed interest gilts peaking in mid December at 4.2%, its highest yield since the start of the summer.

Corporate Bonds

Credit spreads remained fairly stable over the quarter with over 15 year AA spreads going out from 110bps as at 30 September 2010 to 125bps at the year end. In terms of return the Merrill Lynch Non-Gilt Sterling Index lost 2.5% over the quarter but delivered a positive 8.4% return over the year.

Note: To put past performance into context, the market commentary is not updated to take into account any events after the date of production.

Property

Growth continued over the quarter, but only modestly with the IPD All Property Monthly Index returning 2.2% over the quarter. Strong income as opposed to capital appreciation was the main factor behind this improvement.

Outlook

The volatility of markets over 2010 has served to highlight the variability of confidence felt by investors.

The year was characterised by sovereign debt problems particularly in Europe with both Greece and Ireland needing significant support. This issue is likely to remain on investor radars with Portugal in particular viewed as vulnerable.

Closer to home, rising Consumer Price Inflation is challenging the Bank of England's inflation credentials and the Bank faces some tough decisions as it balances the need to control inflation through higher interest rates, whilst supporting the economy as spending cuts start to bite.

Sources: Datastream, Bank of England.

Note: To put past performance into context, the market commentary is not updated to take into account any events after the date of production.

Contacts and Important Notice

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Scheme Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION

AUDIT AND PENSIONS COMMITTEE

17th February 2011

CONTRIBUTORS	**GOVERNANCE COMPLIANCE STATEMENT**	**WARDS**
		All
DF	This report seeks approval of the Governance Compliance Statement. The statement has been updated to take account of the new Audit and Pensions Committee structure.	

RECOMMENDATION:

1. To approve the Governance Compliance Statement.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	**Description of Background Papers**	**Name/Ext. of Holder of File/Copy**	**Department/ Location**
1	Governance Compliance Statement File	P. Gough Extension 2542	Room 42, Town Hall

1. Introduction

1.1. The Local Government Pension Scheme (Administration) Regulations 2008 require LGPS administering authorities to measure their governance arrangements against the standards set out in statutory guidance issued by Communities and Local Government in November 2008.

1.2 The regulations require administering authorities to prepare a statement reporting the extent of their compliance with a set of best practice principles published by CLG and guidance issued by CIPFA entitled "Delivering Good Governance in Local Government Pension Funds", and where an authority has chosen not to comply, to state the reasons why. The Statement is known as the "Governance Compliance Statement"

1.3. The relevant provision, shown below, is set out in regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008:-

31—(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 73A of the 1997 Regulations.

(2) The authority must—

(a) keep the statement under review;

(b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph (3); and

(c) if revisions are made—

(i) publish the statement as revised, and

(ii) send a copy of it to the Secretary of State.

(3) The matters are—

(a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if it does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

(4) In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

2. Statement

2.1. The statement was last agreed by the committee in February 2008 and has now been updated to take into account the new format of the Audit and Pensions Committee and its terms of reference. The statement shows the extent of the Council's compliance with the set of best practice principles published by CLG and the guidance issued by CIPFA, and where the Council does not comply, it states the reasons why.

2.2. It has not been felt necessary to consult with the admitted bodies in the scheme as the changes made to the statement are mainly to update the terms of reference of the committee which have been agreed by Council. The statement will be published on the Council's website and a copy sent to the Secretary of State in accordance with the regulations.

LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

1. OVERVIEW

1.1 This Statement has been prepared in accordance with Regulation 31 of the Local Government Pension Scheme (administration) Regulations 2008 (the LGPS Regulations). The Statement describes the London Borough of Hammersmith & Fulham's (the Council) governance structures and arrangements in its capacity as Administering Authority of the London Borough of Hammersmith & Fulham Pension Fund (the Fund).

2. PURPOSE OF STATEMENT

2.1 The main purpose of this Governance Compliance Statement is to establish whether the administering authority delegate their function, or part of their function, in relation to maintaining the Pension Fund to a committee, a sub-committee or an officer of the administering authority; and if they do delegate that function or part of that function:

- to state the terms, structure and operational procedures of the delegation; and
- to state the frequency of any committee or sub-committee meetings; and
- to state whether the committee or sub-committee includes representatives of employing authorities or members, and if so, whether those representatives have voting rights.

2.2 The statement shows how any delegation, or the absence of a delegation, currently complies with each of the best practice principles in the guidelines published by Communities and Local Government (CLG) and in accordance with guidance issued by CIPFA entitled "Delivering Good Governance in Local Government Pension Funds", and to the extent that it does not so comply, the reasons for not complying.

2.3 The guidelines cover nine principles:

- Structure
- Committee Membership and Representation
- Selection and role of lay members
- Voting
- Training/Facility Time/Expenses
- Meetings (Frequency/Quorum)
- Access
- Scope
- Publicity

3. TERMS OF REFERENCE, STRUCTURE AND OPERATIONAL PROCEDURES

3.1 The Council as administering authority of the Pension Fund has delegated its functions in relation to maintaining the Pension Fund to the Audit and Pensions Committee. The Terms of Reference of the Committee are reproduced below:

AUDIT AND PENSIONS COMMITTEE
TERMS OF REFERENCE

1. **Membership**

1.1 The Committee will have the following membership:

4 Administration Councillors, 2 Opposition Councillors

1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.

1.3 The Committee may co-opt non-voting independent members as appropriate.

1.5 The agenda of meetings of the Committee will be divided into separate sections for Audit and Pensions matters.

1.6 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.

1.7 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.

1.8 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meetings to assist it with its discussions on any particular matter.

2. **Quorum**

2,1 The quorum of the Committee shall be 3 members.

3. **Voting**

3.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chairman of the Committee shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.

4. **Procedures**

4.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.

4.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

5. **Meetings**

5.1 The Audit and Pensions Committee will meet at least four times a year.

5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

6. **Reporting**

6.1 The Audit and Pensions Committee will formally report back in writing to the full Council at least annually.

7. **Responsibilities**

(a) Audit

7.1 The Audit and Pensions Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement on Internal Control;

- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;

- the planned activity and results of both internal and external audit;

- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter

- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.

- assurances relating to the corporate governance requirements for the organisation;

- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;

- acting as the Approval of Accounts Committee, to be held in June;

- to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;

- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:

- the establishment of risk management across the organisation, including partnerships;

- awareness of the Council's risk appetite and tolerance;

- reviewing of the risk portfolio (including IT risks);

- being appraised of the most significant risks;

- determining whether management's response to risk and changes in risk are appropriate.

7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

(b) Pensions - Decision-Making Powers (The following powers are hereby delegated on behalf of the Council)

7.5 To determine the overall investment strategy and strategic asset allocation of the Pension Fund.

7.6 To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund.

7.7 To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.

7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls,

7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents,

7.10 To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy,

7.11 To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.

7.12 To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.

7.13 To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.

7.14 To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.

7.15 To approve the arrangements for the provision of AVCs for fund members.

7.16 To receive and consider the Audit Commission's report on the governance of the Pension Fund.

4. COMPLIANCE WITH THE GUIDANCE ISSUED BY COMMUNITIES AND LOCAL GOVERNMENT (CLG)

The guidance provides a detailed description of each of the best practice principles against which compliance should be measured. The principles are set out in **bold** type below, together with details as to whether the Council complies with them or not.

4.1 Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

Compliant - The Council, as Administering Authority, delegates its function in maintaining the Fund to a committee, the Audit and Pensions Committee (the Committee). The Council agrees the appointments to the Committee and the discharge of its functions under its constitution.

The day to day administration of the Fund, including administration of benefits, the investment of pension fund monies, the monitoring of fund performance and the entering into of pension fund admission agreements with external providers subject to appropriate actuarial advice is delegated by the Council to the Director of Finance and Corporate Services.

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

Partially Compliant - representatives of Trade Unions and participating LGPS employers, and admitted bodies are invited to attend the Committee and receive copies of the committee papers. Scheme members, pensioner and deferred members have not been invited although committee meetings are open to the general public.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

The Council does not have a secondary committee or panel.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

The Council does not have a secondary committee or panel.

4.2 Committee Membership and Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, eg, admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

Partially Compliant - representatives of Trade Unions and participating LGPS employers and admitted bodies are invited to attend the Committee. Scheme members, pensioner and deferred members have not been invited. The Committee has not appointed an independent professional observer but has appointed expert advisors who attend each Committee meeting.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Partially Compliant – all lay members on the Committee are sent committee papers with dates of meetings. All who attend meetings may contribute to the decision making process. Training normally takes place during actual Committee meetings. Training outside these meetings has been offered to elected councillors and trade union representatives only.

4.3 Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Compliant – all committee and lay members are fully aware of their status, role and function.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda

Compliant - all Committee members have to make a declaration of any interest in specific matters on the agenda at the start of every committee meeting.

4.4 Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Compliant - There are six councillors who sit on the Committee, four from the majority party and two from the opposition party, all of whom have voting rights. In addition trade union members and representatives from the admitted and scheduled bodies in the fund are invited to attend the Committee meetings. Trade Union members and representatives from the admitted and scheduled bodies are allowed to voice opinions but have no voting rights.

4.5 Training/Facility Time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

Compliant – training for councillors who sit on the Committee, is organised as and when required, meetings take place in the evenings and councillors receive allowances in accordance with the Council's allowances policy.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Compliant – the policy applies to all members of the Committee. The Council does not have a secondary committee or panel or any other form of secondary forum.

4.6 Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

Compliant – The Committee meets at least four times a year. The meetings generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

The Council does not have a secondary committee or panel.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Partially Compliant – Trade Union members and representatives of participating LGPS employers and admitted bodies are invited to every Committee meeting and included in the formal governance arrangements. Scheme members, pensioner and deferred members have not been invited although committee meetings are open to the general public.

4.7 Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

Compliant – All members invited to the Committee have equal access to committee papers, documents and advice.

4.8 Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Compliant – The Committee considers and makes decisions on general scheme and other administrative issues as well as the management and investment of the funds under its supervision.

4.9 Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Compliant – This statement will be published on the Council's website and will be included in the Pension Fund Annual Report which is also available on the Council's website. Any member can also request a copy of this statement. All representatives of trade union members, admitted and scheduled bodies in the fund receive committee papers and are invited to the Committee.

5.0 REVIEW OF THIS STATEMENT

This Statement will be revised and a new version published by the Committee following any material change in the Council's policy on any of the matters included in the Statement.

AUDIT AND PENSIONS COMMITTEE

17 February 2010

CONTRIBUTORS

ANNUAL REVIEW OF RETIREMENTS 2009/2010.

WARDS
All

This report draws members attention to the Local Government Pension Scheme retirements that occurred in 2009/2010 and the consequential effect on the pension fund

It also reports the number and value of redundancy payments made by the Council in 2009/10 for information.

RECOMMENDATION:

(i) To note the contents of the report.

(ii) To note that the annual review of 2009/2010 specifically in relation to early retirements does not give rise to an increase in employer contribution rates.

1 Background

1.1 The last full triennial actuarial valuation of the pension fund took place in 2007/2008. This valued the funds assets and liabilities as at the 31st March 2007.

1.2 The results of the valuation required that the employers contribution rates should be as follows:

22.5% from April 2008
23.6% from April 2009
24.7% from April 2010.

1.3 In addition to the triennial valuation there is a requirement under regulation 38(5)b and 38(6) of the Local Government Pension Scheme Administration regulations 2008 to carry out an annual comparison of the early retirement costs with the costs that were anticipated in the full fund valuation.

1.4 The annual review provides the panel with details of the number and value of retirements and confirms whether the employer contribution rate requires to be adjusted.

2 Retirements in 2009/2010

2.1 Retirement data for 2009/2010 was supplied to the actuary in order to carry out the annual review. See Appendix 1

2.2 In summary the details were as follows:

Ill health retirements	10
Normal retirement age	30
Employer consent	10
Redundancy	75
Efficiency of the service	2
Late retirement	21
Deferred benefits into payment	79
Total	**227**

Actuaries report

3.1 In accordance with Regulations 38(5)b and 38(6) of the Local Government Pension Scheme Administration Regulations 2008, we have in previous years carried out a annual comparison of the early retirement costs that have arisen in the Fund, with the costs anticipated in the Fund valuation as at 31 March 2007. This year, however, this comparison will not be required as the Triennial Valuation as at 31 March 2010 will incorporate an analysis of the early retirements during the 3 year period, and the report will include details of employer contribution rates from 1 April 2011.

Redundancy payments made in 2009/10

Appendix 2 shows all redundancy payments made by the Council in 2009/10.

4.1 Statutory redundancy is the amount the Council is obliged to pay under the Employment Rights Act based on the weekly earnings limit, which is currently £380.00 per week (pro-rated for part time employees).

4.2 Discretionary redundancy is the amount payable by waiving the earnings limit, so it is the amount calculated by using the employee's actual weekly pay, less the statutory redundancy amount.

4.3 Enhanced severance is paid under the Council's employment policy to low earning employees and it is the amount calculated by using a weekly pay figure equal to 1.5 x the Minimum Earnings Guarantee (pro-rated for part time employees), less the Statutory and Discretionary redundancy payments.

4.4 Taxable redundancy is the amount of the total statutory redundancy, discretionary redundancy and enhanced severance, which exceeds £30,000.00 and is therefore subject to income tax

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1	**Actuarial files** **Annual Review file**	**Les Green** **X 1878**	**Finance and Corporate Services Dept** **Room 317 Town Hall**

	EMPLOYER	BENEFIT	DATE JOINED	DATE LEFT	TOTAL MEMB	ADDED YEARS	PEN REM	FUND PEN	LUMP SUM	UNFUND PEN	AUGR GRANT	CAP COST	ERD
1	00080	6	27/01/92	27/11/09	39/174	21/234	46035.75	27186.32	27924.15	0.00	0.00	123236.85	
2	00080	6	14/01/81	17/04/09	41/246	13/152	42726.00	18298.92	21992.76	0.00	0.00	302049.42	
3	00098	6	07/07/80	31/05/09	28/324	00/000	44538.89	12958.50	86389.89	0.00	0.00	134284.53	
4	00080	6	01/04/86	17/01/10	37/350	12/038	40423.87	15789.35	5262.23	0.00	0.00	72734.33	
5	00080	6	16/07/85	31/01/10	24/278	04/235	20999.00	5312.10	35413.93	0.00	0.00	2217.56	
6	00080	6	16/03/98	10/08/09	37/274	19/007	24675.00	9693.34	64622.15	0.00	0.00	61347.80	
7	00080	6	26/02/01	24/09/09	06/088	03/044	17209.75	1121.12	7474.00	0.00	0.00	10315.79	
8	00080	6	29/04/04	04/09/09	06/279	01/287	29403.56	2846.37	4217.19	0.00	0.00	3732.49	
9	00080	6	10/01/05	24/09/09	04/049	00/316	19407.00	1156.23	1628.99	0.00	0.00	994.35	
10	00080	6	01/06/05	06/04/09	08/208	06/134	28485.00	2584.77	17231.65	0.00	0.00	29036.31	
ILL HEALTH TOTAL			**10**										
1	00080	7	01/06/86	30/06/09	22/286	00/000	31845.00	7016.72	46778.10	0.00	0.00	0.00	
2	00080	7	07/10/74	17/07/09	37/194	00/000	31620.00	15005.06	42966.38	0.00	0.00	0.00	
3	00092	7	26/09/78	19/11/09	31/055	00/000	26598.00	10538.39	29436.33	0.00	0.00	0.00	
4	00080	7	05/11/84	28/10/09	24/355	00/000	34121.75	10860.82	29918.42	0.00	0.00	0.00	
5	00080	7	05/05/97	07/06/09	07/161	00/000	17127.81	1018.34	6788.79	0.00	0.00	0.00	
6	00080	7	11/11/96	21/06/09	06/127	00/000	17127.81	1380.59	3883.67	0.00	0.00	0.00	
7	00080	7	01/09/97	31/08/09	12/000	00/000	19263.00	2344.51	6786.94	0.00	0.00	0.00	
8	00080	7	01/09/97	22/05/09	06/302	00/000	19929.00	1365.63	9104.12	0.00	0.00	0.00	
9	00080	7	01/09/97	31/08/09	02/356	00/000	22200.00	689.08	1937.85	0.00	0.00	0.00	
10	00080	7	01/09/97	31/05/09	05/319	00/000	26742.00	1830.69	5047.93	0.00	0.00	0.00	
11	00080	7	01/09/97	04/10/09	01/309	00/000	18614.50	347.52	2316.67	0.00	0.00	0.00	
12	00842	7	01/09/97	30/11/09	05/185	00/000	17241.03	768.00	5119.84	0.00	0.00	0.00	
13	00080	7	11/01/99	16/08/09	09/335	00/000	25539.50	2086.04	13906.91	0.00	0.00	0.00	
14	00080	7	23/10/00	22/09/09	08/309	00/000	32734.25	2498.87	16659.10	0.00	0.00	0.00	
15	00095	7	05/02/01	13/05/09	08/098	00/000	22980.99	1556.20	10374.66	0.00	0.00	0.00	
16	00080	7	03/04/00	31/08/09	02/173	00/000	17127.00	408.07	2720.40	0.00	0.00	0.00	
17	00080	7	24/06/02	31/08/09	26/064	00/000	36961.50	12294.34	34472.93	0.00	0.00	0.00	
18	00080	7	01/10/02	31/03/10	27/000	00/000	36960.00	10073.25	67155.00	0.00	0.00	0.00	
19	00080	7	01/09/98	31/08/09	01/026	00/000	19929.00	233.47	517.08	0.00	0.00	0.00	
20	00080	7	01/09/97	31/08/09	01/029	00/000	18546.00	206.10	615.25	0.00	0.00	0.00	
21	00081	7	19/01/03	31/03/10	07/072	00/000	17856.00	1268.81	8458.60	0.00	0.00	0.00	
22	00080	7	12/05/03	31/08/09	12/129	00/000	34707.00	4347.08	13936.64	0.00	0.00	0.00	
23	00080	7	20/10/03	16/10/09	10/235	00/000	26887.00	2502.97	16686.35	0.00	0.00	0.00	
24	00080	7	01/11/03	18/07/09	03/020	00/000	17122.00	703.44	1514.59	0.00	0.00	0.00	
25	00080	7	29/09/05	31/01/10	37/329	00/000	40439.00	19468.42	54688.21	0.00	0.00	0.00	
26	00080	7	20/09/04	28/03/10	05/148	00/000	35643.85	2163.91	4275.53	0.00	0.00	0.00	
27	00080	7	04/09/06	30/06/09	02/178	00/000	37476.00	836.03	5573.45	0.00	0.00	0.00	
28	00080	7	01/09/97	04/10/09	03/335	00/000	20000.75	794.43	5296.08	0.00	0.00	0.00	
29	00831	7	01/10/07	01/07/09	01/274	00/000	36016.00	654.73	4364.83	0.00	0.00	0.00	
30	00080	7	14/07/08	01/03/10	00/252	00/000	29486.37	218.13	1454.04	0.00	0.00	0.00	
AGE TOTAL			**30**										
1	00080	12	16/09/91	30/04/09	16/134	00/000	24573.00	3143.68	20957.74	0.00	0.00	0.00	
2	00080	12	02/01/95	10/05/09	14/128	00/000	22200.00	2661.26	9049.89	0.00	0.00	0.00	
3	00098	12	12/11/79	29/03/10	31/254	00/000	51719.41	20920.98	57605.15	0.00	0.00	99684.34	
4	00080	12	10/03/80	23/10/09	29/222	00/000	47378.00	13843.03	92286.83	0.00	0.00	103426.24	
5	00092	12	21/02/84	31/07/09	25/161	00/000	37694.25	12006.36	33898.46	0.00	0.00	0.00	
6	00080	12	01/09/92	15/05/09	16/257	00/000	32976.00	4340.51	28936.69	0.00	0.00	0.00	
7	00080	12	22/09/86	07/03/10	23/166	00/000	35032.50	6934.69	46231.17	0.00	0.00	12066.75	
8	00080	12	16/12/74	30/03/10	24/288	00/000	35054.00	11007.99	31271.29	0.00	0.00	54403.60	
9	00092	12	23/11/92	31/10/09	17/303	00/000	29413.50	4182.20	27881.32	0.00	0.00	0.00	
10	00080	12	03/02/97	30/03/10	15/153	00/000	47588.25	5874.65	20316.54	0.00	0.00	0.00	
EMPLOYER CONSENT TOTAL			**10**										
1	00080	16	21/12/87	09/04/09	21/108	00/000	31620.00	6785.47	45236.30	0.00	0.00	59175.23	
2	00080	16	24/07/89	30/12/09	20/160	00/000	33223.50	6859.60	45730.66	0.00	0.00	31386.77	
3	00080	16	16/07/80	30/11/09	28/362	00/000	31830.00	11756.39	32613.76	0.00	0.00	76025.25	
4	00080	16	16/08/76	30/03/10	33/227	00/000	29367.75	9957.36	66382.30	0.00	0.00	92550.45	
5	00092	16	27/02/78	02/10/09	34/023	00/000	74985.00	32398.48	91545.90	0.00	0.00	242604.36	
6	00080	16	22/06/87	03/01/10	22/190	00/000	45719.00	10396.07	69307.00	0.00	0.00	92729.03	
7	00080	16	01/08/86	30/03/10	23/242	00/000	31933.88	9711.39	25945.18	0.00	0.00	74661.60	
8	00080	16	23/10/89	30/12/09	20/069	00/000	49328.25	10061.19	67074.56	0.00	0.00	94150.39	
9	00080	16	08/06/87	28/02/10	22/266	00/000	74910.00	21880.39	58468.28	0.00	0.00	181858.72	
10	00080	16	01/06/78	10/08/09	31/071	00/000	61947.50	24506.74	69302.71	0.00	0.00	185688.38	
11	00080	16	19/09/88	30/03/10	24/002	00/000	43173.40	13314.26	35631.36	0.00	0.00	109794.00	
12	00092	16	03/11/86	30/03/10	29/364	00/000	50416.50	15258.52	1723.45	0.00	0.00	150753.94	
13	00092	16	01/08/78	31/10/09	31/092	00/000	83212.16	33056.88	92570.68	0.00	0.00	106146.53	
14	00080	16	19/05/86	09/04/09	29/060	00/000	31620.00	9284.65	61897.52	0.00	0.00	88801.97	
15	00080	16	28/04/86	30/03/10	23/308	00/000	29570.21	9059.42	24225.29	0.00	0.00	76206.84	
16	00092	16	27/09/65	31/05/09	43/247	00/000	35721.25	19676.05	56943.59	0.00	0.00	0.00	
17	00092	16	22/01/80	30/04/09	29/099	00/000	37476.00	13881.10	39615.47	0.00	0.00	0.00	
18	00080	16	01/06/87	30/06/09	36/160	00/000	42726.00	15673.91	4492.60	0.00	0.00	0.00	
19	00092	16	24/09/90	17/07/09	31/112	00/000	74985.00	29749.19	84388.94	0.00	0.00	39393.06	
20	00080	16	02/03/81	31/03/10	34/152	00/000	49558.00	17198.61	14657.40	0.00	0.00	23001.43	
21	00092	16	02/01/90	05/03/10	20/063	00/000	40478.00	10532.13	27692.77	0.00	0.00	15563.27	
22	00092	16	01/06/88	06/01/10	25/339	00/000	34973.50	11592.76	31688.15	0.00	0.00	32951.70	
23	00092	16	24/08/92	30/06/09	16/311	00/000	35721.25	6076.53	40510.04	0.00	0.00	30010.88	
24	00080	16	21/10/74	28/02/10	35/131	00/000	43350.00	19506.02	54367.14	0.00	0.00	0.00	
25	00098	16	16/11/92	06/04/09	22/120	00/000	62048.53	19116.75	35769.28	0.00	0.00	80255.55	
26	00080	16	30/08/82	26/06/09	26/301	00/000	37963.44	10260.51	68403.36	0.00	0.00	59390.08	
27	00092	16	11/01/88	01/02/10	25/333	00/000	31883.50	8337.95	58423.68	0.00	0.00	48017.22	

28	00080	16	03/01/83	30/03/10	26/293	00/000	40606.90	13942.63	37772.76	0.00	0.00	101983.97	
29	00080	16	18/01/88	31/05/09	26/314	00/000	41820.00	14244.57	40293.28	0.00	0.00	30450.54	
30	00080	16	02/12/91	31/03/10	35/205	00/000	71193.00	33959.06	94378.28	0.00	0.00	28328.52	
31	00080	16	08/09/80	30/06/09	32/232	00/000	42726.00	17564.48	51078.05	0.00	0.00	76011.75	
32	00098	16	05/09/88	31/01/10	23/133	00/000	74502.50	22329.49	61502.36	0.00	0.00	106104.71	
33	00080	16	07/04/83	05/04/09	25/364	00/000	29277.00	7665.07	51100.46	0.00	0.00	6945.55	
34	00080	16	25/04/83	28/02/10	17/339	00/000	33278.50	7590.23	19526.05	0.00	0.00	40934.89	
35	00080	16	02/12/91	23/08/09	26/250	00/000	35255.22	11465.04	39432.09	0.00	0.00	75778.34	
36	00080	16	01/04/82	09/04/09	28/038	00/000	40104.00	14174.20	41495.28	0.00	0.00	77406.38	
37	00080	16	18/05/81	28/02/10	28/280	00/000	40472.50	11746.65	78310.99	0.00	0.00	94797.75	
38	00092	16	05/01/87	02/10/09	32/265	00/000	66463.19	21914.94	46099.45	0.00	0.00	173211.91	
39	00092	16	23/11/87	26/03/10	22/121	00/000	33310.00	7516.03	50106.71	0.00	0.00	54320.78	
40	00080	16	12/09/77	26/02/10	31/272	00/000	52288.75	16740.43	11602.84	0.00	0.00	104966.74	
41	00098	16	07/11/77	27/04/09	38/049	00/000	51071.85	26752.07	70977.63	0.00	0.00	123926.31	
42	00095	16	04/12/95	22/06/09	13/201	00/000	23528.12	3221.80	21478.61	0.00	0.00	26035.42	
43	00092	16	01/05/95	31/12/09	20/351	00/000	31856.25	6744.81	47894.20	0.00	0.00	64319.55	
44	00092	16	18/09/95	12/02/10	14/146	00/000	35009.50	5107.62	34050.66	0.00	0.00	3620.97	
45	00080	16	23/05/96	30/03/10	22/338	00/000	43152.00	12725.41	33866.93	0.00	0.00	74349.64	
46	00080	16	24/04/95	28/02/10	13/194	00/000	35026.00	4805.63	32037.38	0.00	0.00	36334.35	
47	00092	16	04/08/97	30/11/09	13/021	00/000	31830.00	4210.34	28068.76	0.00	0.00	15445.85	
48	00092	16	25/10/96	05/02/10	13/102	00/000	32379.50	4359.18	29061.14	0.00	0.00	35012.64	
49	00080	16	22/10/97	31/01/10	26/042	00/000	38290.50	12792.78	34858.78	0.00	0.00	28839.79	
50	00080	16	01/05/98	13/01/10	11/220	00/000	37770.00	5759.49	13899.88	0.00	0.00	37188.22	
51	00080	16	29/06/98	28/02/10	11/245	00/000	33278.50	5120.56	12175.15	0.00	0.00	20378.18	
52	00092	16	14/09/98	28/10/09	11/352	00/000	40335.26	4890.03	36601.72	0.00	0.00	24994.89	
53	00080	16	12/07/99	30/03/10	19/058	00/000	64004.00	12402.81	82685.32	0.00	0.00	115964.12	
54	00080	16	10/08/99	31/01/10	25/282	00/000	43081.00	14208.86	38666.67	0.00	0.00	31374.82	
55	00080	16	07/09/98	29/11/09	18/304	00/000	22348.00	4252.50	28349.87	0.00	0.00	22204.23	
56	00092	16	17/04/00	30/11/09	30/311	00/000	50555.00	18048.03	76926.56	0.00	0.00	85195.22	
57	00080	16	16/10/00	06/10/09	07/060	00/000	32776.16	3142.54	6940.24	0.00	0.00	22126.41	
58	00088	16	06/09/01	30/06/09	07/298	00/000	32118.00	2548.57	16990.37	0.00	0.00	14133.17	
59	00092	16	01/10/01	31/07/09	17/292	00/000	74985.00	17101.04	46300.67	0.00	0.00	46394.06	
60	00092	16	08/08/01	31/01/10	08/176	00/000	23369.50	2656.81	5822.37	0.00	0.00	6484.90	
61	00092	16	09/12/02	31/03/10	14/344	00/000	40506.00	6133.87	40892.32	0.00	0.00	38430.98	
62	00080	16	15/04/02	30/03/10	10/338	00/000	44908.75	4988.72	33258.02	0.00	0.00	58977.38	
63	00092	16	15/09/03	02/10/09	27/002	00/000	44690.39	15366.66	42732.89	0.00	0.00	75840.21	
64	00080	16	24/11/03	07/06/09	05/196	00/000	18231.00	1266.47	4000.00	0.00	0.00	9119.11	
65	00080	16	11/11/03	30/03/09	06/140	00/000	39617.50	2593.29	17288.46	0.00	0.00	29702.72	
66	00080	16	02/02/04	30/03/10	04/100	00/000	19729.25	1167.98	2136.43	0.00	0.00	12551.47	
67	00080	16	12/09/05	15/09/09	02/092	00/000	32561.50	755.52	5036.69	0.00	0.00	4364.36	
68	00080	16	11/05/04	29/11/09	05/203	00/000	37530.00	2136.41	14242.59	0.00	0.00	25493.50	
69	00080	16	31/05/05	06/11/09	04/160	00/000	44732.50	2780.46	4756.66	0.00	0.00	23702.82	
70	00080	16	28/11/05	30/03/10	02/233	00/000	23463.53	840.73	1217.76	0.00	0.00	8605.16	
71	00080	16	01/09/05	30/04/09	34/235	00/000	70253.32	30739.84	88418.13	0.00	0.00	23529.02	
72	00080	16	01/06/06	28/02/10	03/273	00/000	37819.75	1472.30	9815.18	0.00	0.00	15965.22	
73	00092	16	11/09/06	10/09/09	05/057	00/000	53941.52	2845.99	18973.14	0.00	0.00	31398.38	
74	00092	16	28/08/06	30/11/09	25/195	00/000	44762.00	11530.68	78869.43	0.00	0.00	105815.00	
75	00080	16	01/02/07	24/08/09	24/167	00/000	36944.89	9110.79	60738.56	0.00	0.00	5422.68	
REDUNDANCY TOTAL			**75**										
1	00080	17	01/05/93	30/06/09	16/061	00/000	34707.00	5665.21	37768.03	0.00	0.00	61905.15	
2	00080	17	26/09/88	31/03/10	36/259	00/000	9663.00	40583.43	70556.05	0.00	0.00	206338.02	
EFFICIENCY TOTAL			**2**										
1	00836	19	24/10/94	26/03/10	15/154	00/000	32220.13	6849.70	16699.56	0.00	0.00	0.00	
2	00092	19	02/12/91	01/12/09	24/271	00/000	26685.00	12199.39	28230.89	0.00	0.00	0.00	
3	00092	19	13/09/89	30/09/09	20/018	00/000	26468.64	6169.87	41631.53	0.00	0.00	0.00	
4	00092	19	23/03/90	24/04/09	19/028	00/000	31620.00	7791.08	21510.26	0.00	0.00	0.00	
5	00833	19	22/05/89	31/12/09	20/224	00/000	23089.43	7213.32	17791.80	0.00	0.00	0.00	
6	00097	19	09/07/95	03/01/10	06/167	00/000	15833.48	1396.14	3397.85	0.00	0.00	0.00	
7	00835	19	03/07/79	13/11/09	19/189	00/000	17403.29	3550.03	23666.80	0.00	0.00	0.00	
8	00080	19	16/05/94	21/02/10	15/282	00/000	24793.25	5098.27	12919.89	0.00	0.00	0.00	
9	00080	19	05/09/94	28/02/10	15/177	00/000	35026.00	6544.17	43776.78	0.00	0.00	0.00	
10	00080	19	31/10/95	31/08/09	05/319	00/000	19929.00	1270.39	8469.19	0.00	0.00	0.00	
11	00842	19	27/01/97	03/04/09	04/184	00/000	17127.81	781.36	5209.06	0.00	0.00	0.00	
12	00097	19	01/09/97	03/01/10	04/034	00/000	17334.18	857.64	5717.52	0.00	0.00	0.00	
13	00080	19	01/09/97	21/02/10	08/350	00/000	24793.50	2641.53	17610.15	0.00	0.00	0.00	
14	00092	19	12/05/97	15/01/10	11/298	00/000	40421.00	7432.37	17739.86	0.00	0.00	0.00	
15	00080	19	12/10/98	01/11/09	07/152	00/000	17227.25	1741.55	4552.35	0.00	0.00	0.00	
16	00833	19	03/03/03	30/06/09	12/362	00/000	25971.53	3551.29	23675.14	0.00	0.00	0.00	
17	00080	19	01/04/06	15/06/09	13/089	00/000	33036.84	8020.13	18754.44	0.00	0.00	0.00	
18	00080	19	01/09/97	31/08/09	08/174	00/000	19929.00	1713.56	11423.72	0.00	0.00	0.00	
19	00080	19	05/06/06	30/09/09	01/201	00/000	24367.50	406.55	2710.23	0.00	0.00	0.00	
20	00083	19	01/06/07	29/10/09	02/151	00/000	11600.34	513.55	436.27	0.00	0.00	0.00	
21	00833	19	16/06/08	31/12/09	01/199	00/000	22888.91	647.59	0.00	0.00	0.00	0.00	
LATE RETIREMENT TOTAL			**21**										
1	00080	3	15/06/99	05/02/03	01/244	00/000	14410.27	247.42	826.46	0.00	0.00	0.00	04/02/13
2	00080	3	11/05/88	22/04/92	03/348	00/000	15110.80	746.74	2240.23	0.00	0.00	0.00	04/07/09
3	00080	3	05/07/71	13/07/04	22/009	00/000	38242.56	10528.49	31585.47	0.00	0.00	0.00	17/12/08
4	00080	3	02/07/90	05/09/95	05/066	00/000	8358.83	434.99	2899.92	0.00	0.00	0.00	06/11/09
5	00080	3	26/11/01	31/08/04	00/275	00/000	16738.50	183.56	72.92	0.00	0.00	0.00	09/11/09
6	00080	3	08/10/90	11/10/91	02/096	00/000	12342.93	275.53	1836.80	0.00	0.00	0.00	04/01/14
7	00080	3	24/04/89	28/06/98	06/200	00/000	13250.00	1084.50	3253.51	0.00	0.00	0.00	21/01/10
8	00080	3	01/04/75	14/03/82	06/348	00/000	11327.79	984.59	2953.76	0.00	0.00	0.00	
9	00080	3	08/10/84	30/09/92	12/245	00/000	20583.00	3258.45	9780.45	0.00	0.00	0.00	14/08/09
10	00080	3	12/08/74	20/08/78	00/000	00/000	6066.82	290.62	1055.19	0.00	0.00	0.00	
11	00080	3	12/01/76	13/01/95	19/002	00/000	26291.99	6246.15	18738.44	0.00	0.00	0.00	25/03/10
12	00080	3	18/05/98	31/03/04	25/035	00/000	48447.00	16871.76	15593.27	0.00	0.00	0.00	24/02/07
13	00080	3	01/02/78	01/03/85	07/029	00/000	13994.81	995.18	6634.45	0.00	0.00	0.00	
14	00080	3	06/11/89	23/02/97	21/174	00/000	21462.95	6848.96	85.76	0.00	0.00	0.00	19/03/10
15	00080	3	01/01/90	31/08/95	22/082	00/000	33037.41	9178.06	27534.19	0.00	0.00	0.00	13/02/10
16	00080	3	14/01/91	28/02/01	13/282	00/000	25702.47	4111.38	17036.44	0.00	0.00	0.00	22/05/09

17	00080	3	24/07/78	02/07/85	08/100	00/000	8478.94	703.58	4690.59	0.00	0.00	0.00	
18	00080	3	21/10/86	31/10/02	16/011	00/000	20495.04	4106.73	12320.19	0.00	0.00	0.00	16/10/09
19	00080	3	10/12/85	30/10/94	08/325	00/000	18965.06	1684.88	11232.45	0.00	0.00	0.00	09/12/10
20	00080	3	18/07/84	16/07/91	06/364	00/000	13304.18	1163.66	3490.98	0.00	0.00	0.00	
21	00080	3	12/04/78	13/06/84	06/059	00/000	8398.98	519.82	3465.52	0.00	0.00	0.00	
22	00080	3	01/04/85	31/10/99	14/214	00/000	14484.04	2604.68	7879.15	0.00	0.00	0.00	31/03/10
23	00080	3	25/05/67	31/05/78	00/056	00/000	3697.08	5.70	37.95	0.00	0.00	0.00	
24	00080	3	22/04/03	26/12/08	06/192	00/000	29100.00	1501.31	10008.48	0.00	0.00	0.00	20/04/14
25	00080	3	06/04/70	30/06/76	06/086	00/000	2655.96	197.12	621.06	0.00	0.00	0.00	07/05/09
26	00080	3	20/01/97	07/07/02	05/169	00/000	21107.55	1095.46	3805.26	0.00	0.00	0.00	01/03/15
27	00080	3	21/11/77	15/04/84	06/147	00/000	14464.13	1157.63	3472.88	0.00	0.00	0.00	
28	00080	3	03/02/69	13/11/78	09/284	00/000	4352.50	427.49	2849.97	0.00	0.00	0.00	
29	00080	3	01/09/97	30/10/02	01/342	00/000	15142.90	281.67	1877.61	0.00	0.00	0.00	19/02/11
30	00080	3	01/12/92	13/12/98	04/339	00/000	16325.50	662.34	4415.56	0.00	0.00	0.00	30/11/13
31	00080	3	06/01/75	14/04/80	07/161	00/000	8405.00	628.22	4188.06	0.00	0.00	0.00	
32	00080	3	18/07/88	07/12/90	18/186	00/000	22067.76	5093.91	15317.44	0.00	0.00	0.00	
33	00080	3	08/02/82	26/09/84	05/198	00/000	10242.42	709.60	2128.81	0.00	0.00	0.00	01/02/10
34	00080	3	09/12/96	31/08/01	01/189	00/000	26139.97	381.87	1309.29	0.00	0.00	0.00	14/02/15
35	00080	3	20/06/94	31/08/07	13/072	00/000	16314.44	0.00	8073.97	0.00	0.00	0.00	20/06/22
36	00080	3	30/05/67	16/05/73	02/017	00/000	1696.89	36.45	243.00	0.00	0.00	0.00	
37	00080	3	12/09/94	20/11/03	09/068	00/000	22393.66	1954.29	6788.59	0.00	0.00	0.00	23/09/14
38	00080	3	17/04/78	20/08/93	25/254	00/000	39486.71	12443.69	38049.23	0.00	0.00	0.00	09/12/09
39	00080	3	15/11/82	31/07/88	10/163	00/000	14619.50	1902.25	5727.14	0.00	0.00	0.00	
40	00080	3	01/10/96	31/12/04	04/335	00/000	38734.00	1863.49	12423.13	0.00	0.00	0.00	30/11/09
41	00080	3	03/03/03	27/11/06	03/268	00/000	19374.16	904.35	2713.05	0.00	0.00	0.00	28/05/09
42	00080	3	20/08/73	10/12/82	08/243	00/000	6270.68	665.07	2289.61	0.00	0.00	0.00	16/11/09
43	00080	3	01/09/92	15/09/93	11/349	00/000	14349.12	1723.27	11488.40	0.00	0.00	0.00	
44	00080	3	22/06/92	02/10/94	06/307	00/000	11396.97	974.60	2923.79	0.00	0.00	0.00	30/12/09
45	00080	3	13/08/80	30/09/07	27/049	00/000	36953.80	10071.90	67146.00	0.00	0.00	0.00	01/07/05
46	00080	3	21/04/80	19/04/88	13/263	00/000	20178.31	2780.94	18539.52	0.00	0.00	0.00	
47	00080	3	02/10/95	30/04/00	02/271	00/000	21648.00	166.40	0.00	0.00	0.00	0.00	05/04/14
48	00080	3	27/07/98	19/03/99	14/173	00/000	27341.90	3975.13	26500.75	0.00	0.00	0.00	11/11/09
49	00080	3	11/05/70	08/11/84	14/182	00/000	11030.20	1606.37	10709.02	0.00	0.00	0.00	
50	00080	3	06/05/75	27/05/83	08/022	00/000	7970.94	803.10	2409.30	0.00	0.00	0.00	07/04/09
51	00080	3	12/03/73	29/08/73	05/227	00/000	1427.66	82.64	84.43	0.00	0.00	0.00	
52	00080	3	08/09/04	31/12/04	00/040	00/000	18082.04	15.76	105.11	0.00	0.00	0.00	16/04/14
53	00080	3	14/03/83	17/12/87	12/101	00/000	10029.17	1236.75	8245.04	0.00	0.00	0.00	07/02/17
54	00080	3	19/01/70	28/09/84	16/258	00/000	8479.80	1375.24	9168.21	0.00	0.00	0.00	13/07/09
55	00080	3	02/03/98	31/08/01	03/183	00/000	18031.67	481.64	1878.75	0.00	0.00	0.00	01/03/19
56	00080	3	11/02/86	17/12/98	11/200	00/000	14365.23	1183.52	0.00	0.00	0.00	0.00	25/12/10
57	00080	3	01/09/97	01/05/00	02/244	00/000	20728.34	440.04	2933.54	0.00	0.00	0.00	16/06/14
58	00080	3	10/09/73	31/03/77	03/203	00/000	5511.00	234.76	826.52	0.00	0.00	0.00	
59	00080	3	11/09/78	09/02/86	07/152	00/000	8606.27	797.85	2393.55	0.00	0.00	0.00	06/12/09
60	00080	3	01/11/90	04/04/93	21/226	00/000	20729.64	4493.94	29959.48	0.00	0.00	0.00	
61	00080	3	01/04/78	13/03/87	08/347	00/000	5913.20	529.45	3529.65	0.00	0.00	0.00	13/04/09
62	00080	3	01/09/98	21/06/09	10/293	00/000	42726.00	4610.37	13504.69	0.00	0.00	0.00	19/02/15
63	00080	3	19/02/79	21/08/88	13/360	00/000	17263.98	2425.37	16169.16	0.00	0.00	0.00	04/08/09
64	00080	3	28/01/96	23/11/99	03/036	00/000	18265.35	450.25	3001.72	0.00	0.00	0.00	16/01/15
65	00080	3	04/01/88	14/04/91	03/101	00/000	42160.85	1675.86	48.40	0.00	0.00	0.00	01/12/12
66	00080	3	30/06/80	20/06/94	13/356	00/000	19069.17	2676.89	17845.76	0.00	0.00	0.00	14/12/09
67	00080	3	30/05/78	28/09/84	06/122	00/000	7683.99	488.90	3259.21	0.00	0.00	0.00	22/12/09
68	00080	3	06/04/78	02/05/79	01/027	00/000	5056.32	67.88	203.64	0.00	0.00	0.00	10/04/09
69	00080	3	19/07/76	30/06/81	07/132	00/000	9925.50	727.39	4849.17	0.00	0.00	0.00	
70	00080	3	02/07/01	31/01/06	12/317	00/000	42025.06	3939.60	26263.82	0.00	0.00	0.00	04/05/17
71	00080	3	21/05/90	31/07/93	14/001	00/000	23077.42	3245.90	21639.30	0.00	0.00	0.00	15/09/09
72	00080	3	13/11/72	28/02/83	10/106	00/000	10982.00	1127.49	7516.61	0.00	0.00	0.00	06/09/09
73	00080	3	15/09/97	31/10/99	01/265	00/000	17720.79	294.39	1009.36	0.00	0.00	0.00	13/02/15
74	00080	3	01/09/75	13/09/85	14/064	00/000	11291.94	2000.84	5799.11	0.00	0.00	0.00	
75	00083	3	01/06/07	30/09/08	01/122	00/000	16575.65	227.71	1518.10	0.00	0.00	0.00	06/01/10
76	00092	3	14/03/05	01/10/06	01/202	00/000	21311.04	314.50	1092.47	0.00	0.00	0.00	30/04/14
77	00092	3	09/07/90	01/06/06	15/325	00/000	23892.30	3813.54	25423.47	0.00	0.00	0.00	11/07/14
78	00098	3	01/04/95	14/11/08	13/224	00/000	40753.56	4077.99	15439.94	0.00	0.00	0.00	04/04/20
79	00835	3	05/01/09	04/09/09	10/151	00/000	18274.57	1921.28	12808.47	0.00	0.00	0.00	11/09/09
DEFERRED BENEFITS INTO PAY		**79**											

SUMMARY

deferred into payment	79
ill health total	10
normal retirement total	30
early retirement employer consent	10
redundancy retirement total	75
efficiency retirement total	2
late retirement total	21
TOTAL	**227**

EMPLOYER CODE KEY

H & F COUNCIL	80
H & F HOMES	92
Mortlake crematorium	81
Family Mosaic **	83
URBAN PARTNERSHIP GROUP	88
INSPACE **	95
BURLINGTON DANES ACADEMY	97
HFBP **	98
KIER SUPPORT SERVICE	831
QUADRON SERVICES LTD	832
SERCO	833
TURNERS CLEANING	835
FM CONWAY LTD	836
EDEN FOODSERVICES	842

** capital costs and unfunded costs paid into the fund by these bodies

Appendix 2- Redundancy Payments 01 April 2009 to 31 March 2010

joining date	leaving date	Statutory Redundancy	Taxable Redundancy	Discretionary Redundancy	Enhanced Severance	Grand Total
01/04/90	30/04/09	8,575.00		20,370.28		28,945.28
16/04/96	31/08/09	9,450.00		10,746.00		20,196.00
01/09/98	31/08/09	955.38				955.38
01/09/86	31/10/09	4,408.00		5,940.94		10,348.94
06/01/83	05/04/09	10,150.00		6,177.58		16,327.58
02/03/81	31/03/10	10,830.00		16,331.64		27,161.64
21/10/74	28/02/10	11,400.00		13,630.50		25,030.50
09/04/90	07/02/10	10,830.00		8,382.74		19,212.74
01/06/78	10/08/09	8,575.00		20,202.70		28,777.70
08/06/87	28/02/10	9,310.00	3,542.95	20,690.00		33,542.95
19/09/88	30/03/10	9,310.00		11,035.36		20,345.36
01/06/92	15/05/09	7,000.00		4,260.40		11,260.40
02/03/87	30/06/09	7,875.00		7,623.90		15,498.90
30/08/82	26/06/09	9,275.00		10,071.59		19,346.59
16/07/79	30/11/09	9,690.00		5,970.32		15,660.32
02/12/91	23/08/09	7,875.00		6,673.50		14,548.50
19/10/98	13/11/09	4,940.00		1,812.20		6,752.20
24/03/97	21/03/10	7,600.00		4,658.60		12,258.60
16/10/00	06/10/09	4,560.00		3,126.00		7,686.00
18/05/81	28/02/10	9,690.00		10,173.48		19,863.48
18/01/88	31/05/09	9,800.00		12,718.44		22,518.44
17/11/86	30/11/09	8,360.00		7,543.36		15,903.36
25/04/83	28/02/10	4,940.00		3,386.50		8,326.50
01/10/86	06/11/09	7,980.00		9,085.65		17,065.65
27/01/86	30/03/10	9,310.00		4,622.42		13,932.42
30/10/89	13/09/09	7,700.00		6,251.30		13,951.30
18/12/89	24/08/09	7,700.00		9,267.06		16,967.06
24/07/89	30/12/09	10,450.00		7,163.75		17,613.75
23/10/89	30/12/09	9,500.00		14,275.00		23,775.00
26/02/90	28/02/10	7,252.88				7,252.88
05/01/98	13/01/10	6,840.00		6,262.20		13,102.20
15/04/02	30/03/10	5,700.00		7,254.75		12,954.75
09/09/02	28/02/10	2,401.88				2,401.88
16/09/02	30/12/09	2,660.00		1,822.66		4,482.66
14/10/91	31/03/10	7,980.00		9,578.52		17,558.52
01/04/82	09/04/09	9,100.00		926.12		10,026.12
07/10/74	17/07/09	10,500.00		7,742.40		18,242.40
27/07/82	30/06/09	10,632.60		887.18		11,519.78
27/09/93	01/04/09	7,875.00		2,757.60	887.18	11,519.78
10/10/86	26/02/10	9,880.00		16,287.44		26,167.44
18/04/94	28/02/10	8,550.00		6,617.93		15,167.93
22/10/97	31/01/10	6,840.00		6,567.66		13,407.66
05/01/98	28/02/10	6,840.00		5,294.34		12,134.34
10/08/99	31/01/10	10,640.00		12,595.80		23,235.80
01/04/02	31/08/09	1,296.12				1,296.12
02/09/03	31/08/09	2,975.00		3,150.87		6,125.87
11/11/03	30/03/10	3,420.00		3,437.46		6,857.46
19/05/86	09/04/09	8,750.00		6,452.00		15,202.00
21/09/87	09/04/09	8,925.00		6,581.04		15,506.04
01/11/01	24/08/09	2,800.00		3,637.04		6,437.04
03/01/83	30/03/10	9,500.00		10,023.00		19,523.00
22/06/87	03/01/10	9,500.00		12,532.75		22,032.75

01/04/85	31/03/10	11,020.00	9,703.90	18,980.00		39,703.90
23/05/96	30/03/10	7,030.00		8,322.23		15,352.23
29/06/98	28/02/10	6,270.00		4,298.25		10,568.25
07/09/98	29/11/09	6,270.00		844.64	1,417.65	8,532.29
01/12/98	10/01/10	3,367.21		2,325.73		5,692.94
12/07/99	30/03/10	9,500.00	771.25	20,500.00		30,771.25
14/02/00	15/11/09	3,420.00		2,344.50		5,764.50
22/04/03	19/07/09	4,550.00		2,769.26		7,319.26
02/09/74	30/03/10	9,500.00		4,716.75		14,216.75
26/11/02	31/08/09	863.06				863.06
06/09/93	30/03/10	5,681.06			2,061.18	7,742.24
06/05/86	30/03/10	9,310.00		5,736.19		15,046.19
24/11/03	07/06/09	2,625.00		49.88	1,164.98	3,839.86
02/02/04	30/03/10	2,371.50		0.04	860.40	3,231.94
05/05/04	28/02/10	2,280.00		1,132.02		3,412.02
15/03/04	31/08/09	493.22				493.22
11/05/04	29/11/09	2,850.00		2,579.85		5,429.85
05/07/04	28/02/10	8,360.00		7,276.94		15,636.94
29/04/04	13/09/09	1,750.00		1,074.90		2,824.90
01/11/04	31/08/09	1,068.96				1,068.96
07/02/05	23/06/09	2,100.00		3,549.60		5,649.60
10/03/05	31/08/09	977.64				977.64
31/05/05	06/11/09	8,360.00		10,640.30		19,000.30
13/06/05	31/01/10	1,520.00		754.68		2,274.68
20/06/05	31/03/10	1,520.00		499.92	48.52	2,068.44
09/06/05	31/08/09	745.00				745.00
08/08/05	30/11/09	2,280.00		2,087.40		4,367.40
01/09/05	30/04/09	10,150.00		29,344.52		39,494.52
12/09/05	15/09/09	1,361.64		910.74		2,272.38
23/09/05	31/08/09	1,050.00		492.81		1,542.81
28/11/05	30/03/10	1,600.74		338.40	-	1,939.14
10/11/05	31/08/09	679.38				679.38
12/09/05	31/08/09	359.19				359.19
22/03/06	28/02/10	1,140.00		830.31		1,970.31
01/06/06	28/02/10	1,710.00		1,565.55		3,275.55
01/02/07	24/08/09	10,325.00		10,935.36		21,260.36
01/08/07	02/08/09	1,050.00		1,112.07		2,162.07
06/05/08	21/06/09	1,750.00		2,358.25		4,108.25
15/06/01	31/08/09	1,382.42		766.71		2,149.13
20/09/77	31/08/09	3,114.90		59.40	1,382.40	4,556.70
18/09/78	31/08/09	4,773.60			1,604.70	6,378.30
11/06/86	15/02/10	9,500.00		336.00	3,091.75	12,927.75
01/04/90	14/10/09	10,070.00		2,578.19	1,055.23	13,703.42
	Grand Total	**574,996.38**	**14,018.10**	**544,711.36**	**13,573.99**	**1,147,299.83**

Agenda Item 9

London Borough of Hammersmith & Fulham

AUDIT AND PENSIONS COMMITTEE

17th February 2011

LEADER

Wards ALL

TREASURY MANAGEMENT STRATEGY REPORT

The report provides information on the Council's Treasury Management Strategy for 2011/12 including interest rate projections and borrowing and investment activity reports for the period April to December 2011.

The report seeks approval for borrowing limits and authorisation for the Director of Finance & Corporate Services to arrange the Council's cashflow, borrowing and investments in the year 2011/12.

CONTRIBUTORS
DFCS

Recommendations:

1. **To approve the future borrowing and investment strategies and authorise the Director of Finance and Corporate Services to arrange the Council's cashflow, borrowing and investments in 2011/12.**

2. **To approve the additions to the list of institutions to the Council's restricted lending list noted at 10.4.**

3. **In relation to the Council's overall borrowing for the financial year 2011/12, approve the Prudential Indicators as set out in Section 3 of this report.**

4. **To delegate future amendments to the credit criteria to Cabinet.**

1. Introduction

1.1. Background

Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 Treasury Management Strategy for 2011/12

The strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- prudential indicators
- the current treasury position;
- the borrowing requirements;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- debt rescheduling;

1.4 Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

a) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
b) any increases in running costs from new capital projects are limited to a level which is affordable within the projected revenue income of the Council for the foreseeable future.

2. Treasury Limits 2011/12 to 2013/14

- It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Authorised Limit".

- The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

- Whilst termed an "Authorised Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and the two successive financial years.

2.1 Limits to Borrowing Activity

- The Authorised Limit – This represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers "prudent" and it needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable and encompasses borrowing for temporary purposes. It is not a limit that is designed to be brought into consideration during the routine financial management of the authority. That is the purpose of the Operational Boundary.

- The Operational Boundary – This indicator is the focus of day to day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed Authorised Limit. Sustained breaches of the Operational Boundary would give an indication that the authority may be in danger of stepping beyond the Prudential boundaries it has set itself.

2.2 Interest Rate Exposures

Interest rate risk management is a key priority for local authority management. While fixed rate borrowing and investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates on at least part of a treasury management portfolio. This is a best practice approach to treasury management and is to be encouraged to the extent that it is compatible with the effective management and control of risk.

a) Upper Limit on fixed rate exposure -– This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.

b) Upper Limit on variable rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

c) Total principal funds invested for periods longer than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

d) Maturity structures of borrowing – This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is not necessary to include variable rate debt because local authorities do not face substantial refinancing risks. The indicator is, in effect, a limit on longer term interest rate exposure.

- This indicator gives the upper and lower limits for maturity structure of borrowing.

3. Prudential Indicators for 2010/11 – 2013/14

3.1 The Prudential Indicators in the table below are relevant for the purpose of setting an integrated treasury management strategy.

3.2 The Council is also required to indicate if it has adopted the revised 2009 CIPFA Code of Practice on Treasury Management. Council adopted this revised Code of Practice on 24th February 2010.

Table 1 - Prudential Indicators

Treasury Management Indicators	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**	**2013/14 £000**
Authorised limit for external debt				
Borrowing	563,249	553,523	529,283	521,379
Other Long Term Liabilities	16,000	16,000	16,000	16,000
Total authorised limit	579,249	569,523	545,283	537,379
Operational boundary				
Borrowing	499,694	479,520	479,345	459,090
Other Long Term Liabilities	16,000	16,000	16,000	16,000

Total operational boundary	515,694	495,520	495,345	475,090
Upper limit for fixed rate exposure expressed as :- net principal re fixed rate borrowing/ investments	540,000	544,000	533,000	509,000
Upper limit for variable rate exposure expressed as :- net principal re variable rate borrowing /investments	108,000	108,800	106,600	101,800
Upper limit for total principal sums invested for over 364 days	20,000	20,000	20,000	20,000

Maturity structure of fixed rate borrowing during 2010/11	Upper Limit	Lower Limit
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

4.Current Portfolio Position

4.1 The Council's treasury portfolio position at the 31 December 2010 is shown in the following table.

Table 2 – Current Debt Portfolio

		Principal		Ave. rate
		£000's	£000's	%
Fixed rate funding	PWLB*	475,520		
	Market	0	475,520	5.75
Variable rate funding	PWLB	0		
	Market	0	0	
Total Debt			475,520	5.75
Total Short Term Investments			93,700	1.03
Total Debt net of total Investments			381,820	

* Public Works Loan Board

4.2 The reason for the difference between the gross and net debt is because the Council has borrowed £77 million for the Decent Homes Initiative and expects this to be used by 31st March 2011. In addition, the Council is holding monies on behalf of Capital Ambition, West London Housing in addition to Section 106 planning money.

4.3 The split of Council's debt between the Housing Revenue Account and the General Fund is show below.

Table 3 – Council Debt split

	31st March 2010	31st March 2011(estimate)
HRA	404,634	414,829
GF	70,886	60,691
Total Debt	475,520	475,520

4.4 The General Fund Capital Financing Requirement (CFR) is £133 million as at 31/03/10 compared to £137 million as at 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 HRA CFR is due to the delivery of the decent homes programme. The total CFR is £538 million as at 31/03/10. The CFR represents the underlying need to borrow and is higher than the actual level of debt due to the temporary borrowing of internal resources.

4.5 It is estimated that the General Fund Capital Requirement (CFR) will be £127 million as at 31/03/11 compared to £133 million as at 31/03/10 a reduction of £6 million. The HRA CFR is estimated as £415 million as at 31/03/11 compared to £405 million as at 31/03/10 an increase of £10 million. The increase in HRA CFR is due to the delivery of the decent homes programme. The total estimate of CFR is £543 million as at 31/03/11.

5. Borrowing Requirement

5.1 The Council is currently exploring the setting up of a housing company which may result in a further increase in new borrowing in future years to enable the building of new dwellings.

Table 4 – Potential Borrowing Requirement

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
	Actual	Estimate	Estimate	Estimate
New borrowing (including ALMO)	0	0	0	0
Maturing loans	0	16,000	174	20,255

5.2 Due to the debt reduction policy it is likely that replacement borrowing will not be required for the maturing loans in 2011/12 to 2013/14.

5.3 Under the capital finance regulations, local authorities are permitted to borrow up to three years in advance of need. This Council will only consider borrowing up to 1 year in advance of need as the borrowing requirement in later years is only an estimate at this stage. The reason for borrowing in advance is to take advantage of low long term interest rates. There is a short term cost to borrowing in advance of need as currently investment rates are considerably lower than long term borrowing rates. This will be evaluated before any decision is taken to borrow in advance of need.

5.4 Borrowing in advance of need increases the level of temporary investments and thus increases the risk of loss of investment principal. However, the Council has put in place a prudent methodology to minimise this risk, see paragraph 11.

6. Prospects for Interest Rates

6.1 The Council appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix A draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view:

6.2 Sector Bank Rate forecast for financial year ends (March)

- 2010/2011 0.50%
- 2011/2012 1.00%
- 2012/2013 2.25%
- 2013/2014 3.25%

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

7. Borrowing Strategy

Sectors's forecast for PWLB borrowing rates is shown in the table below:

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

A more detailed forecast is included in appendix A

7.1 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority:-

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years.

- PWLB variable rate loans for up to 10 years.

- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity periods (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- Fixed rate PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

- Rates are expected to gradually increase during the year so it should therefore be advantageous to time new borrowing for the start of the year.

7.2 **Sensitivity of the forecast –** In normal times the main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowing will be postponed.

- If it were felt that there was a more significant risk of a sharp rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

8. Annual Investment Strategy

8.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2009 CIPFA's Treasury Management in Public Services of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Although the annual investment strategy has to be approved by full Council, it is proposed that amendments to the investment methodology are delegated to Cabinet to enable changes to be made on a timely basis to reflect changes in market conditions.

8.2 The Council's investments priorities are:-

(a) the security of capital and
(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments

8.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

8.4 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Counterparty limits will be as set by Council.

8.5 The Council in conjunction with its treasury advisor Sector, will use Fitch, Moody's and Standard and Poor ratings plus data on movements in credit default swap to derive its credit criteria. 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 the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn.

- In addition to the use of Credit Rating the Council will be advised of information in movements in Credit Default Swaps (CDSs) against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list. It should be noted that the Council is only monitoring CDS movements for information purposes, and is not actually purchasing any CDSs.

8.6 The DCLG guidance requires authorities to specify their minimum acceptable credit rating. The minimum ratings required by the Council are:

Fitch

Long Term	Short Term	Individual	Support
A-	F2	C	2

Moody's

Long Term	Short Term	Financial Strength
A3	P-2	C

S & P

Long Term	Short Term
A-	A-3

8.7 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies) see Appendix B. This list will be added to, or reduced, by officers should ratings change in accordance with this policy.

9. Interest rate outlook for investments

9.1 Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 3 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows:-

2010/11	0.50%
2011/12	1.00%
2012/13	2.25%
2013/14	3.25%

9.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

9.3 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.

9.4 For its cash flow generated balances, the Council will utilise its business reserve accounts, money market funds and short dates deposits (overnight to three months) in order to benefit from the compounding of interest.

The Council will report on its investment activity as part of a mid year review and at the end of the financial year as part of the Annual Outturn Report.

9.5 Specified Investments

A specified investment is defined in the guidance as an investment which satisfies the conditions set out below:

(a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
(b) The investment is not a long-term investment (ie over 364 days)
(c) The investment does not involve the acquisition of share capital or loan capital in any body corporate

Types of specified investments include and may be used by the Council are:

Term deposit – UK government
Term deposits – other Local Authorities
Term deposits – banks and building societies
Money market funds
Callable deposits – under 1 year
Certificates of deposits - issued by banks and building societies.
UK Government Gilts
Treasury Bills

9.6 Non-Specified Investments

The Council has made no investments in non-specified investments to date. These are any investments not meeting the definition in para 9.5 above.

9.7 However if there was a core cash balance available after taking into account the cash flow requirements and the outlook for short–term interest rates then the following non-specified investments could be used after consultation with our Treasury Advisor.

- Term deposits with banks with maturities in excess of one year.
- Term deposits with building societies with maturities in excess of one year
- Term deposits with Local Authorities with maturities in excess of one year.
- Structured deposits.
- Bond Funds with AAA rating credit criteria
- Callable deposits in excess of one year
- Certificates of deposits - issued by banks and building societies in excess of one year.

- UK Government Gilts in excess of one year

10. Credit Criteria

10.1 Each week the Treasury Section receives an up to date list of the credit rating for individual counterparties from our treasury advisors. In addition to this if any changes in the credit rating of individual counterparties or in banking structures e.g. on mergers or takeovers occur during the month Sector e-mail the amendments to the Treasury Section on a daily basis and the section adds/deletes counterparties as appropriate to/from the approved counterparty list.

10.2 The banking sector is still a volatile area and the current policy is that whilst we maintain our full lending list in accordance with the methodology in approved by Council on the 24th February 2010 we have been operating a more **restricted lending list**, lending only to UK banks, other Local Authorities and AAA Money Market Funds. For illustrative purposes Appendix B is attached to show the countries and organisations on the lending list at the present time using the approved methodology.

10.3 However, it is part of the Treasury Management Code of Practise that the Council needs a sound diversification policy with high credit quality counterparties. Such a policy is needed to prevent overreliance on a small number of counterparties and should also consider country, sector and group limits. In addition, there is a possibility that within the next 12 months the government will lower its support to RBS, Lloyds Bank and NatWest and therefore they will no longer have the creditworthiness of the government itself. The effect of this means the credit rating of these banks will be lower as the rating agencies will rate these banks without the government guarantee, this in turn means the Council will have to reduce the amount and duration the Council can lend to these banks. It is therefore proposed that we expand our current restricted list and diversify our lending portfolio now to other highly credit rated banks within highly credit rated countries. This will enable the Council to spread its credit risk but still maintain a low risk investment strategy.

10.4 Below is the proposed list of banking institutions which it is recommended the Council now adds to its **restricted lending list** use as well as the UK banking institutions, the AAA Money Market Funds and other Local Authorities. All of which are on our current lending list maintained in accordance with the agreed methodology approved by Council on 24 February 2010 for convenience it is shown as Appendix C.

10.5 Added to this the Nat West Call Account that we presently use will be affected by the new FSA liquidity rules and it is likely that call account deposits with instant access will pay a much lower rate of interest, possibly below base rate, this will further reduce the Council's investment options.

10.6 The limits are driven by the methodology which is shown in full in Appendix C the maximum limits for these banks are shown in the table below. The limits can change if there are rating changes, however the maximum limit would never be more than £25 Million.

	Fitch	Moody's	S&P	Max Limit
Australia	AA+	Aaa	AAA	£'000
Australia & New Zealand Bank	AA-, F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Commonwealth Bank of Australia	AA, F1+, A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
National Bank of Australia	AA,F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Westpac Bank Corporation	AA, F1+,A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
Canada	AAA	Aaa	AAA	
Bank of Montreal	AA-, F1+, B, 1	Aa2, P-1, B-	A+, A-1,	20,000
Bank of Nova Scotia	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
National Bank of Canada	A+,F1,B,2	Aa2, P-1, B-	A,A-1	20,000
Toronto Dominion Bank	AA-,F1+,B,1	Aaa, P-1, B+	AA-,A-1+	25,000
France	AAA	Aaa	AAA	
Societe Generale	A+, F1+, B/C, 1	Aa2, P-1, C+	A+, A-1	20,000
Germany	AAA	Aaa	AAA	
Deutsche Bank	AA-,F1+,B/C, 1	Aa3, P-1, C+	A+,A-1	20,000
Singapore	**AAA**	**Aaa**	**AAA**	
DBS Ltd	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
Overseas Chinese Banking Corporation	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000
United Overseas Bank Ltd	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000

11. Nationalised Banks and Part Nationalised Banks

In the UK, the nationalised and part-nationalised banks have credit ratings which do not conform to the credit criteria usually used to identify banks which are of high credit worthiness, as they are no longer separate institutions in their own right. However, the Council has agreed to invest in these institutions as they are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

12. Debt Rescheduling

12.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowing Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

12.2 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a lean towards longer dated PWLB.

12.3 The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings
- Help fulfil the strategy outlined in paragraph 8 above; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

13. Decent Homes Initiative

In 2005/06 DCLG awarded the Council £192 million for supported borrowing for Decent Home Initiative. This funding has been drawn down since 2005/06. There is a further borrowing requirement for the Decent Homes Initiative of £3.7 million in 2011/12.

14. **HRA Reform consultation**

The Government are currently considering the reform of the HRA. This would mean that central government may repay a significant portion of the Council's Housing debt. It is expected that the method used will be for the CLG to make a payment directly to the PWLB who will top slice all our PWLB loans in the ratio total debt repayment to total debt. These proposals are currently on hold and we are waiting for further announcements.

15. Investment Consultants and Investment Training

15.1 Sector Treasury Services Ltd were appointed on 1st February 2008 for a three year period following a tendering exercise. Sector provide interest rate forecasts, economic updates, strategy reviews, training for treasury management staff and advice on the formulation of suitable borrowing and investment strategies and advice on investment counterparty creditworthiness. As the Sector contract expires on 31st January 2011, a new tender process is currently underway.

15.2 The Council is a member of the CIPFA treasury management network which provides a forum for the exchange of views and training of treasury management staff independent of the treasury management consultants. It also provides a quality check on the services received from the consultants.

15.3 Treasury management staff are required to attend the CIPFA network meetings and Sector seminars and training events on a regular basis throughout the year to ensure that they are up to date at all times on developments in treasury management and continue to develop their expertise in this area.

16. Comments of the Director of Finance and Corporate Services

16.1 The comments of the Director of Finance and Corporate Services are contained within this report.

17. Comments of the Head of Legal Services

17.1 The statutory requirements are set out in the body of the report.

18. Comments of the Audit and Pensions Committee

18.1 TBA

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1	Borrowings and Investments Ledger	Rosie Watson Ext. 2563	Ground Floor Town Hall
2	CIPFA-Prudential Code - Accounting for Capital Finance	Rosie Watson Ext. 2563	Ground Floor Town Hall
3	Various Economic commentaries	Rosie Watson Ext. 2563	Ground Floor Town Hall

APPENDIX A Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector: interest rate forecast – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics: interest rate forecast – 12.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

UBS: interest rate forecast (for quarter ends) – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

2. Survey of Economic Forecasts

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2011		ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	2.00%		0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.50%		2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.80%		0.50%	0.50%	0.60%	1.20%

APPENDIX C

METHODOLOGY FOR ESTABLISHING CREDIT CRITERIA
The follow methodology has been used to establish the credit criteria for an organisation or group.

All Countries where investments are placed should have a minimum **Sovereign rating** of AA+

Exposure limit of £25 Million to be placed with any one country except the UK which would be unlimited.

The Council will use all 3 credit rating agencies Fitch, Moody's and Standard & Poor to derive its credit criteria. The methodology has a mathematical basis and gives a score to each of the ratings. An average score is then calculated for each of the constituent rating for Long Term, Short Term, Individual and Support. A sum of the averages is then taken and duration calculated based on this final value. The methodology is completely objective and mathematical, applying equal weight to each credit rating component.

The system also takes into account negative and positive rating watches and outlook.

The methodology applies a ranking and scoring procedure to the credit rating to obtain a number, based on all the credit ratings of every rating agency, which is then compared to the scoring bands.

Scoring procedure for the 3 Credit Rating Agencies

Long Term Ratings

Fitch		Moody's		S&P	
Rating	**Scoring**	**Rating**	**Scoring**	**Rating**	**Scoring**
AAA	1	Aaa	1	AAA	1
AA+	2	Aa1	2	AA+	2
AA	3	Aa2	3	AA	3
AA-	4	Aa3	4	AA-	4
A+	5	A1	5	A+	5
A	6	A2	6	A	6
A-	7	A3	7	A-	7

Short Term Ratings

Fitch		Moody's		S&P	
Rating	**Scoring**	**Rating**	**Scoring**	**Rating**	**Scoring**
F1+	1	-	-	A-1+	1
F1	2	P-1	2	A-1	2
F2	3	P-2	3	A-3	3

Only Fitch and Moody's use Individual Ratings

Individual Ratings

Fitch		**Moody's**	
Rating	**Scoring**	**Rating**	**Scoring**
-	-	A+	0.5
A	1	A	1
-	-	A-	1.5
A/B	2	B+	2
B	3	B	3
-	-	B-	3.5
B/C	4	C+	4
C	5	C	5

Support Ratings
As only Fitch uses Support ratings, there is no need to create any equivalency tables and we can use the rating directly into the calculation.

We then calculate the scoring for each counterparty on the scoring procedure.

Example

	Fitch				Moody's			S&P	
	Long Term	Short Term	Indiv	Suppor t	Long Term	Short Term	FRS	Long Term	Short Term
Bank									
Austrialia and New Zealand Banking Group	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+
Scoring	4	1	3	1	2	2	3	3	1

The Average for Long Term Rating is Fitch 4, Moody's 2 and S&P 3 = 9
9 divided by 3 (the no. of agencies) = 3

The Average for Short Term Rating is Fitch 1, Moody's 2 and S&P 1 = 4
4 divided by 3 (the no. of agencies) = 1.333

The Average for Individual Rating is Fitch 3 and Moody's 3 = 6
6 divided by 2 (the no. of agencies) = 3

The average for Support Rating is Fitch 1 as it is the only agency that uses Support Ratings

The sum total of these averages = 3+1.333+3+1 = 8.333

The score is now placed within the predetermined bands.

Bands

Colour	Lower Boundary	Upper Boundary
Purple	4.00	8.50
Orange	8.50	10.50
Red	10.50	12.50
Green	12.50	14.50
No Colour	14.50	30.00

Where:-
Purple - Exposure limit of £25 Million with a maximum duration of 24 months.
Orange - Exposure limit of £25 Million with a maximum duration of 364 days.
Red – Exposure limit of £20 Million with a maximum duration of 6 months.
Green – Exposure limit of £10 Million with a maximum duration of 3 months
No Colour – 0 months duration

In the example a score of 8.33 would place the bank in the Purple band and gives it a suggested maximum duration of 24 months.

Credit Watch/Outlook Overlay

To take into account credit watch and outlooks from the three credit rating agencies an overlay has been developed which penalises a counterparty's score.

The methodology focuses just on the negative and positive outlooks and watches. Although stable, evolving and developing outlooks are still considered important when looking for a broader credit perspective, they can not be correlated with a direct impact in the change of counterparties score on the credit list.

Watches – are considered short term actions, where as **outlooks** are considered over a longer period of time.

To take account of the effect of a bank being on **negative watch**, one point is added to the score of the relevant credit rating e.g. if Moody's placed a bank's short term rating on negative watch, we would add one point to its score. The opposite is applied for positive watches, 1 point is deducted.

To take account of the effect of a bank being on **negative outlook**, then 1/2 point is added to the score of the relevant credit rating e.g. if Moody's placed a bank's short term rating on negative outlook, we would add 1/2 point to its score. The opposite is applied for positive outlooks, 1/2 point is deducted.

In the example above for Australia and New Zealand Group if Fitch had placed the bank on negative watch we would have added one point to the Fitch Long Term score to penalise the bank

The Average for Long Term Rating is Fitch 4 +1, Moody's 2 and S&P 3 = 9

9 divided by 3 (the no. of agencies) = 3.333

Then when the sum total had been added together it would have changed from 8.333 to 8.666 which would move it down to a lower band – Orange.

Banks that do not have a four way credit rating

To account for banks that do not have a full 4 way credit rating i.e. Long Term, Short Term, Individual and Support ,adjustments will be made to that bank's score.

By not having a full set of ratings it can skew the score for a bank making it higher as only 2 or 3 variables are being taken into account. See example below.

Example

	Fitch				Moody's			S&P	
	Long Term	Short Term	Indiv	Support	Long Term	Short Term	FRS	Long Term	Short Term
Bank									
Jyske Bank					Aa2	P-1	B-		
Scoring					4	2	3.5		

The average score is going to be:-

Long Term - 4, Short Term – 2, Individual 3.5, Support – 0 = 9.5

As this bank is only rated by Moody's and therefore does not have a four way approach. Currently they have a score of 9.5 putting them into the Orange band.

This colour of Orange is biased upwards as only 3 ratings have been taken into account, so it is intended to drop the colour of the bank by one band for every missing rating.

So if an bank only had a Long and Short Term rating, the initial colour would be reduced by 2 bands.

Applying CDS spreads to the credit list

CDS spreads are used as it has been proven that credit rating agencies lag market events and thus do not provide investors with an "up to date" picture of the credit quality of a particular bank.

CDS spreads are used as an overlay to the credit ratings. CDS spreads provide perceived market sentiment regarding the credit quality of an institution. Since they are traded instruments, they reflect the market perception related to that entity's credit quality. Credit ratings look at a firm's fundamentals i.e. balance sheet, income statement etc. and tend to focus on a longer term view of the firm.

It is important to note that not all entities will have an actively traded CDS spread.

Trend analysis

The weekly credit list provided by Sector shows the 1 week, 1 month and 3 month percentage change in a counterparty's CDS spread. This allows Treasury officers to monitor the short, medium and long term trends of CDS spreads.

Benchmark analysis

The benchmark CDS index which measures the "average" level of the most liquid financial CDS spreads in the market is the iTraxx Senior Financials Index. This is an index published by Markit who are the leading company in CDS pricing and valuation. The index is based on an equal weighting of CDS spreads of 25 European financial companies.

The iTraxx can be used to see where an institution's CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit rating.

Adjusted duration

The methodology employs the rule that if the CDS spread of a bank/building society is below or equal to the level of the iTraxx, then it is deemed "In Range." It retains its' colour and duration.

If the bank/building society's CDS spread is between the iTraxx level and the iTraxx level + 50bps, then it is deemed "Monitoring." When a bank/building society is "Monitoring" its colour and duration is reduced by one band.

If the bank/building society's CDS spread is above the iTraxx level + 50bps, then it is deemed "Out of Range" its colour becomes no colour and is removed from the list.

Exceptions to this methodology

Nationalised and Part Nationalised Banks

See paragraph 11.

In light of this the colour Blue is used, for UK nationalised or part nationalised banks
Exposure limit of £35 Million with a maximum duration of 364 days.

Government

Debt Management Office
Treasury Bills
Government Gilts

No maximum amount because if we have no capacity to place funds with other financial institutions we need to place them with the government.

Public Authorities

Unitary Authorities
Local Authorities
Borough and District Council's
Met. Police
Fire and Police Authorities

These authorities do not have credit ratings but statute (LG Act 2003 s13) suggests that credit risk attached to these authorities is an acceptable one.

Exposure limit of £25 Million with a maximum duration of 364 days.

Money Market Funds

All funds have a AAA credit rating which have a 60 day weighted average maturity. These funds allow instant access to cash, and provide enhanced yield and security.

Exposure limit of £10 Million – no maximum duration as these are instant access funds.

APPENDIX B

CREDIT RATING LIST

Counterparty	Fitch rating								Moody's rating						S & P rating				Suggest Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Data						Suggested Duration (CDS Adjusted)
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term			17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	
Australia Sovereign	SB	AA+							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**50.6**	**-6.8%**	**7.1%**	**6.9%**	**-7.6%**	**In Range**	**Not Applicable**
Australia & New Zealand Banking Group Ltd	PO	AA-		F1+		B		1	NO	Aa1		P-1	NO	B	SB	AA		A-1+	Purple =24 mths	Orange = 12 mths	105.0	-3.3%	-5.1%	-3.1%	-16.4%	In Range	Orange = 12 mths
Commonwealth Bank of Australia	SB	AA		F1+		A/B		1	NO	Aa1		P-1	NO	B	SB	AA		A-1+	Purple =24 mths	Purple =24 mths	105.0	-2.9%	-4.8%	-1.5%	-15.5%	In Range	Purple =24 mths
National Australia Bank Ltd	SB	AA		F1+		B		1	NO	Aa1		P-1	NO	B	SB	AA		A-1+	Purple =24 mths	Purple =24 mths	106.0	-2.4%	-3.9%	-2.4%	-18.4%	In Range	Purple =24 mths
Westpac Bank Corporation	SB	AA		F1+		A/B		1	NO	Aa1		P-1	NO	B	SB	AA		A-1+	Purple =24 mths	Purple =24 mths	105.1	-2.9%	-4.9%	-2.0%	-15.7%	In Range	Purple =24 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration	17/12/10 (CDS Data)	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Canada - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable							**Not Applicable**
Bank of Montreal	SB	AA-		F1+		B		1	RD	Aa2		P-1	RD	B-	SB	A+		A-1	Orange = 12 mths	Red = 6 mths							No Data Available
Bank of Nova Scotia	SB	AA-		F1+		B		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	Orange = 12 mths	Orange = 12 mths							No Data Available
Canadian Imperial Bank of Commerce	SB	AA-		F1+		B		1	NO	Aa2		P-1	NO	B-	SB	A+		A-1	Orange = 12 mths	Red = 6 mths							No Data Available
National Bank of Canada	SB	A+		F1		B		2	SB	Aa2		P-1	SB	B-	SB	A		A-1	Red = 6 mths	Red = 6 mths							No Data Available
Royal Bank of Canada	SB	AA		F1+		A/B		1	DGSB	Aa1		P-1	DGSB	B	PO	AA-		A-1+	Purple =24 mths	Purple =24 mths							No Data Available
Toronto Dominion Bank	SB	AA-		F1+		B		1	NO	Aaa		P-1	NO	B+	PO	AA-		A-1+	Purple =24 mths	Purple =24 mths							No Data Available

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration	17/12/10 (CDS Data)	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Denmark - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**42.9**	**-2.3%**	**32.1%**	**23.7%**	**3.0%**	**In Range**	**Not Applicable**
Danske Bank AS	SB	A+		F1		B/C		1	SB	Aa3		P-1	NO	C	NO	A		A-1	Green = 3 mth	Green = 3 mths	113.2	-0.1%	9.3%	64.5%	37.1%	In Range	Green = 3 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration (Watch/Outlook Adjusted)	17/12/10 (CDS Data)	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted)
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Finland - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**32.0**	**0.3%**	**14.2%**	**7.2%**	**-2.0%**	**In Range**	**Not Applicable**
Nordea Bank Finland Plc	SB	AA-		F1+		B		1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	Orange = 12 mths	Orange = 12 mths							No Data Available

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted)
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
France - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**102.5**	**-2.0%**	**24.9%**	**33.5%**	**25.7%**	**In Range**	**Not Applicable**
BNP Paribas	SB	AA-		F1+		B		1	SB	Aa2		P-1	SB	B-	NO	AA		A-1+	Orange = 12 mths	Orange = 12 mths	103.1	1.6%	2.9%	10.2%	-7.8%	In Range	Orange = 12 mths
Societe Generale	SB	A+		F1+		B/C		1	NO	Aa2		P-1	NO	C+	SB	A+		A-1	Red = 6 mths	Red = 6 mths	147.5	-0.9%	6.5%	31.8%	1.4%	In Range	Red = 6 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Duration	CDS Data 17/12/10	Change	% Change	% Change	Change	CDS Status	Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Germany - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**55.5**	**1.5%**	**43.1%**	**42.5%**	**39.6%**	**In Range**	**Not Applicable**
Deutsche Bank AG	NO	AA-		F1+		B/C		1	SB	Aa3		P-1	SB	C+	SB	A+		A-1	Red = 6 mths	Red = 6 mths	100.0	-0.4%	0.5%	7.2%	-28.1%	In Range	Red = 6 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Duration	CDS Data 17/12/10	Change	% Change	% Change	Change	CDS Status	Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Hong Kong	SB	AA+							PO	Aa1					UP SB	AAA			Not Applicable	Not Applicable	**45.5**	**-10.5%**	**3.4%**	**-5.9%**	**-17.3%**	**In Range**	**Not Applicable**
Hong Kong and Shanghai Banking Corporation Ltd	SB	**AA**		**F1+**		**A/B**		**1**	SB	Aa1		P-1		B+	SB	AA		A-1+	Purple =24 mths	Purple =24 mths							No Data Available

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration (Watch/Outlo ok	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted)
	Term	L Term	Term	S Term	Indiv.	Indiv	Supp.	Support	L Term	L Term	S Term	S Term	FRS	FSR	L Term	L Term	S Term	S Term									
Netherland - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Applicable	Applicable	**59.8**	**-3.1%**	**20.7%**	**26.7%**	**22.9%**	**In Range**	**Not Applicable**
Bank Nederlandse Gemeenten	SB	AAA		F1+				1	SB	Aaa		P-1	SB	A	SB	AAA		A-1+	Purple =24 mths	Purple =24 mths							No Data Available
ING Bank NV	SB	A+		F1+		C		1	SB	Aa3		P-1	NO	C+	SB	A+		A-1	Red = 6 mths	Red = 6 mths	141.4	-0.9%	14.9%	29.5%	13.8%	In Range	Red = 6 mths
Co-operatieve Centrale Raliffeisen - Boerenleenbank BA	SB	AA+		F1+		A/B		1	NO	Aaa		P-1	NO	B+	NO	AAA		A-1+	Purple =24 mths	Purple =24 mths	77.9	2.2%	8.1%	13.9%	-22.1%	In Range	Purple =24 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Duration	CDS Data 17/12/10	Change	% Change	% Change	Change	CDS Status	Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									

Norway - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**22.0**	**0.8%**	**1.4%**	**-3.0%**	**-13.1%**	In Range	Not Applicable
DnB NOR Bank	SB	A+		F1		B		1	SB	Aa3		P-1	RD	C	SB	A+		A-1	Red = 6 mths	Red = 6 mths							No Data Available

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Singapore - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Applicable	Applicable							Not Applicable
DBS Ltd	SB	AA-		F1+		B		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	Orange = 12 mths	Orange = 12 mths	47.3	0.0%	14.5%	14.5%	-16.0%	In Range	Orange = 12 mths
Oversea Chinese Banking Corp Ltd.	SB	AA-		F1+		B		1	SB	Aa1		P-1	SB	B	SB	A+		A-1	Orange = 12 mths	Orange = 12 mths	50.3	0.0%	21.8%	21.8%	-10.7%	In Range	Orange = 12 mths
United Overseas Bank Ltd.	SB	AA-		F1+		B		1	SB	Aa1		P-1	SB	B	SB	A+		A-1	Orange = 12 mths	Orange = 12 mths	50.3	0.0%	21.8%	21.8%	-10.7%	In Range	Orange = 12 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Duration	CDS Data 17/12/10	Change	% Change	% Change	Change	CDS Status	Duration (CDS
	Term	L Term	Term	S Term	Indiv.	Indiv	Supp.	Support	L Term	L Term	S Term	S Term	FRS	FSR	L Term	L Term	S Term	S Term									
Sweden - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**32.0**	**-2.4%**	**10.7%**	**-5.8%**	**-21.4%**	In Range	Not Applicable
Nordea Bank AB	SB	AA-		F1+		B		1	SB	Aa2		P-1	NO	C+	SB	AA-		A-1+	Orange = 12 mths	Orange = 12 mths							No Data Available
Svenska Handelsbanken AB	SB	AA-		F1+		B		1	SB	Aa2		P-1	SB	C+	SB	AA-		A-1+	Orange = 12 mths	Orange = 12 mths	55.6	6.0%	13.4%	5.0%	-24.5%	In Range	Orange = 12 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
Switzerland - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable							Not Applicable
Credit Suisse	SB	AA-		F1+		B		1	NO	Aa1		P-1	NO	B	SB	A+		A-1	Orange = 12 mths	Orange = 12 mths	97.1	2.0%	7.2%	-0.5%	-34.8%	In Range	Orange = 12 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration (Watch/Outlook	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted)
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
UK - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**66.7**	**-3.1%**	**8.3%**	**-0.2%**	**-17.3%**	In Range	Not Applicable
Barclays Bank plc	SB	AA-		F1+		B		1	SB	Aa3		P-1	SB	C	NO	AA-		A-1+	Orange = 12 mths	Red = 6 mths	113.9	0.3%	11.1%	4.1%	-20.6%	In Range	Red = 6 mths
HSBC Bank plc	SB	AA		F1+		B		1	NO	Aa2		P-1	NO	C+	SB	AA		A-1+	Orange = 12 mths	Orange = 12 mths	84.7	-9.4%	20.7%	20.6%	-11.5%	In Range	Orange = 12 mths

Counterparty	Term Status	L Term	Term Status	S Term	Indiv. Status	Indiv	Supp. Status	Support	L Term Status	L Term	S Term Status	S Term	FRS Status	FSR	L Term Status	L Term	S Term Status	S Term	Duration	Duration (Watch/Outlo	17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Duration (CDS Adjusted)
Standard Chartered Bank	SB	AA-		F1+		B		1	SB	A1		P-1		B-	SB	A+		A-1	Red = 6 mths	Red = 6 mths	86.0	-5.0%	11.4%	1.0%	-17.0%	In Range	Red = 6 mths
Sumitomo Mitsui Banking Corporation Europe Ltd.	SB	A		F1		C		1	SB	Aa2		P-1	SB	C	SB	A+		A-1	Green = 3 mth	Green = 3 mths	59.9	-0.9%	2.7%	-0.9%	-35.6%	In Range	Green = 3 mths

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Duration (Watch/Outlo	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Duration (CDS Adjusted)
	Term Status	L Term	Term Status	S Term	Indiv. Status	Indiv	Supp. Status	Support	L Term Status	L Term	S Term Status	S Term	FRS Status	FSR	L Term Status	L Term	S Term Status	S Term									
US - Sovereign	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	**40.5**	**-2.0%**	**-2.4%**	**-11.4%**	**11.1%**	**In Range**	**Not Applicable**
Bank of New York Mellon	SB	AA-		F1+		A/B	NW	1		Aaa		P-1		B+	SB	AA		A-1+	Purple =24 mths	Purple =24 mths							No Data Available
HSBC Bank USA	SB	AA		F1+		B/C		1	NO	Aa3		P-1	NO	C	SB	AA		A-1+	Orange = 12 mths	Red = 6 mths							No Data Available
JP Morgan Chase Bank NA	SB	AA-		F1+		B	NW	1	NO	Aa1		P-1	NO	B	NO	AA-		A-1+	Orange = 12 mths	Orange = 12 mths	82.4	2.7%	-9.1%	-6.4%	-20.6%	In Range	Orange = 12 mths
State Street Bank and Trust Company	SB	A+		F1+		B	NW	1	NO	Aa2		P-1	NO	B	NO	AA-		A-1+	Orange = 12 mths	Red = 6 mths							No Data Available

Counterparty	Fitch rating								Moody's rating						S & P rating				Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Data 17/12/10	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted)
	Fitch L Term Status	L Term	Fitch S Term Status	S Term	Fitch Indiv. Status	Indiv	Fitch Supp. Status	Support	Moody's L Term Status	L Term	Moody's S Term Status	S Term	Moody's FRS Status	FSR	S &P L Term Status	L Term	S &P S Term Status	S Term									
UK Nationalised and Part nationalised banks																											
Bank of Scotland Plc	SB	AA-		F1+		C		1	SB	Aa3		P-1	SB	D+	SB	A+		A-1	Blue = 12 mth	Blue = 12 mths							Not Applicable
Lloyds TSB Bank plc	SB	AA-		F1+		C		1	SB	Aa3		P-1	SB	C-	SB	A+		A-1	Blue = 12 mth	Blue = 12 mths	199.3	8.1%	21.2%	18.7%	-12.9%		Not Applicable
National Westminster Bank plc	SB	AA-		F1+				1	SB	Aa3		P-1	SB	C-	SB	A+		A-1	Blue = 12 mth	Blue = 12 mths							Not Applicable
Royal Bank of Scotland plc	SB	AA-		F1+		C/D		1	SB	Aa3		P-1	SB	C-	SB	A+		A-1	Blue = 12 mth	Blue = 12 mths	200.9	1.7%	20.0%	17.2%	-2.6%		Not Applicable
Ulster Bank Ltd	SB	A+		F1+		E		1	NO	A2		P-1	NO	D-	NW	A	NW	A-1	Blue = 12 mth	Blue = 12 mths							Not Applicable

EXPOSURE LIMITS
Blue - Exposure limit of £35 million with a maximum duration of 364 days
Purple - Exposure limit of £25 million with a maximum duration of 24 months
Orange - Exposure limit of £25 million with a maximum duration of 364 days
Red - Exposure limit of £20 million with a maximum duration of 6 months
Green - Exposure limit of £10 million with a maximum duration of 3 months
No colur - o moths duration

MONEY MARKET FUNDS
PRIMERATE
INSIGHT
BLACKROCK
GOLDMAN SACHS
All funds have AAA credit rating which have a 60 weighted average maturity. These funds allow instant access to cash, and provide enhanced yield and security
Exposure limit of £10 million per fund - no maximum duration as these are instant access funds

GOVERNMENT
Debt Management Office
Treasury Bills
Government Bills

No maximum amount because if we no capacity to place funds with other financial instutions we need to place them with the government.

PUBLIC AUTHORITIES
Unitary Authorities
Local Authorites
Borough and District Council
Fire and Police Authorities

These authorities do not have credit ratings but statue suggests that credit risk attached to these authorities is an acceptable one.
Exposure limit of £25 million with a maximum duration of 364 days

Group Limits
The following banks operate under their own name but are part of the same banking group
1)Lloyds Bank Group plc - Bank of Scotland/Lloyds TSB plc, Halifax plc, HBOS Treasury Services
2)Royal Bank of Scotland Group plc - ABN AMRO Bank NV, Nat West, RBS plc, Ulster Bank Ltd
3) Dexia Bank (in Belgium), Dexia BIL (in Luxembourg), Dexia Credit Local (in France)
4) Credit Agricole, Credit Agricole Indosuez, Calyon (French)
5) HSBC plc, HSBC Bank USA, Hong Kong and Shanghai Banking Corp (Hong Kong)
6) Bank of Ireland and Bristol and West
7) Nordea Bank's - Denmark, Finland, Norge ASA, Sweden
8) Banco Santander - Banco Santander UK plc (old Abbey National) Alliance and Leicester, Bradford and Bingley
9)Nationwide Buiding Society, Derbyshire, Cheshire and Dunfermline Building Society
10) Barclays, Woolwich
The limits for the Groups will be £25 Million or as per the Lending limit for the individual Bank except for the UK which would be unlimited.

The Council minimum rating requirement is as follows

Sovereign Rating	**AA+**			
	Long Term	**Short Term**	**Individual**	**Support**
Fitch	A-	F2	C	2
	Long Term	**Short Term**	**Financial Strength**	
Moody's	A3	P-2	C	
	Long Term	**Short Term**		
S & P	A-	A-3		

KEY

NO - Negative Outlook	DG NO	Downgrade & Negative Outlook
NW - Negative Watch	DG NW	Downgrade & Negative Watch
DG - Downgrade	DG RD	Downgrade & Under Review for Possible Downgrade
RD - Under Review for Possible downgrade	DG SB	Downgrade & Stable Outlook
PO- Positive Outlook	DG EW	Downgrade & Evolving Watch
PW - Postitive Watch	DG EO	Downgrade & Evolving Outlook
UP - Upgrade	DG DO	Downgrade & Developing Outlook
RU - Under Review for Possible Upgrade	DG UN	Downgrade & Direction Uncertain
SB - Stable Outlook	UP PO	Upgrade and Positive Outlook
EW - Evolving Watch	UP PW	Upgrade and Positive Watch
EO - Evolving Outlook	UP RU	Upgrade and Under review for Possible Upgrade
WD - Rating Withdrawn	UP SB	Upgrade and Stable Outlook
DO - Developing Outlook	UP EO	Upgrade and Evolving Outlook
UN -Direction Uncertain	UP DO	Upgrade and Developing Outlook
	UP UN	Upgrade and Direction Uncertain

17/12/10

AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS	Subject: Wormwood Scrubs Annual Governance Report 2009-10	WARDS
Audit Commission	The audit of the Wormwood Scrubs Accounts 2009-10 is complete and an unqualified opinion has been issued. Auditing standards require external auditors to report findings from the audit to the Audit Committee; this report details those findings.	All

RECOMMENDATION:

1. To note the content of the report

Annual governance report

Wormwood Scrubs Charitable Trust

Audit 2009/10

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.

Contents

To the Trustee

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.

A draft of the report was discussed and agreed with the Interim Assistant Director Parks and Culture in January 2011 and has been updated since as issues have been resolved.

The 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 (page 5);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Charity before I issue my opinion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Jon Hayes
District Auditor

January 2011

Key messages

This report summarises the findings from my 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	5
Financial statements free from error	No	5
Adequate internal control environment	Yes	5

Audit opinion

1 I plan to issue an audit report including an unqualified opinion on the financial statements.

Independence

2 I can confirm that I have carried out the audit 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 charity'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.

3 I ask the Trustees to:

- consider the matters raised in the report before approving the financial statements (page 5);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3); and
- approve the letter of representation on behalf of the Charity before I issue my opinion (Appendix 4).
- agree your response to the proposed action plan (Appendix 5).

Financial statements and statement on internal control

The charity's financial statements are important means by which the Wormwood Scrubs Charitable Trust accounts for its stewardship of public funds. As Trustee you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

4 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.

Errors in the financial statements

5 I identified two instances where evidence could not be provided, or did not reconcile, to the transactions in the accounts. Both transactions related to income, though their combined value is not material. Appendix 3 details these amendments.

Recommendation	
R1	Investigate the income transactions which appear in the accounts but cannot be supported.

Letter of representation

6 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 4 contains the draft letter of representation.

Appendix 1 – Independent auditor's report to Wormwood Scrubs Charitable Trust

I have audited the financial statements of Wormwood Scrubs Charitable Trust for the year ended 31 March 2010 which comprise the Statement of Financial Activities, the Balance Sheet, and the related notes. The financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the charity's trustee, as a body, in accordance with section 43 of the Charities Act 1993 and regulations made under section 44 of that Act. My audit work has been undertaken so that I might state to the charity's trustee those matters I am required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the charity and its trustee as a body, for my audit work, for this report, or for the opinions I have formed.

Respective responsibilities of trustee and auditor

The trustee's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustee's Responsibilities.

I have been appointed as auditor under section 29 of the Audit Commission Act and section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of the Charities Act 1993. My responsibility is to audit the financial statements 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 financial statements give a true and fair view and are prepared in accordance with the Charities Act 1993. I also report to you if, in my opinion, the information given in the Trustee's Annual Report is not consistent with those financial statements, if the charity has not kept sufficient accounting records, if the charity's financial statements are not in agreement with these accounting records or if I have not received all the information and explanations I require for my audit.

I read the Trustee's Annual Report and consider the implications for my report if I become aware of any apparent misstatements within it.

Basis of audit opinion

I conducted my audit in accordance with 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the trustee in the preparation of the financial statements and of whether the accounting policies are appropriate to the charity'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 financial statements 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 financial statements.

Opinion

In my opinion:

- the financial statements comply with the requirements of regulation 8 of the Charities (Accounts and Reports) Regulations 2008
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charity as at 31 March 2010 and of its incoming resources and application of resources, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Charities Act 1993; and
- information which comprises the commentary on the financial performance of the charity, included in the Trustee's Annual Report, is consistent with the financial statements.

Jon Hayes
District Auditor
Audit Commission
Millbank Tower
London SW1P 4QP

Xx January 2011

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during the course of my audit and managers have adjusted the financial statements. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 1:

Adjusted misstatement	Nature of adjustment	£
Note 9: Provisions	The note has been amended to be consistent with the balance sheet.	1,532

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 2:

Accounts affected	Description of error	Value of error £
Incoming resources: pay and display parking meters	Supporting evidence for one item in my sample did not reconcile to the amount in the accounts. The error was £38 which extrapolates to £1,223.	1,223
Incoming resources: Hammersmith Hospital Car Park Licence	Supporting evidence could not be provided for one item in my sample. I tested the remaining balance so extrapolation of the error is not required.	4,589

Appendix 4 – Draft letter of representation

To:

Jon Hayes, District Auditor

1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

Wormwood Scrubs Charitable Trust - Audit for the year ended 31 March 2010.

I confirm to the best of my knowledge and belief, the following representations given to you in connection with your audit of the Charity's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Statement of Recommended Practice for Charities and United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the financial position and financial performance of the Wormwood Scrubs Charitable Trust and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Wormwood Scrubs Charitable Trust and the reasons for not correcting these items are as follows:

- reason 1 etc; and
- reason 2.

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 Wormwood Scrubs Charitable Trust have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Trustee 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 Wormwood Scrubs Charitable Trust.

The Charity 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.

Assets

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

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

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.

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 Trustees, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Wormwood Scrubs Charitable Trust

I confirm that this letter has been discussed and agreed by the Trustee on January 2011.

Signed

Name: Michael Hainge

Position: Interim Assistant Director Parks and Culture

January 2011

Appendix 5 Action Plan

Recommendations	
Recommendation 1	
Investigate the income transactions which appear in the accounts but cannot be supported.	
Responsibility	Wormwood Scrubs Charitable Trust officers
Priority	Low
Date	March 2011
Comments	The £4,589 transaction relates to a long standing agreement with a single customer and will continue to be investigated. Any required adjustments will be made to the 2010/11 accounts.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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.

Audit Commission

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www.audit-commission.gov.uk February 2011

AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS	Subject: Council Audit Opinion Plan 2010-11	WARDS
Audit Commission	This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the financial statements 2010-11.	All

RECOMMENDATION:

1. To note the content of the report

Audit opinion plan

London Borough of Hammersmith and Fulham

Audit 2010/11

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

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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.

Contents

Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of the financial statements 2010/11. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

4 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit of financial statements

5 The fee for the audit is £328,000 as indicated in my letter of 13 April 2010.

6 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- a complete set of working papers will be supplied at the commencement of the audit; and
- audit queries are resolved in a timely manner.

7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and Corporate Services and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions London Borough of Hammersmith and Fulham could take to reduce its audit fees

9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take to reduce audit fees.

Auditors report on the financial statements

10 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

11 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Identifying opinion audit risks

12 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

13 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Risk area	Audit response
2010/11 is the first year that accounts are prepared in accordance with International Financial Reporting Standards. Prior year accounts will require restating.	We will audit the restated prior year accounts and will carry out early work where possible on the most technical areas: ■ leases; ■ government and non-government grants; ■ short-term employee benefits; ■ segmental reporting; ■ non-current assets; and ■ disclosure.
The Council have a new income receipting system. Auditing standards require auditors to gain an understanding of information systems relevant to financial reporting.	We will document the new system to ensure we understand how it informs the production of the accounts.
The Council does not prepare group accounts as they are not judged as material to the user.	We will review the justification for not preparing group accounts to ensure it remains relevant.

Testing strategy

14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.

15 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).

16 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early:

- restatement of the 2009/10 comparators on an IFRS basis;
- review of accounting policies;
- bank reconciliation; and
- cut-off testing.

17 Where other early testing is identified as being possible, this will be discussed with officers. Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

Changes to International Standards on Auditing

18 The audit of the financial statements I deliver to you is governed by a framework established by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

19 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project.

20 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

21 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

22 Appendix 3 summarises the changes which relate to:

- journals;
- related party transactions;
- accounting estimates;
- group accounts; and
- reporting deficiencies in internal control.

The audit team

23 The key members of the audit team for the 2010/11 audit are shown in the table below.

Table 2: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Julian McGowan Audit Manager	j-mcgowan@audit-commission.gov.uk 0844 798 2655	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

24 I have identified one possible conflict of interest relating to a member of the audit team. This relates to the Audit Manager who has previously line managed a member of staff who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate this potential threat to my independence. These safeguards include my review of working papers prepared by the member of staff and of the work of the Audit Manager. Arrangements are also in place to ensure meetings between the member of staff and Audit Manager also involve a Principal Auditor. Finally, the Audit Manager will retain the Corporate Services Accountancy Manager as the primary contact for the audit.

25 Other than this, I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.

26 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Quality of service

27 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

28 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer
(The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

29 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Pensions Committee.

Table 3: **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum	October 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- our cumulative knowledge of the Council;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements at the commencement of the audit;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 2010/11 opinion audit - changes you can expect to see

Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related party transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Group accounts

ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. As a result of the changes, you will see an increase in communication between yourselves, me and other entities within the group. I will also need to know:

- the controls involved in the group, for example, accounting policies used or how you manage different year ends;
- what is involved in the consolidation process; and
- whether any other auditors are used to audit part of the group.

Deficiencies in Internal Control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake further audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as those charged with governance.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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Audit Commission

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www.audit-commission.gov.uk January 2011

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putting residents first

AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS	Subject: Pension Fund Audit Opinion Plan 2010-11	WARDS
Audit Commission	This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the Pension Fund financial statements 2010-11.	All

RECOMMENDATION:

1. To note the content of the report

Audit opinion plan

Hammersmith and Fulham Pension Fund

Audit 2010/11

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.

Contents

Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

2 I will discuss and agree this plan, and any reports arising from the audit, with the Audit and Pensions Committee.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:
- the Audit Commission Act 1998; and
- the Code of Audit Practice.

5 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

Fee for the audit

The indicative fee for the audit is £35,000.

6 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2010/11.

7 The fee for the audit is £35,000, as indicated in my letter of 11 May 2010.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10; and
- good quality, accurate working papers are available at the start of the financial statements audit.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Hammersmith and Fulham Pension Fund could take to reduce its audit fees

11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

12 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

13 I am also required to review the pension fund annual report as per the LGPS regulations 2008.

Materiality

14 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

15 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
In the 2009/10 audit there were variances between the accounts and LPFA records. Employer and employee contributions in the accounts varied from the detailed breakdowns provided by the London Pension Fund Authority (LPFA). The statistics in the draft accounts for members, pensioners and deferred pensioners, provided by the LPFA, did not reconcile to Pension Fund records.	We will substantively test employer and employee contributions and will ensure the reported pension statistics reconcile to underlying records.
The Pension Fund has established a separate bank account in line with guidance from the Department for Communities and Local Government. Previously, Pension Fund cash was held in the Council bank account.	We will review the year end bank reconciliation to ensure appropriate controls over Pension Fund receipts and payments have been established.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

16 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

17 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- review of accounting policies; and
- bank reconciliation.

Where I identify other possible early testing, I will discuss it with officers.

18 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

19 I also plan to rely on the work of experts in the following areas.

- The custodian for the valuation of the Pension Fund investments.
- The actuary for the valuation of the Pension Fund liabilities.

.

Key milestones and deadlines

The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

20 The key stages in producing and auditing the financial statements are in Table 2.

21 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

22 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

The audit team

Table 2 shows the key members of the audit team for the 2010/11 audit.

Table 2: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Julian McGowan Audit Manager	j-mcgowan@audit-commission.gov.uk 0844 798 2655	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

23 I have identified one possible conflict of interest relating to a member of the audit team. This relates to the Audit Manager who has previously line managed a member of staff who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate this potential threat to my independence. These safeguards include my review of working papers prepared by the member of staff and of the work of the Audit Manager. Arrangements are also in place to ensure meetings between the member of staff and Audit Manager also involve a Principal Auditor. Finally, the Audit Manager will retain the Corporate Services Accountancy Manager as the primary contact for the audit.

24 Other than this, I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Quality of service

26 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

27 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

28 My team will discuss and agree reports with the right officers before issuing them to the Audit and Pensions Committee.

Table 3: **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum	October 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:

- my cumulative knowledge of the Pension Fund;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Pension Fund officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by the agreed dates;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Pensions Committee.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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.

Audit Commission

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www.audit-commission.gov.uk January 2011

Agenda Item 13

AUDIT AND PENSIONS COMMITTEE

17 February 2011

CONTRIBUTORS	Subject	WARDS
Internal Audit Manager	**Audit Commission recommendations updates & Annual Governance Statement 2010 Action Plan** This report sets out progress on the implementation of previous Audit Commission recommendations and on progress against the Annual Governance Statement 2010 Action Plan.	**All**

RECOMMENDATION:

That the Committee notes the report.

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 8 recommendations have been sought for this report provided including those contained in the 2009/10 Annual Audit Letter which have not previously been reported. Six recommendations have been reported as either fully implemented or ongoing whilst the remaining two will require further updates at future meetings including one for which no update has been received. We will continue to report progress on all outstanding recommendations at future meetings together with recommendations contained in any newly received reports.

Annual Governance Statement Action Plan

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

Attached as Appendix 2 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 Audit and Pensions 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 3 shows the current stated position as reported by the identified responsible officers.

Unless otherwise stated, Internal Audit has not verified the current position reported in either appendix and can therefore not give any independent assurance in respect of the reported position.

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

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	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU
2.	Annual Governance Statement Action Plan	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

Audit Commission Recommendation updates

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
Grants 2008-09					
New Deals for Communities					
	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	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. ***{Target Date: December 2010}***	***Currently awaiting update from responsible officer***

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
2009/10 Annual Governance Report					
	R1 Ensure a full set of working papers is available for the agreed date of the commencement of the audit.	*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* ***{Target Date: June 2011}***	Deputy Director of Finance	All working papers are being reviewed and improvements implemented where appropriate. Corporate Finance is co-ordinating quarterly in year closing to ensure all balance sheet, revenue and capital entries are properly scrutinised before the year end. This will reduce the amount of time required to close the accounts post 31st March 2011 and give more time for working papers to be produced and quality checked before the commencement of the audit. **{Target Date: June 2011}**	*The working paper requirements for 2010-11 accounts have been received from the Audit Commission and Corporate Finance will be contacting all relevant officers to inform them of what is expected. A closing timetable will be published by mid February which will detail all tasks and working papers with deadlines for completion. The closing programme will be monitored and reviewed on a regular basis by FSB (Financial Strategy Board) and FDB (Finance Development Board) to ensure deadlines are met.* *This recommendation is now closed and no further updates will be reported.*

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	R2 Review the £2.3 million of unallocated receipts in the sales ledger.	*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* ***{Target Date: December 2010}***	Deputy Director of Finance	These unallocated receipts are currently being analysed by department and ledger and preliminary discussions have taken place with IT to formulate possible options. It is intended that possible options will be produced by the end of December and agreed early in January 2011 for immediate implementation. **{Target Date: January 2011}**	*The balance has been reviewed and a plan was agreed by FDB (Finance Development Board) in December 2010. This involves staff from all departments and it is expected that at least 80% of the balance will be cleared by 31st March 2011. A process for clearing unallocated cash on an ongoing basis has also been agreed and this is now in place.* *This recommendation is now closed and no further updates will be reported.*

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
Annual Audit Letter 2009/10					
	R1 Improve the timeliness and quality of the working papers to support the Pension Fund financial statements.	The Council recognises the need to improve in both these areas. An action plan has been produced which assigns responsibilities to named individuals with deadlines and clear expectations. Particular problems were encountered in reconciling membership numbers between the council and the LPFA and this is being addressed with the LPFA with monthly reconciliations taking place (from September 2010). It is hoped that regular monitoring and reconciliations during the year (on a monthly basis) will allow the working papers to be produced earlier and to a higher standard. ***{Immediate and Ongoing}***	Deputy Director of Finance	***Not previously reported***	*Implementation of this recommendation continues to be ongoing.* ***Further updates will not be provided as a matter of course.*** ***This recommendation is covered by R1 Annual Governance Report.***

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	R2 Ensure the capacity of the finance team is maintained.	The Council recognises the challenges ahead in respect of accounts preparation and readiness for audit. Plans are in place to replace members of the team who have recently left and existing staff are working flexibly to resource areas such as IFRS implementation and quality and timeliness of working papers. The position is monitored on a regular basis by the Financial Strategy Board (FSB) and the Financial Development Board (FDB). ***{Ongoing}***	Deputy Director of Finance	***Not previously reported***	*Implementation of this recommendation continues to be ongoing.* ***Further updates will not be provided as a matter of course.***

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	R3 Improve the quality of working papers provided in support of the Teachers' Pension Grant Claim.	It is recognised that improvements need to be made in the quality of working papers submitted and in the responses to auditors' queries. A review of the 2009/10 issues is underway and an action plan will be produced by December 2010 to address them. The plan for the 2010/11 audit will be shared with the Audit Commission to ensure it meets the grant certification requirements and this will form the basis for information produced and submitted in support of the claim. ***{Target Date: April 2011}***	Assistant Director (Human Resources)	***Not previously reported***	A bi-monthly report of all teachers pension contributions on Trent is now produced which enables any anomalies to be corrected immediately. The total contributions are reconciled to the payments made to Teachers Pensions on a monthly basis to ensure they balance. There is now only one school using an external which does provide monthly listings of contributions so these are being checked as above. A meeting will be set up with Audit Commission in advance of submission of working papers to ensure both parties are clear what will be required and the format submitted, paper, spreadsheets etc. *This recommendation is now closed and no further updates will be reported.*

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	R4 Improve the level of compliance with internal procedures when making housing benefit claimant assessments.	The Subsidy team was established 3 years ago and has been successful in reducing the errors in the overall subsidy claim to a net £21k in the 2008/09 claim. Whilst the system of quality checking has made improvements we accept in now needs to be reviewed to maximise the impact of the quality checking that we can currently resource. This will be undertaken after the 2009/10 subsidy claim audit has been completed. ***{Target Date: May 2011}***	Assistant Director (H&F Direct)	***Not previously reported***	*The 2009/10 audit was completed in December, but some outstanding queries are still being finalised and therefore the claim has still to be signed off. It is expected that this should be by middle of January 2011.* *As planned the review of the process and type of quality checking will be reviewed over the next few months.* ***Further updates to be provided to future meetings***

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	R5 Underpin closer collaboration and integration with the City of Westminster Council and the London Borough of Kensington & Chelsea with appropriate governance arrangements.	Hammersmith & Fulham, Westminster and Kensington & Chelsea are looking at plans to share more services. Various working groups are being set up to develop and study options for four main areas: children's services, environmental services, adult social care and corporate services. A variety of options are being considered and all are at an exploratory stage. All viable proposals will be presented to the Leaders and Chief executives of the three boroughs in an official report by the end of February 2011. ***{Ongoing}***	Chief Executive and Director of Finance & Corporate Services	***Not previously reported***	*Implementation of this recommendation continues to be ongoing.* ***Further updates will not be provided as a matter of course.***

2009/10 Annual Governance Statement

Action Plan

<table>
<tr><th>AGS Finding re Significant Control Weakness</th><th>Responsible Officer</th><th>December Update</th><th>Update for February Audit and Pensions Committee meeting</th></tr>
<tr><td>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.</td><td></td><td colspan="2">Audit work has been carried out and a draft management letter on Budget Variances was issued in January. Once management responses have been received the letter will be finalised within quarter 4. The management letter includes 3 recommendations for further action.</td></tr>
<tr><td>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.</td><td>Head of Corporate Accountancy</td><td>The financial systems stream of the WCFM project has identified improvements to the reconciliation of financial systems which are being implemented now.</td><td>Improvements continue to be made and a comprehensive schedule of systems reconciliations is being compiled which will form the workplan for the centralised systems team which is part of the new WCFM structure currently out for consultation.</td></tr>
</table>

AGS Finding re Significant Control Weakness	Responsible Officer	December Update	Update for February Audit and Pensions Committee meeting
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.	Head of IT Strategy	The Business Continuity paper was approved in February 2010. H&F Bridge Partnership have negotiated with suppliers on data storage, made proposals for cost containment and determined a suitable supplier for the future Storage Area Network, which is a key part of the BC proposals. Procurement has taken place. Though the plan was originally to have a the new BC service ready in December 2010, an unexpected issue causing a delay arose in relation to the installation of upgraded air conditioning in the Hammersmith Town Hall computer room. This work cannot now complete until the end of November which means that user acceptance testing for the whole service has had to be put back to complete in February, at which point the whole service can go live. **{Target Date 28/2/11}**	Upgraded air conditioning has now been installed in the Hammersmith Town Hall computer room, permitting HFBP to begin the real work of installing new servers and storage for Business Continuity. HFBP have come up with an innovative way of completing testing which will allow the user acceptance testing for the whole service to be done largely in normal work time, starting mid January. This is now planned to complete end of February 2011, at which point the whole service can go live. **{Target Date 28/2/11}**

AGS Finding re Significant Control Weakness	Responsible Officer	December Update	Update for February Audit and Pensions Committee meeting
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.	Principal Consultant (Strategic Procurement)	The Quarterly Internal Audit report to the September meeting of the Committee included the following update on the follow-up audit work carried out in relation to the 2009/10 *Use of Consultants* Internal Audit 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."	

AUDIT AND PENSIONS COMMITTEE

17th February 2011

CONTRIBUTORS	Subject: IFRS UPDATE	WARDS
FCS **ENV** **IFRS Project Team**	A briefing on IFRS compliance was brought to the Audit Committee in March 2010. This report provides an update on the work which has been undertaken since then, key issues and achievements against deadlines.	**All**

RECOMMENDATION:

To note the contents of this paper

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	IFRS project working papers	Caroline Wilkinson x1813	FCS

1 Summary of Key Issues

1.1 The IFRS project is on track to produce re-stated 2009/10 accounts by the 31st March 2011.

1.2 It is expected that the IFRS changes will have no cash effect on LBHF's accounts. Adjustments to the accounts will be written back out so that they do not affect the bottom line

1.3 The Audit Commission have worked closely with the IFRS project team to discuss the treatment of complex changes

1.4 No additional costs have been incurred by the project, as all work has been carried out by existing staff and systems

1.5 It is proposed that no further specific update is brought to the Audit Committee about IFRS. The IFRS changes will be incorporated into the 2010/11 Statement of Accounts and therefore a review of IFRS implementation will be incorporated into reports on the 2010/11 closure process.

2 Background

2.1 Public sector organisations are required to adopt IFRS when producing their year end statement of accounts, to bring them in line with private sector standards and facilitate the production of Whole of Govt Accounts.

2.2 The NHS are required to implement the changes for their 2009/10 accounts, whilst local government must implement IFRS for the 2010/11 accounts. However, as the balance sheet requires prior year comparators, authorities will have to recalculate 2009/10 figures on an IFRS basis too.

2.3 CIPFA have been keen to ensure that IFRS changes don't have any real cash effect on Council Tax levels, and therefore they have released their own version of the IFRS code. This means that whilst some IFRS changes are to be implemented fully, others have been adapted significantly.

3. Revised IFRS Timeline

March – June 2009
Regular meetings with the Audit Commission commence
Preparatory work undertaken to establish high risk and priority areas of IFRS work

↓

July – August 2009
CIPFA consultation on IFRS released. LBHF views submitted
Internal Audit begin the first of their quarterly IFRS project reviews

↓

Sept 2009 – March 2010
Project Team begins to meet monthly.
Detailed work commences on most complex areas eg. leases, PFI, assets
Frequent meetings with the Audit Commission to discuss areas of complex change

↓

March 2010
IFRS update taken to the Audit Committee

↓

April – October 2010
The project team prepared working papers on the key change areas for the Audit Commission to review

↓

October 2010 - February 2011
Audit Commission review working papers on IFRS areas of change.

↓

February – March 2011
Revised 2009/10 Statement of Accounts produced for review by the Audit Commission

3.1 This timeline differs to the original IFRS timeline in that the original timescale stated the revised 2009/10 Accounts would be produced by December 2010, for review by the Audit Commission. The revised timescale shows the revised 2009/10 Accounts being ready for review by March 2011. The reasons for this delay are:

- CIPFA did not release the practitioners guide until the 20th December 2010. The practitioners guide provides the detail and examples of how the IFRS changes should be worked through the Accounts. Therefore, although general guidance on IFRS changes had been released prior to December, there was insufficient detail to produce a revised set of Accounts.

- A key member of the IFRS project team left the authority in September 2010. An alternative resource has since been allocated to pick up this area of work.

4 Key IFRS Issues

The table below gives details of the key IFRS project issues:

Key Area of Change	Work Undertaken	Risks / Issues	Status	Actions
Leases	**Implied Leases** - Work on calculating implied leases for areas where other organisations use assets to provide LBHF services, eg. HFBP, Serco was completed July 2010, and has been passed to Audit Commission for review **Review of LBHF Leases** – Work on existing LBHF leases, to use new criteria to assess whether they are finance or operating leases. Non-property leases work was completed by October 2010 and passed to Audit Commission for review.	There have been some delays in extracting property lease information from the Valuers system. This has now been addressed with the Environment senior management team, and the required leases information is being provided.	**Amber**	The IFRS project manager attended the Environment DMT in January 2011 to discuss this directly with the AD for Valuers and the Director of Environment. A commitment was given to return the required data by the deadlines agreed in Feb and March 2011.
Re-stating Accounts	Significant preparatory work has been undertaken on the new format for the Accounts, presentational requirements and disclosure notes. This has also been incorporated into the 2010/11 closing preparation. The CIPFA practitioners guide is now available	The only risk to this area is if other IFRS workstreams are delayed in re-calculating their figures.	**Green**	Preparation work has been undertaken to understand the changes to Account formats, presentation and disclosure of figures. Resource is allocated to prepare the re-stated Accounts in

	and work is being undertaken to map out how all IFRS figure changes would work their way through the Accounts			February & March 2011.
Group Accounts	Work has been undertaken to analyse the IFRS changes relating to incorporating associated organisations and joint ventures into consolidated group accounts. A paper has been prepared for discussion with the Audit Commission, which proposes that LBHF should not need to produce group accounts again under IFRS.	A significant amount of work has been undertaken to analyse the IFRS rules in this area, and prepare documentation for discussion with the Audit Commission.	**Green**	Documentation and meetings have been prepared for discussion with the Audit Commission
Fixed Assets & PFI	**Fixed Assets** – No changes have been made to the valuation methodology for fixed assets, and no IFRS changes are being applied retrospectively. Therefore, the most significant change for fixed assets is the introduction of component accounting. A new policy on component accounting for general fund properties has been discussed and agreed with the Audit Commission, and will be included in the Council's accounting policies for	Working papers relating to fixed assets and other non-current assets have already been reviewed by the Audit Commission, and no significant issues were raised as a result of this review. However, the Audit Commission need to see the figures re-stated in the 2009/10 accounts before they can give a final opinion on	**Green**	The only remaining actions in this area are to present the re-stated asset figures in the revised 2009/10 Accounts for Audit Commission review, and to develop and agree a component accounting policy for housing stock once CIPFA guidance has been released.

	the 2010/11 closedown. CIPFA guidance on component accounting for housing stock is still awaited. **PFI** – IFRS changes were introduced into the SORP last year as part of the 2009/10 closing process. Therefore, these changes have already been implemented and audited.	these changes.		
Employee Benefits	Work has been undertaken to collect sample data for bonuses, employee leave and flexi carry over, for the end of 2008/09 and 2009/10. Accrual figures have been calculated using this data. The sampling methodology which is used was discussed and agreed at an early stage of the process. Work is currently being undertaken to calculate the accrual for teaching staff. These figures are calculated using a formula rather than sampling.	Work has been completed on the time-consuming exercise of collecting year end sampling data. Remaining calculations are based on agreed formulae. There is no overall financial impact from this accrual.	**Green**	A small amount of further work needs to be completed on the teacher's accrual. A resource has been allocated to complete this work in February 2011.

5 Financial Implications

5.1 All work on IFRS implementation has been carried out by LBHF staff in addition to their regular duties. No costs have been incurred on consultancy.

5.2 Whilst implementing the IFRS changes in the re-stated 2009/10 and 2010/11 Accounts will significantly alter figures, there will be no real cash impact on the bottom line of the revenue account or balance sheet.

5.3 The only significant area where IFRS changes may have an impact in the future, relates to the categorisation of finance and operating leases from 2010/11 onwards. If any new lease arrangements are classified as finance leases the resulting income stream from those leases would have to be treated as a capital receipt rather than a revenue income. This will not impact on leases which existed before 2010/11, but will apply going forward.

5.4 Discussions have been held with the Valuers team to explain the implications of this policy when they are entering into new lease agreements, and templates have been provided to ensure that the correct information is collected which will allow finance to make this assessment of leases early on.

6. Comments of the Director of Finance and Corporate Services

6.1 The IFRS work has been carried out with no additional cash cost to LBHF, as all work has been undertaken by existing staff and IT systems.

6.2 The accounting changes being introduced by CIPFA will have no impact on the bottom line of the Accounts and council tax levels.

7. Comments of the Assistant Director (Legal and Democratic Services)

7.1 There are no legal implications

8. Updates for the Audit Committee

8.1 It is proposed that no further specific update is brought to the Audit Committee about IFRS. The IFRS changes will be incorporated into the 2010/11 Statement of Accounts and therefore a review of IFRS implementation will be incorporated into reports on the 2010/11 closure process.

AUDIT AND PENSIONS COMMITTEE

17 February 2010

CONTRIBUTORS	Subject	WARDS All
All departments	COMBINED RISK MANAGEMENT HIGHLIGHT REPORT This report updates the Committee of the risks, controls, assurances and management action orientated to manage organisational level risks.	

RECOMMENDATION:

1. The committee consider the current Strategic, Programme and Operational risk position as outlined in the report.

1. **PURPOSE**
   1.1. This report updates Members on the highlight risk management issues identified across council services and follows changes in the reporting process to Committee expressed at its September 2010 meeting. 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. Risk Management is critical to both the value for money assessment and provision of annual assurance that form part of the annual accounts.

3. **Strategic risks update**

   3.1. A full refresh of the Corporate Risk Register since its last review by the Audit & Pension Committee has been undertaken and presented to the Councils Executive Management Team. The full version accompanies this paper for Members information as **Appendix 1.**

   3.2. Revision highlights include;

   3.3. Corporate risk number 1. - Business Continuity IT
      3.3.1. User acceptance testing is scheduled over January and February for the new IT business continuity environment by council and HFBP staff.

   3.4. Corporate risk number 9. - Successful cultural change
      3.4.1. Increasing workloads whilst downsizing and restructuring with balancing controls

   3.5. Corporate risk number 12. new - Scrutiny of Public Health responsibilities
      3.5.1. Updates on the impacts including setting up of Health & Wellbeing Boards and commissioning of service responsibilities for some health inequalities (healthy eating, smoking cessation, immunisation, drugs and alcohol prevention etc.)

   3.6. Opportunity risk number 3.

3.6.1. Merging of services with Westminster and the Royal Borough of Kensington & Chelsea

3.6.2. Creation, ratification and adoption of a risk register by the Programme Board

3.7. Opportunity risk number 5. - Re-integration of H & F Homes

3.7.1. Acknowledgement on the risk register of the Cabinet report of the 10^{th} January 2011 to make arrangements to transfer the ALMO's business to the council and integrate its operations with the Council and the eventual winding up of the company limited by guarantee. Operations to be integrated by 1^{st} April 2011.

3.8. Opportunity risk number 6.

Merging of education services with Westminster Council and the Royal Borough of Kensington and Chelsea

3.8.1. Acknowledgement on the risk register of the identified proposals, recommendations and controls emerging from the programme management of the above as stated in the Cabinet report recommendations of the 10^{th} January 2011.

3.9. Detailed information on controls and assurances is contained in the fabric of the corporate risk register and where work is in progress to mitigate risk this has been considered to determine the level of residual risk. The corporate risks have remained stable over the past quarter. The profile is set to improve once the full implementation of the IT business continuity project is achieved.

4. Programme and projects

4.1. There are no issues for Members consideration to report for this period.

5. Operational

5.1. The Finance and Corporate Services Department have completed their annual comprehensive refresh of the risk and assurance register. As a result it is now the prime document in support the assurance requirements for the department and the end of year Directors Annual Assurance statement. A separate financials risk set with assurance map is being presented to the council's Financial Strategy Board for consideration. A copy is attached for Members information as **Appendix 2**. The department will continue to review risks periodically at their management team meetings and the risk and assurance register will form the basis of the future audit plan for the department.

6. **Resilient services**

6.1. As the council continue to work promoting the use of more efficient methods a number of discussions have taken place internally and with Westminster and the Royal Borough of Kensington and Chelsea on insurance, health and safety, business continuity and emergency planning. Operationally these services provide financial or organisational resilience for the council and its wider community, schools, H & F Homes and local business.

6.2. Closer working arrangements internally across these service areas, including risk management, are fundamentally important in managing enterprise wide risks and regular meetings across these workstrands has commenced. As a group we are exploring the possibilities of joining up information management recording and reporting systems across these disciplines to improve communication and increase efficiency and responsiveness.

6.3. The web based health & safety accident/incident reporting package is now live on the Corporate Safety intranet homepage and is to be promoted throughout the organisation, including schools, in a stepped process commencing with core users and Departmental Safety Champions. Automated email notifications to line managers and those with health and safety responsibilities will commence shortly. Data is accessible in real-time by managers, safety champions, the insurance section and other key stakeholders, with respect to accidents, incidents and near misses.

6.4. A new rationale for the investigation of accidents by Corporate Safety has been formalised and is on their homepage. In short, the team will investigate incidents based on the level of risk and harm. Data extracted from the past quarter to the Executive Management Team is provided for Members information in the accompanying report as **APPENDIX 3.**

6.5. H & F Homes re-integration into the councils risk management portfolio will include the need to evaluate the recorded data on risk held on an access database. As H & F Homes currently exists as a separate legal entitiy it will be required ,for this financial year as previously, to provide the council with written assurances of its control environment. In future years the Housing and Regeneration Department will be required to comply with the risk and assurance arrangements of the council including the signing of a Directors Annual Assurance statement.

7. Market Testing

7.1. Competition Board considered the procurement and market testing programme for 2011-2014 at its December meeting. The proposed Programme consists of a blend of market testing projects and major scheduled contract renewals. It is intended to target up to 20-25% savings over three years on retendered contracts where possible. This will require early preparation and a detailed review of service specifications to see how this can be reduced accordingly. It will also be necessary to identify the scope for collaboration with others to secure volume discounts, implement service transformation, reduce back office costs, shape markets and undertake option appraisals. Risks associated with the Programme are consolidated in a quarterly report to the council's Competition Board. There are no new significant risks to report to Committee at this time however a review of procurement risks and assurances is due to be considered at the March Competition Board.

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	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
2.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	OGC Website	http://www.ogc.gov.uk/documents/Risk.pdf
4.	Departmental Risk Registers	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit,

			Town Hall, Hammersmith
5.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
6.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

AUDIT AND PENSIONS COMMITTEE

17 February 2011

CONTRIBUTORS	**Subject**	**WARDS** **All**
Chief Internal Auditor Internal Audit Manager Deloitte & Touche LLP	**Internal Audit plans 2011/12 year** This report presents the plans for Internal Audit for the 2011/12 year.	

RECOMMENDATION:

That the Committee notes and approves the audit plans.

Internal Audit Plans 2011/12 year

Introduction

Draft Internal Audit plans for the 201/12 years are provided at Appendix 1 for approval by the Audit Committee. As in previous years planning has been developed using a Risk Based Internal Audit Service approach. This involves basing them on the risk registers maintained by senior and operational managers across the council, taking into account issues and risks already known to Internal Audit, and obtaining input from first and second tier managers by presenting the draft audit plans at DMTs wherever possible, or through departmental AD Finance & Resources. This process is designed to maximise the input of departmental officers who should have most awareness of risk and control across the council. The draft plans have also been discussed with the Chief Executive.

In addition, the 2011/12 plans have been drafted to make the most efficient use of Internal Audit resources whilst continuing to provide sufficient assurance based work to support the Chief Internal Auditor's annual assurance. As a result of the current financial constraints, the new contractual arrangements and other organisational changes the overall plan has been reduced by approximately 25%

Strategic focus

The audit plans incorporate a number of key priorities and themes. These have been clarified below:

1. Key financial systems. The Audit Commission continue looking to rely on Internal Audit testing and the work in these areas follows the audit plan provided by them.

2. Contracts/procurement. This continues to be an obvious focus of audit attention given the volume and value of procurement and contracts that exist and its expected increase through market test and a general move towards outsourcing services and becoming a procurer of services. This is also a decentralised service with departments responsible for compliance and delivery which increases the risk of non-compliance with corporate procedures.

3. Projects. The council has a substantial programme of projects whose results are fundamental to the future working of the council. Internal Audit has continued to increase its coverage of projects with a focus on project management, following up with focussed work on identified areas of weakness as necessary. The aim is to provide audit coverage at a very early stage to aim for a 'right first time approach' and we are considering how this might be improved further for the future.

4. Computer audit. The focus of this audit work has traditionally been on operating systems and applications controls. For the future a greater focus is being given to higher level issues such as IT governance, and data management and control. In addition, we are hoping to develop a greater integration between IT and non-IT audit work in order to give a broader overall assurance relating to any particular area.

5. H & F Homes. With the re-integration of H & F Homes into the Council the work which in previous years has been separately managed, and approved by the H & F Homes Finance Audit and Risk Committee (FARC) is now included in the main Council audit plan under the heading of *Housing and Regeneration* which also includes areas previously dealt with by the Community Services department.

All changes to the agreed audit plan will be reported to the Audit Committee. This will include explanations of why audits have been dropped and which audits have been added.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Internal Audit planning file for the 2011/12 year	Geoff Drake Ext. 2529	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

Appendix 1

Draft Internal Audit Plans 2011/12

Department	Subject	Timing	Coverage / miniscope
Finance & Corporate Services			
	Core Financials - Pension Administration	Q1	Completion of testing for external audit from 2010/11 audit plan
	Core Financials - Framework i	Q1	Completion of testing for external audit from 2010/11 audit plan
	Core Financials - Accounts Receivable	Q3	Full system audit and External Audit Testing. Scope to include: - Policies and Procedures - Debtor Transactions and Records - Raising Invoices - Income Collection - Refunds - Debt Recovery and Enforcement - Management Reporting
	Core Financials - Payroll	Q3	Full system audit and External Audit Testing. Scope to include: - Policies and Procedures - Payroll transactions and Records - Joiners - Leavers - Variations and Amendments to Pay - Deductions - Payments - Management Reporting
	Core Financials	Q2	Initial Testing of key controls on behalf of, and directed by, the Audit Commission
	Core Financials -self assessments	Q2	Self assessments for use with all core financials not subject to a full audit within the year. To also include follow up of recommendations raised last time system was audited.

Department	Subject	Timing	Coverage / miniscope
	Corporate & Partnership Governance	Q4	To cover a number of the following areas: Roles and Responsibilities Training and Development (possibly covered by Members Roles and Responsibilities audit) Decision Making and Risk Management Standards of Conduct and Behaviour Partnership Governance Transparency and Accountability
	Information Security and management - Partnerships	Q2	Systems and control in place with regard to sharing data with partner organisations: - Policies, procedures, agreements and communication of requirements - Release of information - Monitoring of use of information and compliance with Council requirements
	Data Handling	Q1	Relating to the use and handling of personal data - particularly use of employee data (names etc) in emails: - Policies and Procedures and Communication - Monitoring compliance - Corrective action where inappropriate use identified
Project	CEDAR upgrade Project Management (Benefits realisation)	Q2	To examine systems in place for identification, management and reporting of benefits
IT			
	IT Governance - Protection and Malicious attacks.	Q1	An assessment of the information management governance, security and business partnership data sharing control framework in place to help ensure compliance is achieved with relevant statutory requirements, and the HMG Security Policy Framework.
	CEDAR Financials	Q2	Application audit. This will include testing controls over access, input, data processing, output, interfaces, management trails, support arrangements, backup and recovery, and supplier management.
	CEDAR Unix OS	Q2	To assess the adequacy of the application server controls.
	Lynx	Q1	Application audit. This will include testing controls over access, input, data processing, output, interfaces, management trails, support arrangements, backup and recovery, and supplier management.
	Council Website	Q2	Application audit. This will include testing controls over access, input, data processing, output, interfaces, management trails, support arrangements, backup and recovery, and supplier management.

Department	Subject	Timing	Coverage / miniscope
	Business Continuity Planning	Q1	Evaluation and benchmarking of the BCP over arrangements in place to recover all critical IT systems.
	Remote Working	Q1	The audit will assess the adequacy over controls for remote working. The audit will review relevant policies and procedures used to manage remote working, involving deployment, operation and maintenance of aspects, such as communications, hardware, application software, data security, systems software and security software. In addition the audit will review areas to cover device configuration, physical control, approved software and tools, application security, network security, contingency plans, backup and recovery.
	Information management and security: Personal data security	Q4	An assessment of the system security and management control framework based on an evaluation of controls established and applied over information management and security. This will focus on the secure use and control of personal information on end user systems and furthermore any third party partners and contractors to include mobile date devices.
	Development and agreement of simple self-assessments to be used in non-IT audit work prior to IT audits in order to inform non-standard content of IT audit scopes	Q1	
Projects ***(individual projects currently included within departmental sections)***			
	Corporate Programme and Project management follow-up	Q3	To follow up recommendations raised in the 2009/10 audit visit.
Contracts			
Contracts	3 Vertical Contracts	Q1	Vertical Contract Audits. Specific contracts to be identified in discussion with Competition Board
Contracts	Market Testing	Q2	2 market testing exercises to be identified in discussion with Competition Board
Contracts	Supported Housing contracts review and (re-)negotiation	Q3	To examine these contracts that are being (re-)renegotiated, to provide assurance on the procedures and controls in the renegotiation and assess whether benefits expected from the process have been achieved.

Department	Subject	Timing	Coverage / miniscope
Cross-departmental work			
Project	Project Management (Benefits realisation)	Q1	3 key projects to be nominated by Jane West/ Jackie Hudson, FSB To examine systems in place for identification, management and reporting of benefits
	Business Continuity (non-IT)	Q2/3	Review of corporate and departmental plans and arrangements including development of plans, regularity of review and updating, periodic testing.
	Shared Services/ 3 Borough Working	Q1/2/3	Audit of departmental plans to implement shared services. Scope and nature of audit work dependent on specific service and state of transition at the time of the audit. Likely to cover governance, service maintenance/delivery and financial arrangements.
	Working with CLCH	Q2	Scope and nature of audit work dependent on specific service and state of transition at the time of the audit. Likely to cover the arrangements in place with CLCH: - Governance and Management Arrangements - Transfer of services to CLCH - Delivery and Monitoring of Services - Financial Management - Performance Monitoring and Reporting
	MTFS	Q2	Review of the identified MTFS savings to determine if the proposed saving can be supported by evidence.
	Risk Management	Q4	Annual review of risk management. To cover corporate risk management arrangements:- Risk Management Strategy, Policy and Procedure- Corporate Roles and Responsibilities- Identification of Risks and Evaluation- Embedding Risk Management and Co-ordination across the Organisation- Risk Management of Partnerships- Monitoring and Reporting on Risk Management
	Risk Management	Q2	Other risk management audits - scope to be determined in consultation with Principal Consultant - Risk Management
Children's Services			
	Bayonne Nursery School	Q1	Probity audit based on financial and governance systems
	James Lee Nursery School	Q1	Probity audit based on financial and governance systems
	Vanessa Nursery School	Q1	Probity audit based on financial and governance systems
	Randolph Beresford Early Years Centre	Q1	Probity audit based on financial and governance systems
	Addison Primary School	Q1	Probity audit based on financial and governance systems
	Bentworth Primary School	Q1	Probity audit based on financial and governance systems

Department	Subject	Timing	Coverage / miniscope
	Canberra Primary School	Q1	Probity audit based on financial and governance systems
	Flora Gardens Primary School	Q1	Probity audit based on financial and governance systems
	The Good Shepherd Catholic Primary School	Q1	Probity audit based on financial and governance systems
	Langford Primary School	Q1	Probity audit based on financial and governance systems
	Melcombe Primary School	Q1	Probity audit based on financial and governance systems
	Normand Croft Community School for Early Years & Primary Education	Q1	Probity audit based on financial and governance systems
	Queens Manor Primary School	Q1	Probity audit based on financial and governance systems
	St Augustine's Catholic Primary School	Q1	Probity audit based on financial and governance systems
	St John's CE Walham Green Primary School	Q1	Probity audit based on financial and governance systems
	St Peter's Primary School	Q1	Probity audit based on financial and governance systems
	Sulivan Primary School	Q1	Probity audit based on financial and governance systems
	Jack Tizard School	Q1	Probity audit based on financial and governance systems
Project	Family Intervention Project	Q2	Project audit focussing particularly on benefits realisation
	Children's Social Services	Q1	To be defined with Department
Community Services			
Project	Reablement	Q1	Project audit focussing particularly on definition, monitoring and reporting of benefits
	Client Affairs	Q1	Selected areas from full system (including appointeeships, deputyships and more) based on advice from Management. Audit could cover: - Referrals and assessments - Setup of appointeeships/deputyships - Financial Management and Review This is to be timed around a lean review of processes that is due to take place.
	Referrals patterns - prediction and resourcing	Q2	To audit processes to analyse and predict demand and costs (forecast are produced based on demand, income and price), set charges and manage trading accounts
Housing and Regeneration			
Project	Project Management (Benefits realisation)	Q2	Key project to be nominated by DMT To examine systems in place for identification, management and reporting of benefits
	Core Financials - Housing Rents	Q1	Completion of testing for external audit from 2010/11 audit plan
	Core Financials - Housing Repairs	Q1	Completion of testing for external audit from 2010/11 audit plan

Department	Subject	Timing	Coverage / miniscope
	Housing Options	Q2	Potential scope to review management of temporary housing services including assessment of need, alignment of contracts, contract management, etc.
	Corporate Gas Safety regime	Q1	Scope to include: - Identification of properties requiring checks - Completion of Safety Checks - Record Keeping - Performance Management and Reporting - compliance with Health and Safety legislation
	Tenancy Verification	Q1	Scope to Cover:- Policies and Procedures- Verification of Tenancies- Visits to Tenants- Performance Management and Reporting
	H & F Homes Follow-ups	Q1/2	Follow up on last years audits as necessary.
	Other areas formerly covered by H & F Homes	Q1/2/3/4	Possible areas include recruitment and Risk Management (where not covered by corporate risk management audits)
Environment Services			
Project	iCasework	Q2	Project Management (Benefits realisation)
	E C Harris contract	Q3	To cover financial management of the EC Harris contract. Specifically the systems and controls related to charging for services provided.
	CAMSYS	Q3	Analysis of the extent to which CAMSYS is been utilised across the Council and the strategies and plans in place to embed the use of CAMSYS across all Council departments.
	Asset Management/ Facilities Management	Q1	Scope may cover: - Planned maintenance - Reactive maintenance and repairs - Health, Safety and Hygiene - Security and Access Control - Management of Contractors - Performance Management
	Licensing Income	Q1	To focus on annual maintenance invoices (i.e. annual renewals) and income recovery. Scope would cover record keeping, identification and notification of renewals due, timely billing and receipt of income, revocations, Income Monitoring and Debt Recovery

Department	Subject	Timing	Coverage / miniscope
Residents Services			
	Emergency Planning	Q2	Systems audit of arrangements in place to deal with emergencies/events: - Roles and Responsibilities - Testing and review - Consultation and liaison with third parties
	Out of Hours Contact Centre	Q1	Contract Management audit. To cover systems in place to manage the Out of Hours Contact Centre contract. Scope:- Contract formalities- Contract monitoring and Performance Management- Payments- Financial Management
	Waste and Recycling (SERCO)	Q1	Risk and control advice relating to the move to open book accounting and possible risk/reward contract.
	Introduction of lean thinking	Q2	Risk and control advice relating to changes in systems arising from lean thinking. Specific systems to cover to be advised.
	Council's arrangement with the Police	Q4	To cover: - Partnership agreement and governance - Partnership working - Monitoring and Reporting
Other			
	Verification of P1 implementation	Q1/2/3/4	Verification of P1 recs not included in follow-ups for quarterly reporting to FSB and possibly PAC
	End of year reports	Q1	To produce year end reports on schools, IT, projects/project management, Finance (including a section on procurement) and others as agreed
	Follow-up audits	Q1/2/3/4	Estimate based on 1 day each for an estimate of 8 follow-ups required. Additional budget to be requested and agreed as justified.
	Assurances for central government	Q1/2/3/4	
	Pensions and Audit Committee Training	Q1/2/3/4	
	Deloitte contract management	Q1/2/3/4	

AUDIT AND PENSIONS COMMITTEE

17 February 2011

CONTRIBUTORS	Subject	WARDS
Chief Internal Auditor Internal Audit Manager Deloitte & Touche LLP	**Internal Audit Quarterly report for the period 1 October to 31 December 2010**	All

RECOMMENDATION:

a) **To note the contents of this report**

b) **To approve the amendments to the audit plan as outlined in Appendix B**

CONTENTS

1. Introduction

1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2010 as well as reporting on the performance of the Internal Audit service.

1.2 In order to reduce the volume of paperwork being sent to Committee members, the appendices routinely included with this report in the past detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

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 9 audit reports were finalised in the third quarter of 2010/2011 (see **Appendix A**). In addition 8 FMSIS Inspection letters were issued, 8 other management letters – one of which included a follow-up of a recommendation previously raised – and 4 other follow-up audits.

2.3 One audit report issued in this period received nil assurance. .Of the 32 recommendations made in the report on *St Mary's Catholic Primary School* which were due to have been implemented on or before 31 December 2010, 22 have been reported as fully implemented whilst 2 have not yet reached their target implementation date. Another report received limited assurance and all 10 recommendations contained in the *Corporate Programme and Project Management* report are due to be implemented by 31 October 2011. None have yet been reported as implemented. Copies of both these reports have been made available to members

2.4 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.

2.5 Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently 2 reports still outstanding that were due to be signed off on or before 31 December.

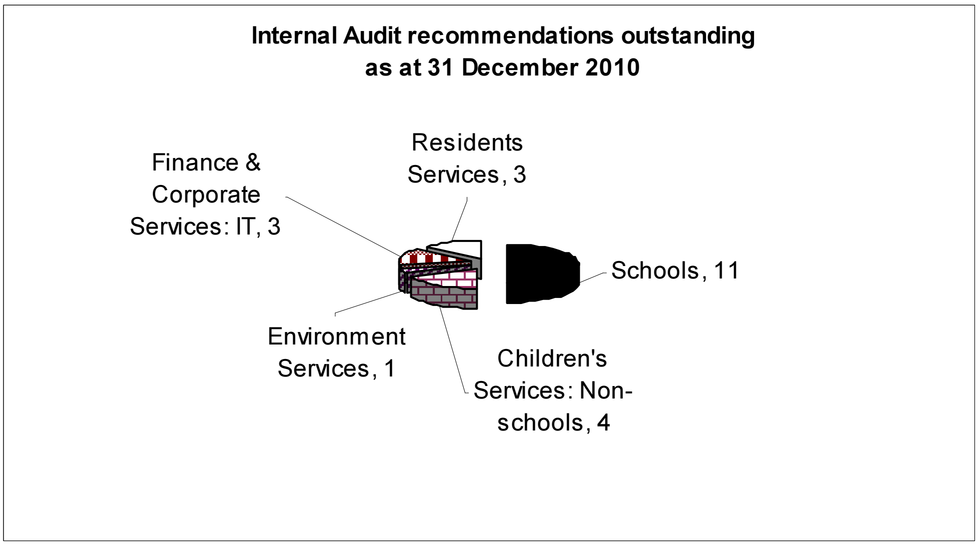
There is 1 report outstanding each for Environment Services and Residents Services. One of these reports will be over 6 months old at the time of the Committee meeting. We are pleased to report that there are no reports outstanding for Schools, Children's Services (non-schools), Community Services, Community Services (Housing) or Finance & Corporate Services.

2.5 There are now 22 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 23 reported as outstanding at the end of the previous quarter and represents a marginal improvement 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:

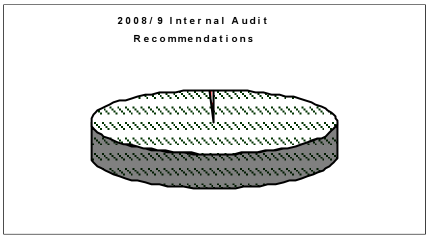
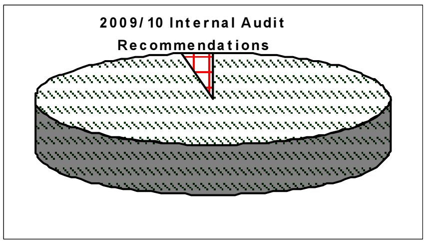
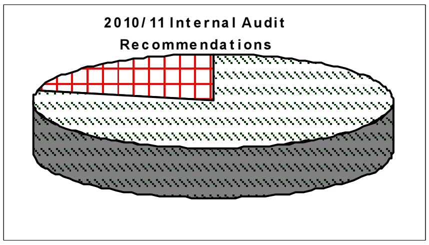
- Schools – 11
- Children's Services (non-schools) – 4
- Environment Services Dept – 1
- Finance & Corporate Services Dept – 3
- Residents Services - 3

Three of these outstanding recommendations relate to HFBP. We are pleased to report that there are no recommendations outstanding in respect of Community Services or Community Services (Housing)



2.7 Two of the 29 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. None of these are older than a year. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will continue to meet with the specific managers responsible for all these recommendations and those overdue by more than 5 months as and when this occurs. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

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

Percentage of 2007/8 year audit recommendations past their implementation date that have been implemented.	99.75%	396 recommendations implemented out of a total of 397 **1 recommendation outstanding**	
Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.	99.49%	389 recommendations implemented out of a total of 391 **2 recommendations outstanding**	
Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.	97.09%	300 recommendations implemented out of a total of 309 **9 recommendations outstanding**	
Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.	78.43%	40 recommendation implemented out of a total of 51 **11 recommendations outstanding**	

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 The current contract with Deloitte expires on 31 March 2011. A proposal was approved by the Cabinet on 16 December 2010 to join the framework contract already in place between Deloitte and the London Borough of Croydon. This arrangement will take effect on 1 April 2011.

3.3 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 October to 31 December 2010 are shown below.

Performance Indicators 2010/11

Ref	Performance Indicator	Target	Pro rata target	At end of Nov	Variance	Comments
1	% of deliverables completed (2010/11)	95%	71%	55%	-16%	66 reports delivered out of a total plan of 119
2	% of planned audit days delivered (2010/11)	95%	71%	57%	-14%	621 days delivered out of a total plan of 1096 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	94%	-1%	45 audit briefs out of 48 issued within PI requirement
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	25 draft reports out of 25 issued within PI requirement

3.4 Delivery of the 2010/11 audit plan is behind target due to difficulties with agreeing start dates and long lead times when planning audits. Audits have been brought forward from Quarter 4 wherever possible in order to help increase delivery. A record of all audits that must be completed in Quarter 4 has been passed to Finance Strategy Board for circulation to management. Approval to delay or defer an audit now requires authorisation of the relevant Director of Finance and Resources and the Chief Internal Auditor.

4. Audit Planning

4.1 Amendments that have been made to the 2010/11 Internal Audit Plan have been shown in Appendix B which the Committee is invited to approve.

4.2 The 2011/12 plan will be presented to this meeting of the Committee as a separate paper for approval. Any amendments to this plan will be brought to the Committee for further approval as and when required.

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 October to 31 December 2010

We have finalised a total of 9 audit reports for the period to 31 December 2010. In addition, we have issued a further 8 FMSIS reports, 8 management letters – one of which included a follow-up of a recommendation previously raised – and 4 other follow-up audits.

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	Leaving Care	Andrew Christie	Substantial
2	09/10	Citrix and VMware	Jane West	Substantial
3	09/10	Corporate Programme and Project Management	Jane West	Limited
4	10/11	EC Harris Contract Management	Nigel Pallace	Substantial
5	10/11	HFBP Billing	Jane West	Substantial
6	10/11	School Management Support Service	Andrew Christie	Substantial
7	10/11	Schools Centralised Banking and Financial Management	Andrew Christie	Substantial
8	10/11	Anti Social Behaviour Unit	Lyn Carpenter	Substantial
9	10/11	St Mary's Primary School	Andrew Christie	No Assurance

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
10	2010/11	All Saints Primary School	Andrew Christie	Conditional Pass
11	2010/11	Kenmont Primary School	Andrew Christie	Conditional Pass
12	2010/11	Sir John Lille Primary School	Andrew Christie	Conditional Pass
13	2010/11	St Paul's Primary School	Andrew Christie	Conditional Pass
14	2010/11	Lena Gardens Primary School	Andrew Christie	Substantial
15	2010/11	Larmenier and Sacred Heart School	Andrew Christie	Substantial
16	2010/11	Woodlane High School	Andrew Christie	Substantial
17	2010/11	Phoenix High School	Andrew Christie	Substantial

Financial Management Standard in Schools (FMSIS) inspections are categorised as Pass, Fail or Conditional Pass in line with the guidance issued by the DCSF. Please note that on 15 November 2010 the Financial Management Standard in Schools was abolished. From this point an assurance opinion was provided rather than a pass/fail.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
18	2010/11	Internal Recharges	Jane West
19	2010/11	Business Planning Cycle	Jane West
20	2010/11	Frameworki – Key Financial Controls and Follow Up	Andrew Christie
21	2010/11	Risk and Control Advice – BACS and Direct Debits in Schools	Andrew Christie
22	2010/11	SSPP Grant Claim	Andrew Christie
23	2010/11	Housing Options Project Management	Nick Johnson
24	2010/11	Directors' Assurance Statements	Jane West
25	2010/11	Budget Variances	Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Findings on recommandations				
				Fully Implemented	No longer Applicable	Partly Implemented	Not Implemented	Total
26	2010/11	Frameworki	Andrew Christie	0	0	1	0	1
27	2010/11	Brackenbury Primary School	Andrew Christie	13	0	5	3	21
28	2010/11	Fulham Primary School	Andrew Christie	3	0	8	5	16
29	2010/11	Business Continuity	Lyn Carpenter	6	0	3	0	9
30	2010/11	Leisure Centre Contract Management	Lyn Carpenter	3	0	2	1	6

APPENDIX B

Amendments to 2010/11 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	School	Fulham Primary School Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations
2	School	Brackenbury School Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations
3	Children's Services	SSPP Grant Claim	Added	Added to plan on request of department
4	Children's Services	YPLA	Added	Added to plan on request of department
5	Children's Services	Third parties (schools) taking over Council Services	Added	Additional audit to use contingency budget added following discussion with department
6	Children's Services	Family Support Programme	Added	Additional audit to use contingency budget added following discussion with department
7	Children's Services	School Funding Criteria	Added	Additional audit to use contingency budget added following discussion with department
8	Children's Services	Early years – Compliance with statutory duties	Added	Additional audit to use contingency budget added following discussion with department
9	Community Services (Housing)	Ending of Tenancies	Added	Additional audit to use contingency budget added following discussion with department
10	Environment Services	BTS – Management of trading accounts	Added	Additional audit to use contingency budget added following discussion with department
11	Finance & Corporate Services	Budget Variances	Added	Added to plan following discussion with Director of Finance
12	Finance & Corporate Services	LAA Certification	Removed	Removed from plan on request of department
13	Finance & Corporate Services	Staff Benefits	Removed	Removed from plan on request of department
14	Finance & Corporate Services	Business Continuity Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
15	Residents Services	Leisure Centre Contract management Follow-Up	Added	`Added to plan on notification of the implementation of all recommendations
16	Residents Services	Trade Waste – Power Suite Application Audit	Added	Additional audit to use contingency budget added following discussion with department

Agenda Item 18

AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS *CE* *DFCS* *ADLDS*	**ALMO CHIEF EXECUTIVE & SENIOR HOUSING MANAGEMENT** This report sets out the rationale and process for the appointment of Nick Johnson as Chief Executive of H&F Homes.	**WARDS** **All**

RECOMMENDATION:

1. That the Committee consider the report

1.0 **Introduction**

1.1 This report sets out the rationale and process for the appointment of Nick Johnson as Chief Executive of H&F Homes.

2.0 **The Relationship Between the Council and H&F Homes**

2.1 H&F Homes is an arms length management organisation set up to manage the Council's housing stock. It is a separate legal entity whose day to day activities are controlled by a board. Whilst in technical legal terms it is wholly owned and controlled by the Council it operates on an arms length basis as was required in order to obtain Decent Homes funding. Its operational activities are governed by a management agreement with the Council. In legal terms it is a company limited by guarantee with the company as the sole member. As such H&F Homes has its own auditors and audit requirements.

3.0 **The Appointment of Mr Johnson By H&F Homes**

3.1 The Council had concerns about the performance of H&F Homes over a fairly lengthy period leading up to the Audit Commission inspection of housing management services provided by the ALMO on behalf of the Council in December 2007.

3.2 These concerns were absolutely confirmed and magnified by the disappointing result of that inspection with the service being classified as 'fair' with 'uncertain prospects for improvement', which lead to the resignation of both Chair and Chief Executive of H&F Homes.

3.3 This left the ALMO in complete disarray with a real threat that DCLG would withdraw or at least delay the 'Decent Homes' capital allocation with the risk that tenants would be denied the improvements that were essentially the sole reason for establishing the ALMO in the first place. There was an urgent need to put in place interim management arrangements and to recruit an interim Chief Executive, with strong housing experience and the necessary skills and competence to turn the situation around.

3.4 Clearly this was a major concern to the Council and as a result it was agreed that the Council's Chief Executive would be a member of the H&F Homes recruitment panel established to make the appointment. Thus the Panel members were Guy Vincent, Jeff Zitron, Janet Gaston and Geoff Alltimes. There were four short-listed candidates of which Nick Johnson was 'head and shoulders' above the other applicants, and the unanimous choice of the panel.

3.5 Given the arms' length nature of H&F Homes the Council was not involved in the detailed arrangements of the contract for Mr Johnson's appointment. The Chief Executive was however aware of the daily rate that he would be paid. This was £950 pounds per day and he has remained on that daily rate ever since. The Chief Executive is of the view that this was, and remains significantly less than a number of other interim appointments at this level that he was and is aware of and this would certainly be less than the sort of rates that would apply from organisations like PWC etc. for someone with Mr Johnson's skills, abilities and experience.

3.6 From the Council's perspective senior officers and members were in no doubt that H&F Homes needed to make an appointment of someone of Mr Johnson's calibre and that this level of remuneration was appropriate.

3.7 There is no doubt that as interim Chief Executive Mr Johnson has achieved a 'turn around' of H&F Homes performance. Key to this has been the recovery of the 'Decent Homes' programme which now has the potential to deliver on budget and on time. At the same time, significant efficiency savings have also had to be delivered due to significant reductions in the HRA subsidy and the overall poor cost benchmarking performance of housing management services. Crucial to this was the follow-up Audit Commission inspection in 2009 where the 'two star with excellent prospects for improvement' conclusion was a tribute to an enormous amount of hard work by the Board and whole management team.

3.8 In the last eighteen months the Council has been giving consideration to the future of H&F Homes following the 'Decent Homes' programme, and how to link this with the significant regeneration opportunities that the Council wants to pursue. At the same time, H&F had been playing a leading role in our integration arrangements for the management of the PCT and the Council, particularly Children's and Adult Social Care. This has subsequently been overtaken by the new Governments agenda, which now requires us to transfer those integration ambitions to work directly with the emerging GP consortia. Initially, the latter lead to the Chief Executive asking James Reilly, Director of Community Services, to focus exclusively on the Community Services part of his portfolio, and to develop the detailed integrated commissioning and provider arrangements with the NHS. A few months ago this led to him also taking on a formal role as one of the Directors of the PCT, although this has been overtaken by Mr Reilly being appointed as Chief Executive of Central London Community Health NHS Trust.

3.9 These changes meant that initially the Chief Executive took on direct responsibility for the Council's housing and regeneration functions and worked closely with Mr Johnson on how these could be best aligned with the work of H&F Homes both in the short term but also in terms of the

Council plans around the model for the future. A number of discussions took place with leading Board members and ultimately it was concluded jointly that Mr Johnson through his company Davis Johnson Ltd, should have two separate contracts, one with the Council for managing the Council's Housing and Regeneration functions and the other as continuing interim Chief Executive of H&F Homes. Officers were of the view that notwithstanding the relationship between the Council and the ALMO this was a prudent arrangement, in the best interests of both and that mechanisms exist for managing any conflict of interest

3.10 This was and remains a temporary arrangement whilst the Council consulted on the future of H&F Homes and recruited to a new chief officer post. Cabinet has now determined that the ALMO will be brought back in house [see report to Cabinet on 10th January] and a new Director of Housing and Regeneration has been appointed who will join the authority from 28th March 2011.

4.0 **Payments**

4.1 The rate for Davis Johnson Ltd is £950 per day as confirmed by the analysis of invoices below. It should be noted that all VAT can be reclaimed by H&F Homes from HM Revenue and Customs.

Year	Invoiced to:	Number of Days Worked No	Payment for days worked £	Mileage £	Other Expenses £	Total Cost £	VAT £	Total Invoiced £
2007/08	Council	Detailed analysis not available				19,000	0	19,000
2007/08	H&F Homes	24	22,800	67	71	22,938	1,508	24,446
2008/09	H&F Homes	240	228,000	1,085	834	229,919	38,486	268,405
2009/10	H&F Homes	241	228,950	821	-4,160	225,611	35,369	260,980
2010/11 (Part Year)	H&F Homes	126	119,700	0	0	119,700	20,948	140,648
Total						**617,168**	**96,311**	**713,479**

4.2 The total cost of a salary of £160,000 including employers pension contributions and Employers National Insurance Contributions is about £208,200. Terms and conditions in 2008 would have entitled the post holder to 34 days holiday per annum plus 8 bank holidays, this means that there would be 219 working days in a year. As shown above in order to turn around the performance of the ALMO, Davis Johnson Ltd worked additional days in both 2008/09 and 2009/10. After allowing for these additional days the cost does equate to the total cost of an employee on a salary of £160,000. This is illustrated by the table below:

Year	2008/09	2009/10
Payment for Days Worked (see table above)	228,000	228,950
Number of days worked over 219	21	22
Resultant additional costs	19,950	20,900
Cost after allowing for additional days	**208,050**	**208,050**

4.3 Had these additional days not been worked H&F Homes would have needed to invest the monies in other resources.

5.0 COMMENTS OF DIRECTOR OF FINANCE AND CORPORATE SERVICES

5.1 The Director of Finance and Corporate Services has been consulted and concurs with the contents of this report.

6.0 COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

6.1 The Assistant Director has been asked to look at this matter in his capacity as Monitoring Officer.

6.2 He is of the view that both H&F Homes and the Council have acted lawfully in relation to this matter.

6.3 In the event of any conflict in relation to the management agreement the Chief Executive would assume the role of the proper officer.

6.4 The arrangement with Mr Johnson is managed through a company, Davies Johnson Ltd, which provides services to the Council i.e. those of Mr Johnson. This is a common and tax efficient vehicle for such arrangements. Tax efficient mechanisms are entirely lawful and taxpayers are entitled to arrange their affairs to lawfully minimise their tax liabilities.

6.5 Questions have been asked of Mr Johnson's pensioner status in the Local Government Pension Scheme. Mr Johnson is not employed by the Council and therefore the fact that he is a pensioner of the London Borough of Bexley is not relevant. In any event this would be a matter between Mr Johnson and Bexley.

6.6 In terms of procurement the position is as follows:-

(i) The EU procurement rules, as they apply to services, divide services into two groups, Part A and Part B services. A list of them appear in Schedule 3 of the Public Contracts Regulations 2006

(ii) Part A services, where the contract value is over the threshold (roughly £150,000) and the Council wishes to procure outside its own resources, must be tendered in accordance with the rules and follow one of four tendering procedures: open, restricted, negotiated and competitive dialogue (the last two may only be used in specified circumstances). These are complex and expensive processes involving advertisement, the publication of complex contract documentation and evaluation criteria and the following of a detailed process.

(iii) Part B services need not be tendered in this way but where there are of interest to contractors outside the UK they must be let in accordance with the principles of equal treatment and transparency.

(iv) It is not appropriate to use an expensive EU process involving tendering across the whole of the EU to secure an interim chief officer/deputy chief officer unless compelled to do so by the rules.

(v) The service provided by Davies Johnson is merely to place the services of Mr Johnson at the ALMO/Council's disposal. It is therefore a "personnel placement and supply service" (paragraph 20 of schedule 3 of the Public Contract Regulations 2006). This is a Part B service and letting it to Davies Johnson without formal advertisement across Europe does not create any cross border issues and does not therefore breach the equal treatment and transparency principles. There was therefore no obligation to carry out an EU procurement exercise in this case.

6.7 The ALMO and the Council have, in the opinion of the Monitoring Officer, acted lawfully in relation to this matter.

LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	None		