

Audit and Pensions Committee

Agenda

Thursday 8 December 2011

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

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

CONTACT OFFICER: Owen Rees
Committee Co-ordinator
Governance and Scrutiny
☎: 02087532088
E-mail: owen.rees@lbhf.gov.uk

Reports on the open agenda are available on the [Council's website](http://www.lbhf.gov.uk/Directory/Council%20and%20Democracy):
<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: 29 November 2011

Audit and Pensions Committee Agenda

8 December 2011

<u>Item</u>		<u>Pages</u>
1.	MINUTES OF THE PREVIOUS MEETING	1 - 9
	(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit and Pensions Committee on 22 September 2011	
	(b) To note the outstanding actions.	
2.	APOLOGIES FOR ABSENCE	
3.	DECLARATIONS OF INTEREST	
	If a Councillor has any prejudicial or personal interest in a particular item, they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.	
	At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken, unless a dispensation has been obtained from the Standards Committee.	
	Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.	
4.	PENSION FUND MANAGER PRESENTATION- RUFFER	
5.	PENSION VALUE AND INVESTMENT PERFORMANCE	10 - 27
	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 30 th September 2011	
6.	PENSION FUND INVESTMENT STRATEGY	28 - 46
	This report seeks approval to a new Liability Benchmark Portfolio (LBP) for the Pension Fund following the 2010 Actuarial Valuation.	

7.	CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES AND CHANGES TO SCHEME ACCRUAL RATES FOR THE LGPS	47 - 55
	This report sets out the contents of a current Government consultation on proposed increases to employee contribution rates and changes to scheme accrual rates to the LGPS, which are intended to be effective from 1 April 2012 in England and Wales	
8.	TRI-BOROUGH TREASURY AND PENSION SERVICE	
	Verbal briefing on proposals for Tri-Borough working.	
9.	ANNUAL AUDIT LETTER	56 - 70
	This letter summarises the external audit work for 2010/11.	
10.	WORMWOOD SCRUBS ANNUAL GOVERNANCE REPORT 2010-11	71 - 85
	The audit of the Wormwood Scrubs Accounts 2010-11 is complete and an unqualified opinion has been issued. Auditing standards require external auditors to report findings from the audit to the Committee; this report details those findings	
11.	AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2011 ACTION PLAN	86 - 90
	This report provides the Committee with an update on progress towards the implementation of Audit Commission recommendations and on the implementation of the AGS 2011 Action Plan.	
12.	TREASURY MANAGEMENT UPDATE FOR THE FIRST SIX MONTHS OF 2011-12	91 - 100
	This report provides information on the Council's debt, borrowing and investment activity up to 30 th September 2011	
13.	COMBINED RISK MANAGEMENT HIGHLIGHT REPORT	101 - 106
	This report informs the Committee on the overall arrangements for, and performance of, risk management across the Council.	
14.	ST MARY'S PRIMARY SCHOOL AUDIT	
	To follow	
15.	PARKING PAY AND DISPLAY DEPARTMENTAL RESPONSE	
	To follow	
16.	CORPORATE ANTI FRAUD SERVICE REPORT 1 APRIL TO 30 SEPTEMBER 2011	107 - 125
	The report updates on progress on delivering Corporate Anti-Fraud Service service plans in quarters 1 and 2 of the 2010-11 year, including key results of the work undertaken and the level of performance achieved.	

17. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 31 SEPTEMBER 2011 126 - 134

This report summarises internal audit activity in respect of audit reports issued during the period to 31 September 2011, as well as reporting on the performance of the Internal Audit service.

18. EXCLUSION OF THE PUBLIC AND PRESS

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

19. EXEMPT MINUTES OF THE MEETING ON 22 SEPTEMBER 2011 135 - 136

London Borough of Hammersmith & Fulham



Audit and Pensions Committee Minutes

Thursday 22 September 2011

PRESENT

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

Also present: Julian McGowan, Audit Manager, Audit Commission, Helen Smith and John Conroy, P-Solve, Sheela Selvajothy, trade union representative

Officers: Jane West, Director of Finance and Corporate Services, Hitesh Jolapara, Deputy Director of Finance, Pat Gough, Assistant Director- Business Support, Geoff Drake, Chief Internal Auditor, Michael Sloniowski, Principal Consultant- Risk Management, Eric Norman, Head of Accounting and Capital and Owen Rees, Assistant Committee Coordinator.

23. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

- (i) The minutes of the meeting held on 30th June 2011 be agreed as a true and correct record, subject to Eugenie White being shown as present, and,
- (ii) The outstanding actions be noted.

24. APOLOGIES FOR ABSENCE

There were none.

25. DECLARATIONS OF INTEREST

Councillor Cartwright and Councillor Murphy declared personal interests in items 26, 28 and 29 as members of the London Borough of Hammersmith and Fulham Pension Fund.

26. PENSION VALUE AND INVESTMENT PERFORMANCE

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.

Helen Smith, P-Solve, introduced the report, which set out the performance of the Pension Fund in the quarter ending 30th June 2011. At that time, the fund was valued at nearly £595 million, plus its private equity investments, though this figure had since fallen. She characterised the fund's performance in the 2nd quarter as reasonable but lacklustre, though she noted that both Majedie and MFS had shown improved performance. With regards to the Matching Fund, she said that Legal and General were unable to match their benchmark, given the terms of their mandate; as such, Goldman Sachs had a greater degree of culpability for the underperformance of the Matching Fund than Legal and General. In response to a question from Eugenie White regarding the underperformance against the benchmark, given the way that the fund's holdings were concentrated in index-linked gilts, Helen Smith said that the benchmark was complex, and that the mandate was being undertaken in the way the Council had requested: the proposed adjustments to the Legal and General mandate would address the issue.

Councillor Murphy asked why the implementation of the revised mandate had taken nearly 12 months, given that the speed of implementation was one of the reasons for working with L & G. Ms Smith said that counsel's opinion on the proposal's legality had taken 6 months to acquire, with further negotiations about the structure of the mandate and its benchmarking. She said that negotiations were outstanding on what could be held in the portfolio, and on the fee. L & G had wanted reassurances that the product sold was what the Council wanted, and P-Solve were expecting implementation to take place in mid-November. The Chairman requested that P-Solve agree an implementation strategy with L & G

Eugenie White asked whether the figures given reflected LIBOR's recent divergence from the base rate. Helen Smith confirmed that it did, albeit that the difference had become more pronounced in the then current quarter.

With regards to Majedie, she said that the fund had, when measured against the benchmark, underperformed during the stock market rallies of 2009 and 2010. However, a large proportion of the holdings with Majedie were defensive in nature, especially those in its Tortoise Fund. As such, P-Solve would, given the market conditions, recommend Majedie's retention. In response to a query from Councillor Ginn, Pat Gough agreed to recirculate the information given on the number of stocks held by Majedie.

Eugenie White asked about the Majedie fee structure, given the general fall in the market rate. Pat Gough, Assistant Director, Business Support, said that she had asked P-Finance to investigate fee structures, and had been told that the basic fees were normal, though performance fees were high. She said that she had asked for more detail on the types of arrangements.

Councillor Murphy asked if monies could be moved between mandates without recourse to a tender process. Officers said that it could.

In response to a question regarding the asset class breakdown, Helen Smith said that she would check whether and how the emerging market equities mandate held by MFS was reflected in the figures.

Councillor Botterill asked whether there was an up-to-date estimate on the value of the fund. Pat Gough said that the custodian had given a figure of £572 million on the day preceding the meeting.

Councillor Murphy asked about the Fund's holdings in commodities, and whether this was contained within the "other" category. Helen Smith said that the fund's exposure to commodities came through direct exposure, with gold held directly by the dynamic asset allocation mandates, and through indirect exposure to exchange-traded-funds and mining and similar stocks. She noted that, where exposure was through equities, the value of those equities was split as appropriate.

Councillor Iggulden noted that mining stocks often entailed greater exposure to commodities prices in general, than the gold price in particular, and the Chairman said that the percentage of the fund held directly in gold appeared to be lower than anticipated.

Pat Gough gave the percentage of gold and gold exchange traded funds held by Barings and Ruffer (11 and 7 respectively). Helen Smith said she would check what the figure was for the whole fund and respond to the Committee.

With regards to the performance of the fund during the third quarter, Helen Smith said that Majedie and MFS had performed relatively well given the turbulent market conditions for equities, and that Barings and Ruffer had also performed well.

RESOLVED THAT

The report be noted.

27. TREASURY MANAGEMENT UPDATE

Pat Gough, Assistant Director- Business Support, introduced the report, which presented the Treasury Management outturn for the 2010-11 financial year. She said that no new borrowing had been undertaken in the year, and the report covered the investment activity undertaken during the period.

Councillor Adam asked about the use of money market funds. Pat Gough said that investments had been made with 3 funds, all of which were AAA-rated, liquid and highly diversified in their holdings. In response to a question regarding the interest rates the Council received, she said that this corresponded to the Council's use of term deposits.

Councillor Murphy asked how much of the Council's debt required interest to be paid on it. Hitesh Jolapara, Deputy Director of Finance, said that all the Council's external debt required interest to be paid on it.

Eugenie White asked if, given the large spread between interest payable on borrowings and receivable, there were ways in which the Council could manage its

debts and investments differently. Pat Gough said that much of the Council's borrowing was over very long terms, and with penalty clauses for early repayment. However, £16 million of debt was maturing during the coming year, which would be refinanced through management of existing balances. In response to a question from Councillor Ginn, she confirmed that another £10 million would mature 2 years later.

Hitesh Jolapara said that the Council was also looking at HRA reform and Treasury Management implications of the treatment of HRA debt.

RESOLVED THAT

The report be noted

28. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2010/11

Hitesh Jolapara, Deputy Director of Finance, introduced the report, which had appended to it the Council's annual statement of Accounts and the Council's Pension Fund Accounts for 2010/11, together with the Annual Governance Reports 2010/11, which were compiled by the Audit Commission as the Council's External Auditor.

He said that the accounts were the first compiled following the introduction of IFRS, which had resulted in a number of changes, including in the treatment of grants, leases and of fixed assets. He said that the accounts showed an underspend of £3.3 million, whilst the HRA showed a net small overspend but retained a positive balance.

He said that the accounts showed a credit of £88 million following the move from RPI to CPI for Pension Fund calculations. The balance sheet also showed a £465 million fall in the value of assets. With regards to the Annual Governance Reports, he said that the verdict was an unqualified set of accounts and all work was now completed, with no issues outstanding.

Julian McGowan, Audit Manager, Audit Commission, said that the Audit Commission would issue an unqualified opinion on both the Statement of Accounts and the Pension Fund Accounts, together with the Value for Money assessment. He said the process was now complete subject to the receipt of signed accounts and a letter of signed representation.

He said that the production of the accounts had been inherently difficult, given the introduction of IFRS and the consequential number of technical adjustments necessary. Further, key staff had changed during the year although the Council had completed the work without additional resources. Progress had been good, with all statutory deadlines met.

With regards to comments on the accounts, he said that following last year's recommendations, that the Pension Fund's internal controls had improved, though

further improvement was possible. He said that, though there were no real concerns and no adjustments on the general fund had been necessary, one recommendation was that the Council should be assured that the accounts handed to the auditor were final, given the change in the arrangements for approval.

Councillor Botterill asked about the items on the Comprehensive Income and Expenditure that related to actuarial assumptions regarding the Pension Fund. Eric Norman, Corporate Accountancy Manager, said that the adjustments were caused by the incorporation of actuarial assumptions made in the 2010 assessment of the Fund, in relation to the change from RPI to CPI for calculating inflation, and to a reduction in long-term liabilities (Non distributed costs- General and Actuarial (gains)/losses on pension assets/liabilities respectively). He noted that small changes to assumptions could provoke large balance sheet movements. Jane West, Director of Financial and Corporate Services, said that officers would write to the Committee, clarifying the way that the most recent actuarial valuation had been incorporated into the accounts.

Eugenie White said that, with regards to page 7, it would be helpful if there was some account of the move from the original budget to the revised budget. Hitesh Jolapara said that any virements made in year were agreed by members; he said that the accounts could include a note explaining the substantive movements made in future years.

In response to questions from Councillor Botterill and the Chairman, Jane West said that the revisions were likely to be as a result of carry forwards, with the underspend attributable to a better than expected recovery rate for parking debt, following the appointment of a new firm of bailiffs.

Councillor Murphy asked why spending had fallen in the Children's Services department. Officers agreed to respond with an explanation of the figure. He also asked about the number of officers receiving more than £50,000 a year, which appeared to have risen. Jane West said that this might be the result of spinal increments, but that officers would check the figures and provide the Committee with a response.

Councillor Murphy asked about the Council's use of its overdraft facility. Pat Gough, Assistant Director of Business Support, confirmed that the Council did have an overdraft facility, but that the facility was part of the contract for the Council's bank account. As such, use of the facility did not incur interest or occasion charges as a normal overdraft might do.

RESOLVED THAT

- (i) The contents of the Auditor's Annual Governance Reports be noted, and that;
- (ii) The Council's response to the Annual Governance Reports, and that;
- (iii) The management representation letter be approved, and that;
- (iv) The Statement of Accounts 2010/11 be approved.

29. ANNUAL GOVERNANCE STATEMENT

Geoff Drake, Chief Internal Auditor, introduced the report, which contained the Council's Annual Governance Statement for 2011. He said that it was drafted in response to the comments made by the Auditor, and addressed key control weaknesses identified, including reconciliations, management of contractors, information requests and the gas safety certification of temporary accommodation.

In response to a question from Eugenie White, Geoff Drake confirmed that officers were working to incorporate the Bribery Act 2010 and other new fraud legislation into the Council's policies on whistle-blowing.

RESOLVED THAT

The Annual Governance Statement be noted.

30. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity. Key updates included the completion of the IT Business Continuity project, work on Tri-Borough governance and the integration of the Housing and Regeneration department's risks to the corporate register and standard. In response to a question from Councillor Ginn regarding the integration of social care, Michael Sloniowski asked that Councillor Ginn write to him with the details of the question.

With regards to an issue with HMRC identified as a potential area of risk, Jane West, Director of Finance and Corporate Services, clarified that the issue had been in relation to the treatment of VAT payable on one of the Council's partner organisations, and that this had now been resolved in the Council's favour.

Councillor Murphy asked whether there was a risk to the regeneration of King Street from an adverse Mayoral decision. Michael Sloniowski said that there was hierarchy within each risk, which would be reflected in the register when and if appropriate.

Councillor Iggulden asked whether political risk was taken into account. Michael Sloniowski said that reputational risk to the Council was considered in compiling the risk register.

Sheela Selvajothy, trade union representative, asked whether staff morale was considered as a risk, given the reductions in staffing numbers. She said that the trade unions were encountering difficulties with the redeployment of staff, with agency staff being retained.

Michael Sloniowski said that the issue was captured as a part of the Successful Cultural Change risk. He said that staff mental health was considered by the corporate Safety Committee; Jane West said that counselling services were also available to all staff, and said that she would arrange for this information to be

circulated again. With regards to the issues raised regarding redeployment, she said that the adjudication panel which reviewed all restructuring proposals checked that agency staff were not retained if possible, but that she would look into any specific concerns referred to her.

Councillor Botterill asked whether the profile for risk was normal. Michael Sloniowski said that it was, given the Council's appetite for risk. As such, given the severity of the risks the Council faced, increases in likelihood were of greater concern.

Eugenie White noted the annual report on complaints submitted by Michael Sloniowski as an appendix to the report, and the improvements detailed. She said that complaints was a key issue for the Council, and that, in her experience, the response from service officers was often unsatisfactory, with response to Stage 2 and 3 complaints often identical to those offered at Stage 1. She asked what opportunities executive and non-executive members had to review complaints.

Councillor Iggulden and the Chairman suggested that ward Councillors could be informed of Stage 2 and Stage 3 responses, whilst Councillor Murphy said that the Council's culture was not service-orientated, and was often process driven.

Councillor Botterill said that, in the area for which he held Cabinet responsibility, many of the complaints that reached Stage 2 and 3 were in relation to parking. As such, they related to an area that was process driven, with high penalties a further contributory factor to the number and nature of complaints received. He added that the Council's responsiveness was highly improved

Jane West said that she would feed back to officers on the issues raised. The Chairman suggested that the Committee could receive a report on the complaints process at a future meeting.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That the Committee's concerns regarding complaints be referred to the Overview and Scrutiny Board.

31. H & F DIRECT LEAN PATHFINDER PROJECT

Jane West, Director of Finance and Corporate Services, introduced the report which set out initial findings from the Lean Pathfinder Project. She said that the process, undertaken with full staff involvement, had involved a "voice of the customer exercise". This had identified a number of areas in which improvements could be made, such as the Council's use of a 0845 number for the service. She said that an improvement in performance had already been achieved, before the service restructuring had been implemented.

Councillor Murphy suggested that the Council might ask those of its suppliers who made use of Lean Thinking whether they would be able to offer similar visits to one

undertaken to DEFRA. Jane West said that she would raise the possibility with Organisational Development.

RESOLVED THAT

The report be noted.

32. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2011

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work undertaken by the internal audit service in the period ending 30 June 2011. He said that 2 limited assurance reports had been issued in the quarter, with 1 recommendation outstanding from them, though it had not yet reached its target date. He said that, at the time of the meeting, no reports were outstanding, with 17 recommendations outstanding, only 1 of which was 6 months past the target date for implementation.

RESOLVED THAT

The report be noted

33. 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 paragraphs 1 and 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

34. EXEMPT MINUTES OF THE MEETING HELD ON 30 JUNE 2011

RESOLVED THAT

The exempt minutes of the meeting held on 30 June 2011 be agreed as a true and correct record, subject to Eugenie White being shown as present.

Meeting started: 7.00 pm
Meeting ended: 9.35 pm

Chairman

Contact officer: Owen Rees
Committee Co-ordinator
Governance and Scrutiny
☎: 02087532088
E-mail: owen.rees@lbhf.gov.uk

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.



AUDIT AND PENSIONS COMMITTEE

8th December 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 September 2011.

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 3 2011

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

Private Equity

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

Breakdown of Scheme Performance by Manager as at 30th September 2011

Fund Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	2 year return (%) p.a.	3 year return (%) p.a.
Total Fund	573,724	100.0	100.0	(5.6)	2.8	5.7	9.3
<i>Liability Benchmark + 1.75% p.a. Difference</i>				9.5 (15.1)	16.0 (13.2)	14.5 (8.8)	9.5 (0.2)
UK Equities	146,091	25.5	25.0				
Majedie				(8.2)	2.4	5.9	11.4
<i>FTSE All Share + 2% p.a. Difference</i>				(13.1)	(2.4)	5.8	8.1
				4.9	4.8	0.1	3.3
Overseas Equities	138,933	24.2	25.0				
MFS				(13.6)	(1.3)	4.4	8.4
<i>MFS Custom Benchmark Difference</i>				(14.6)	(4.5)	3.3	6.8
				1.0	3.2	1.1	1.6
Dynamic Asset Allocation Mandates	145,637	25.4	25.0	(1.9)	3.2	7.1	-
Barings (note 2)				(1.9)	3.4	6.4	10.0
<i>3 month Sterling LIBOR + 4% p.a. Difference</i>	108,149	18.9	18.8	1.2	4.8	4.8	5.2
				(3.1)	(1.4)	1.6	4.8
Ruffer (note 2)				(1.8)	2.8	9.2	15.5
<i>3 month Sterling LIBOR + 4% p.a. Difference</i>	37,488	6.5	6.2	1.2	4.8	4.8	5.2
				(3.0)	(2.0)	4.4	10.3
Matching Fund	129,463	22.6	25.0	2.5	5.9	4.6	-
<i>Liability Benchmark + 1% p.a. Difference</i>				9.4	15.1	13.7	-
				(6.9)	(9.2)	(9.1)	-
Goldman Sachs				(1.5)	(0.5)	1.5	1.9
<i>3 month Sterling LIBOR + 2% p.a. Difference</i>	58,247	10.2	12.5	0.7	2.8	2.8	0.6
				(2.2)	(3.3)	(1.3)	1.3
Legal & General (note 3)				6.0	11.7	7.3	8.6
<i>2 x FTSE + 15yr IL Gifts - LIBOR p.a. Difference</i>	71,216	12.4	12.5	16.7	26.7	19.6	11.9
				(10.7)	(15.0)	(12.3)	(3.3)
Private Equity	13,599	2.4	0.0	2.7	18.9	15.1	-
Invesco				6.8	21.5	18.8	-
Unicapital				(1.7)	15.8	10.4	-

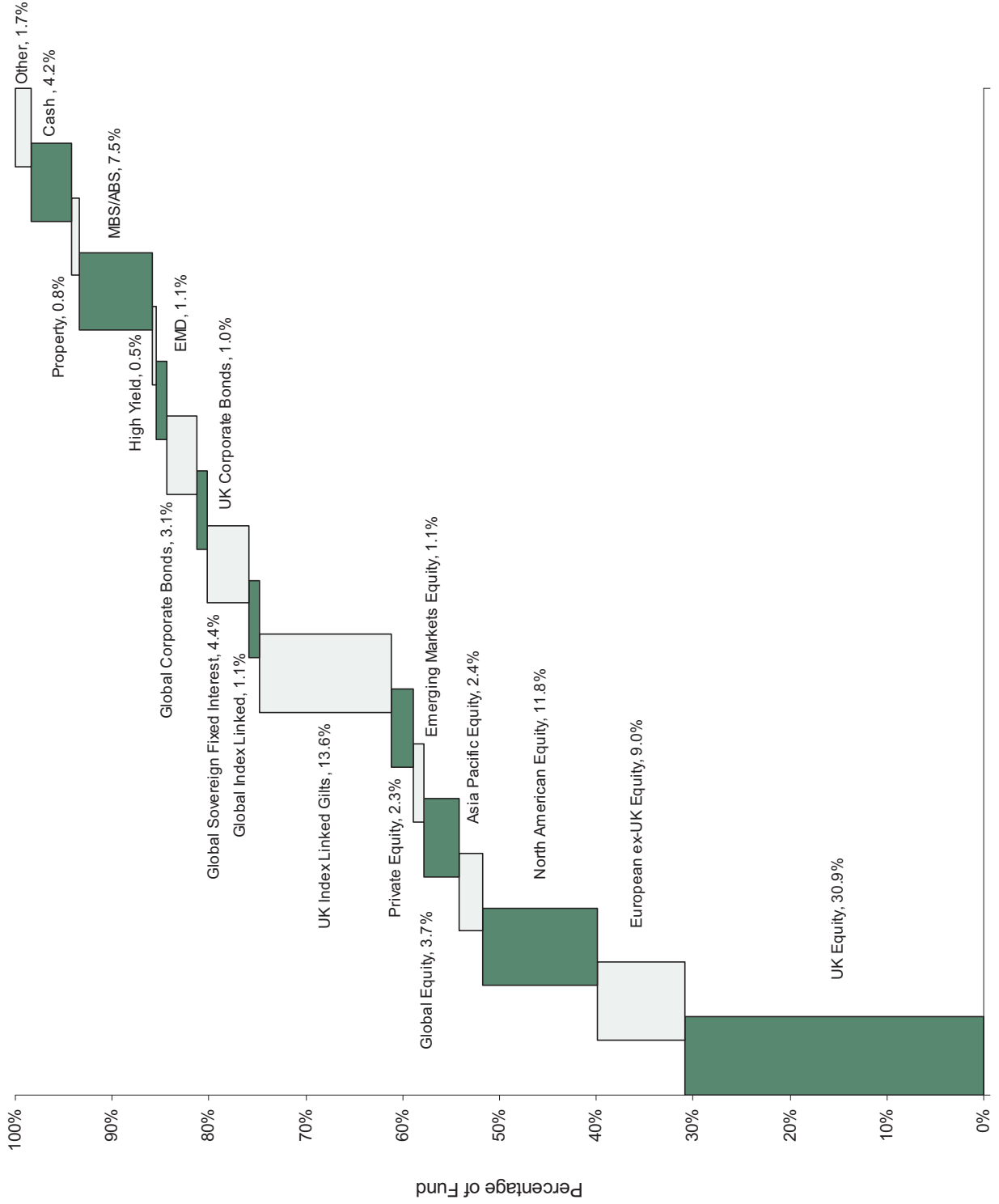
Notes:

- 1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
- 2) At the time of reporting, the Legal & General mandate consisted of index-linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.

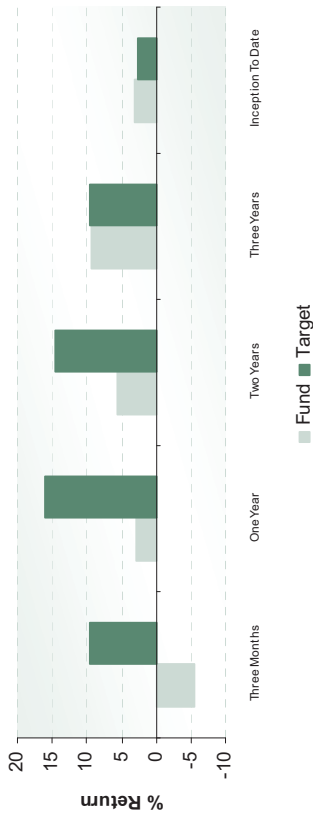
Fund	Manager	Closing Market Value as at 30th June 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th September 2011 £000	% of Total Fund	Target % of Total Fund
Total Fund		607,716	100.0	12	(36,868)	2,864	(16)	573,724	100.0	100.0
UK Equities	Majedie	159,060	26.2	-	(14,817)	1,848	-	146,091	25.5	25.0
Overseas Equities	MFS	160,836	26.5	(16)	(22,327)	440	(16)	138,933	24.2	25.0
Dynamic Asset Allocation Mandates		148,374	24.4	27	(2,959)	195	-	145,637	25.4	25.0
	Barings	110,201	18.1	27	(2,079)	-	-	108,149	18.9	18.75
	Ruffer	38,173	6.3	-	(880)	195	-	37,488	6.5	6.25
Matching Fund		126,311	20.8	-	3,152	0	-	129,463	22.6	25.0
	Goldman Sachs	59,102	9.7	-	(854)	0	-	58,247	10.2	12.5
	Legal & General	67,209	11.1	-	4,006	-	-	71,216	12.4	12.5
Private Equity		13,135	2.2	1	83	380	-	13,599	2.4	0.0
	Invesco	6,666	1.1	-	575	1	-	7,242	1.3	0.0
	Unicapital	6,469	1.1	1	(492)	379	-	6,357	1.1	0.0

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

Asset Class Breakdown as at 30 September 2011

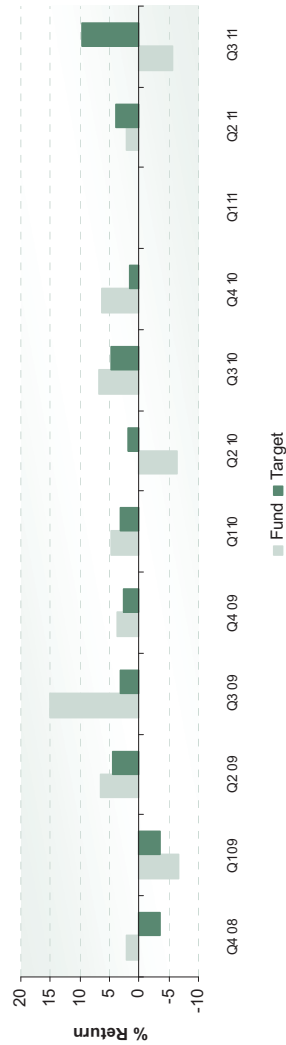


Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-5.62	2.80	5.69	9.27	3.10
Target	9.54	15.98	14.50	9.51	2.57

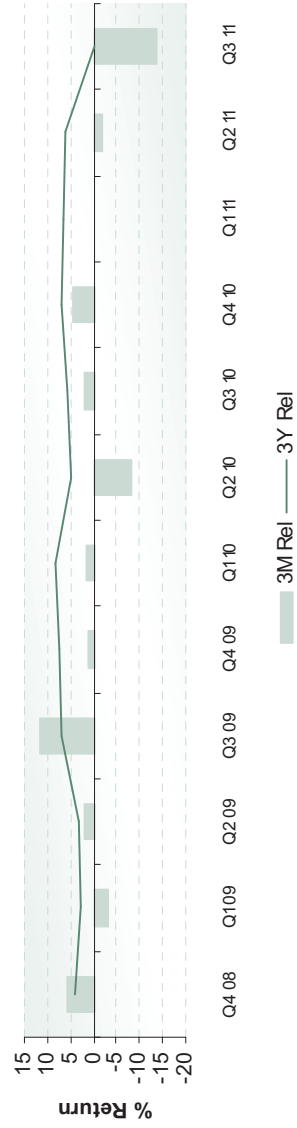
Three Years Rolling Quarterly Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	2.03	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62
Target	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54

The Fund underperformed its liability benchmark by 15.16% over the quarter, returning -5.62% compared to the target of 9.54%. The relative underperformance was driven by a severe drop-off in global equity prices and relatively weak corporate credit markets amidst falling secure sovereign debt yields. The Fund's performance of 2.80% over the year was behind its target by 13.18%, as it suffered from the underperformance this quarter. Overall the Fund has underperformed on a one and three year basis but has beaten its target since inception.

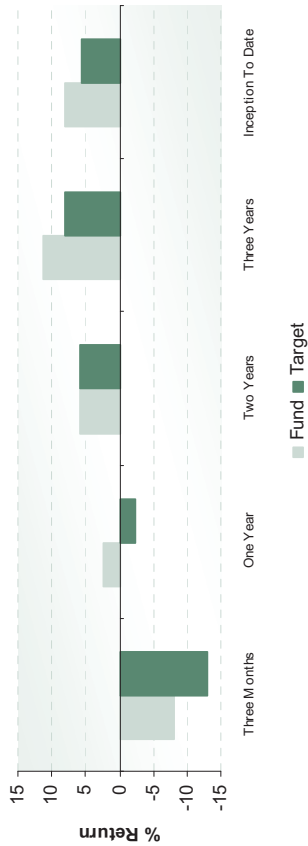
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	5.85	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84
3Y Rel	4.13	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22

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

Historical Plan Performance

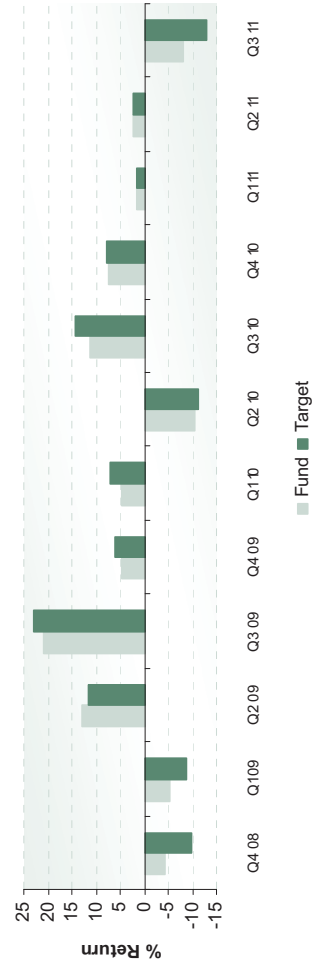


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-8.15	2.42	5.86	11.37	8.11
Target	-13.05	-2.44	5.79	8.13	5.57

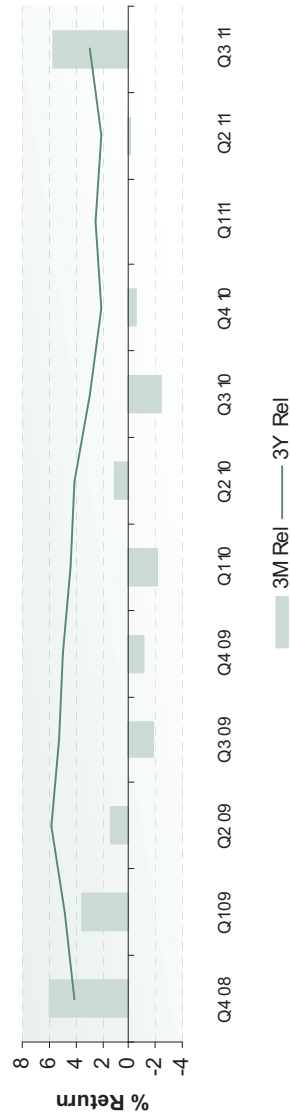
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -8.15% over the quarter, 4.90% ahead of its target. Over 12 months, the portfolio was 4.86% ahead of its target. The portfolio's short positions in Rio Tinto, suffered from a fall off in commodity prices driven by a general global slowdown, and bearings supplier SKF, hit by its exposure to European markets, aided performance over the quarter. However, the long positions in BAE systems, facing a growing pensions deficit and uncertainty regarding the outlook for US defence spending, and pharmaceutical company Sanofi, who announced underwhelming company specific newsflow on near-term trading and guidance, were detrimental to overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



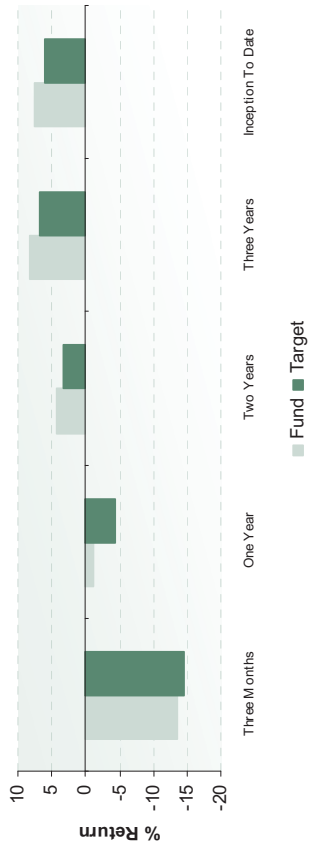
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	-4.38	-5.47	2.97	20.72	4.80	4.73	-10.47	11.36	7.29	156	2.34	-8.15
Target	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35	14.17	7.90	153	2.41	-13.05

	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	5.94	3.46	1.38	-1.81	-1.12	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64
3Y Rel	4.13	4.88	5.82	5.27	4.96	4.35	4.11	2.93	2.11	2.48	2.13	3.00

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

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

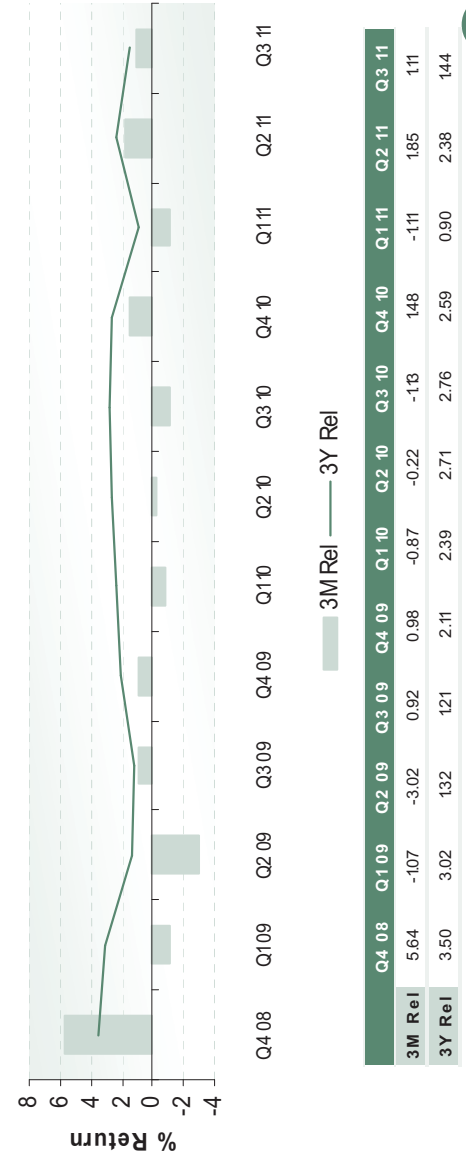


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-13.61	-127	4.35	8.36	7.41
Target	-14.56	-4.48	3.29	6.82	6.08

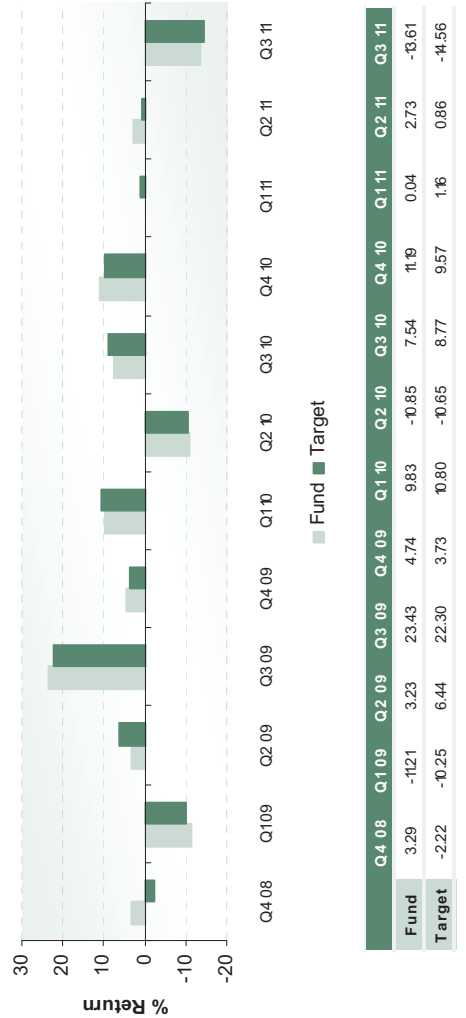
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was -13.61%, 0.95% ahead of the target. Over 12 months, the fund was 3.21% ahead of its target. Stock selection in autos & housing and basic materials we well as underweight positions in autos & housing and energy aided performance as did individual stock holdings in Colgate-Palmolive, Diageo, Reckitt Benckiser, Visa, Target, HOYA, Cisco Systems and Nike. The modest allocation to cash, held for transactional purposes, also positively impacted relative performance as markets depreciated. Stock selection in health care, leisure and retailing as well as an underweight position in utilities & communications and overweight Euro exposure was detrimental to performance. Individual holdings of Erste Group Bank, Schneider Electric, Heineken, Linde, Akzo Nobel, State Street, UBS and not holding Apple also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Relative Returns

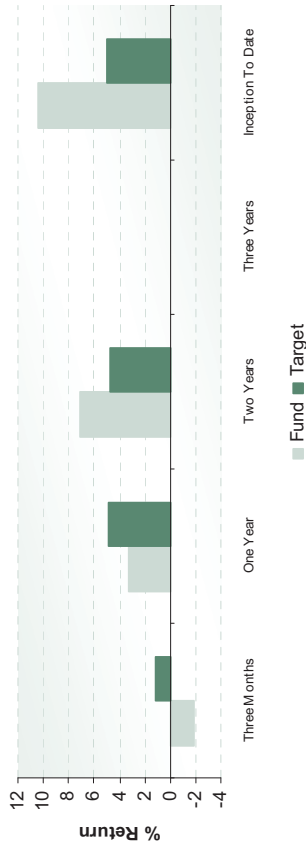


Three Years Rolling Quarterly Returns



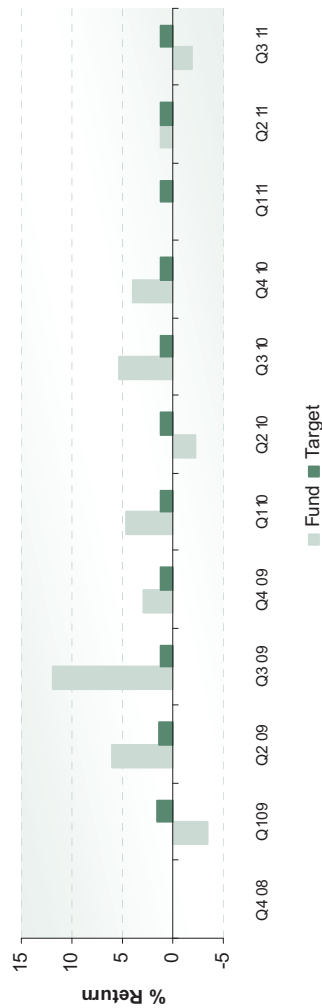
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-1.21	3.21	7.07	10.44	10.44
Target	-1.63	4.84	4.76	4.96	4.96

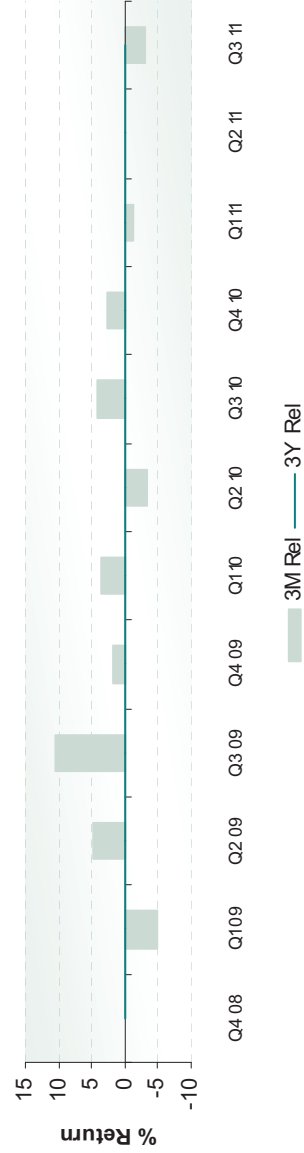
Three Years Rolling Quarterly Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	-3.38	1.50	6.10	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86
Target	6.10	1.33	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.18	1.21

The performance of the group over the quarter was -1.86%, the LIBOR-based target returned 1.21%. Both Barings and Ruffer suffered similar falls but took tactical positions in less volatile assets classes to protect from severe market falls over the quarter. Over the past 12 months, performance has been 1.63% below target, as both managers have underperformed the target.

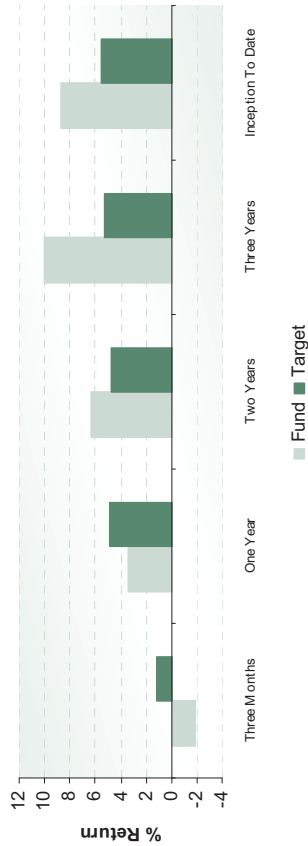
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	-	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

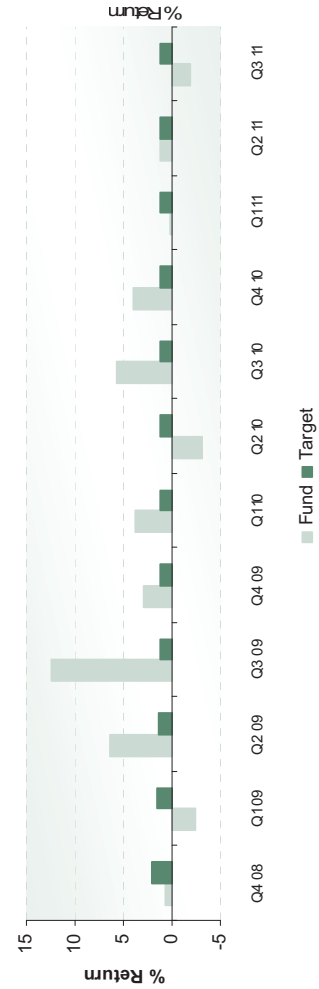
Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-1.89	3.36	6.35	9.98	8.76
Target	1.21	4.84	6.35	5.23	5.47

Three Years Rolling Quarterly Returns

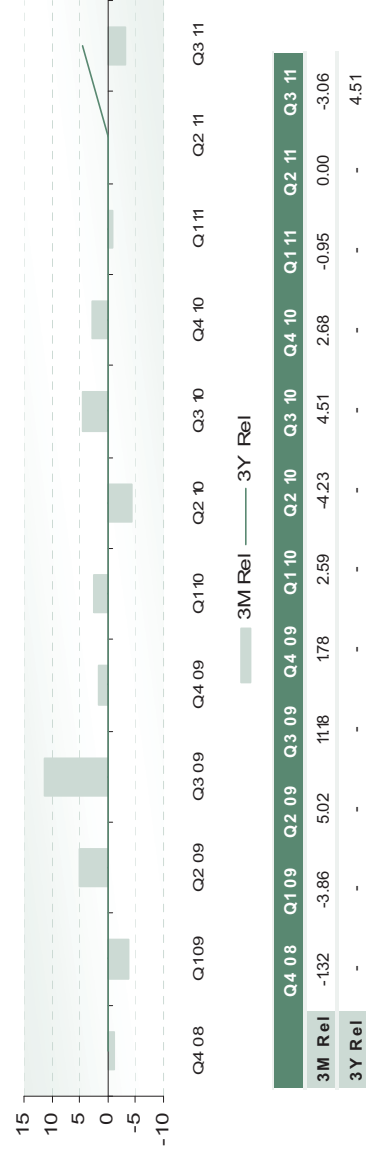


	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	0.67	-2.42	6.42	2.50	2.84	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89
Target	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21

Quarterly Manager update

Organisation	Baring Asset Management has appointed John Burns as Chief Operating Officer. He takes over from John Misselbrook who is retiring at the end of 2011 after a decade with the firm. Burns joins Barings from his position as COO at Visor Capital in Almaty, Kazakhstan, a boutique investment bank with an FSA-authorized UK subsidiary. Prior to this he spent three years with Fidelity International as Head of European Risk Management and 10 years with Schroder Investment Management.
Product	As reported last quarter, Toby Nangle and James Codrington, both members of the DAA team, have decided to leave. Barings plan to replace them with three senior hires, to facilitate an overall expansion of the multi-asset team. P-Solve believe that there is no action required at this time. The team members have a notice period of 6 months and P-Solve will work closely with Barings to ensure they are comfortable with the ongoing strength of the DAA team. The two key decision makers, Percival Stanion and Andrew Cole, will remain in place supported by 4 other portfolio managers and 3 analysts.
Performance	The fund performance was -1.89% over the quarter, 3.10% behind its target. Over 12 months, the fund is 1.48% below target. The biggest contribution over the quarter came from conventional Gilts and UK index-linked bonds. This was offset by equity exposure and weak performance from large chunks of the European bond market.
Process	No significant changes over the quarter.

Three Years Rolling Relative Returns

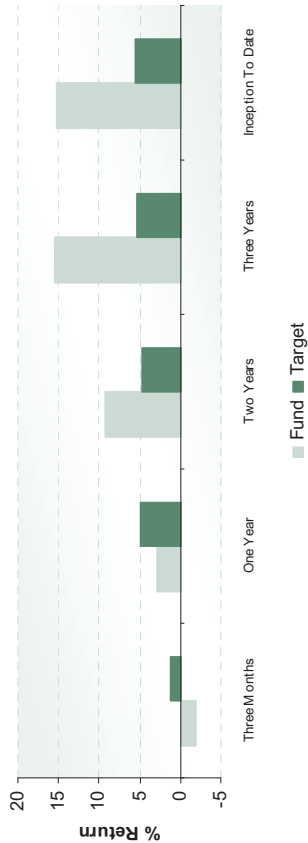


	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	-1.32	-3.86	5.02	11.18	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	4.51

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

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

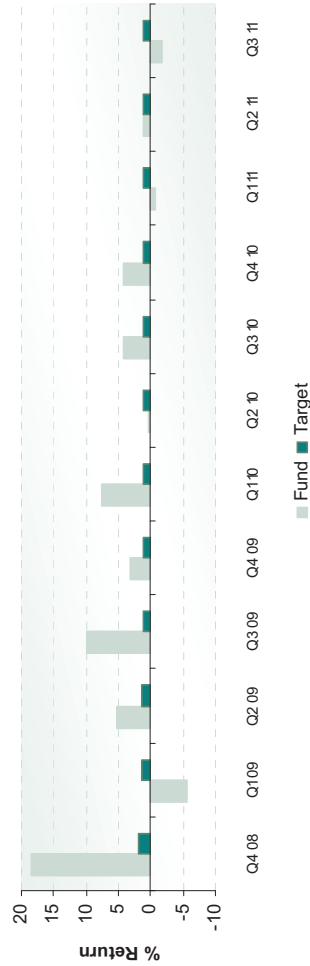
Historical Plan Performance



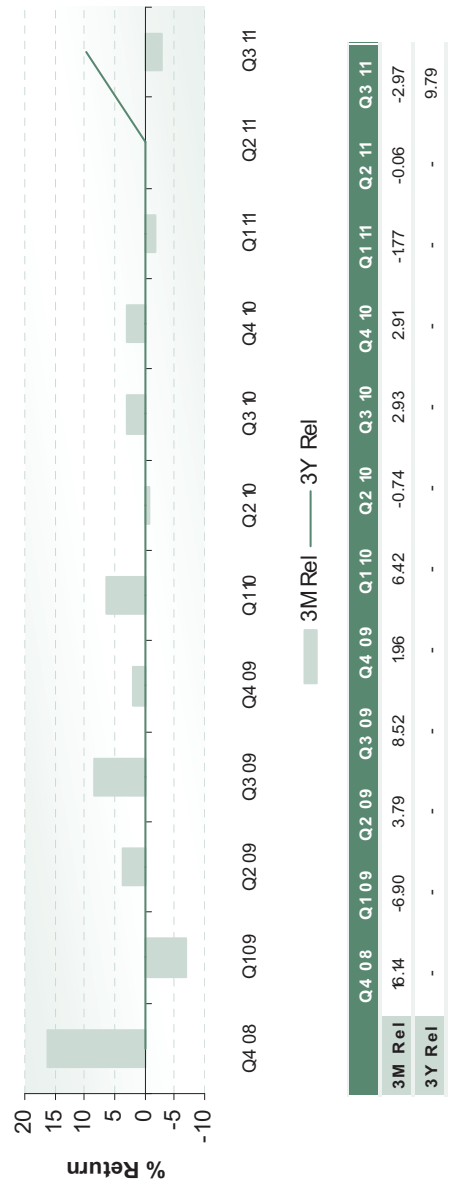
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -1.80% over the quarter, 3.01% behind its target. Over 12 months, the fund was 2.07% below the target. Performance was harmed by holding economically sensitive assets as growing fears of recession drove down equity prices. Whilst not a major part of the portfolio, holdings such as Ericsson, Deutsche Post, BP and Invenys suffered declines. In addition, falling bond yields drove down the net asset value of T&D lower causing a fall in the share price. However, the portfolio's holding of protective assets, such as index-linked bonds and gold equities, provided useful protection. An additional cushion to general market falls was the portfolio's tactical position not to hold Eurozone sovereign debt or bank equities, except one in Japan.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

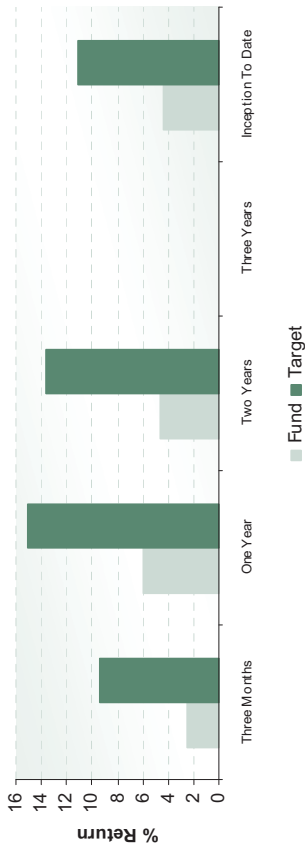


Three Years Rolling Relative Returns



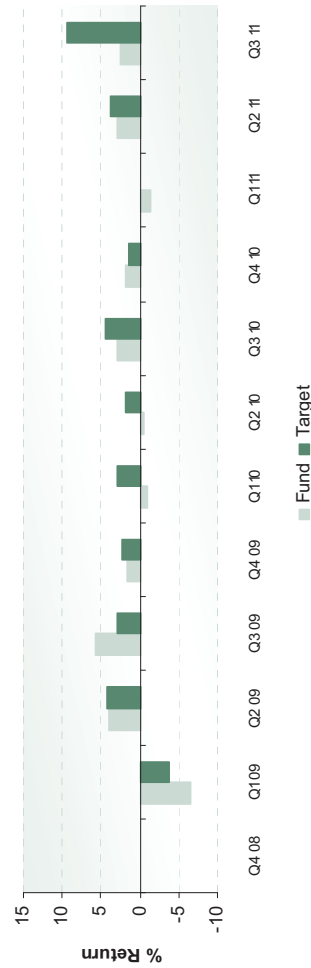
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.50	5.89	4.58	-	4.36
Target	9.35	15.14	13.66	-	11.08

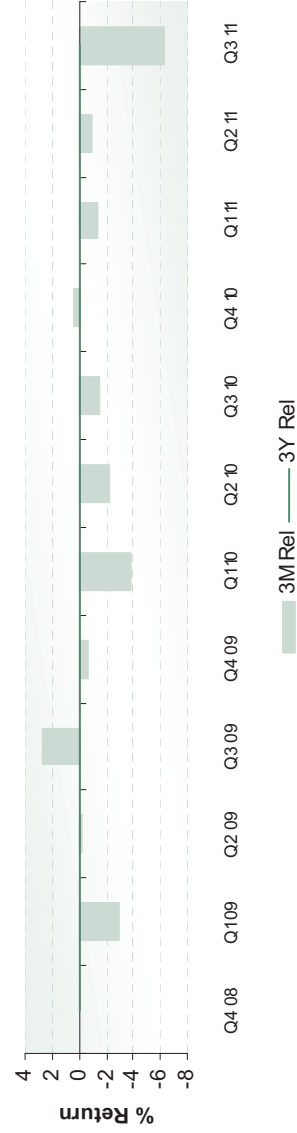
Three Years Rolling Quarterly Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	-	-6.45	4.04	5.66	167	-0.88	-0.48	2.98	175	-1.32	2.90	2.50
Target	-	-3.68	4.28	2.90	2.38	3.02	181	4.49	138	-0.01	3.88	9.35

The performance of the Matching Fund over the quarter of 2.50% is 6.85% below its gilts-based liability benchmark. In manager terms, this can be attributed to the negative return achieved by the Goldman Sachs portfolio over the period. However, the bulk of the underperformance can be explained by the limited ability of the existing LGIM mandate to track the Liability Related Benchmark. This is being addressed with a new mandate due for implementation in December 2011. The Matching Fund return of 5.89% over the year was 9.25% below target.

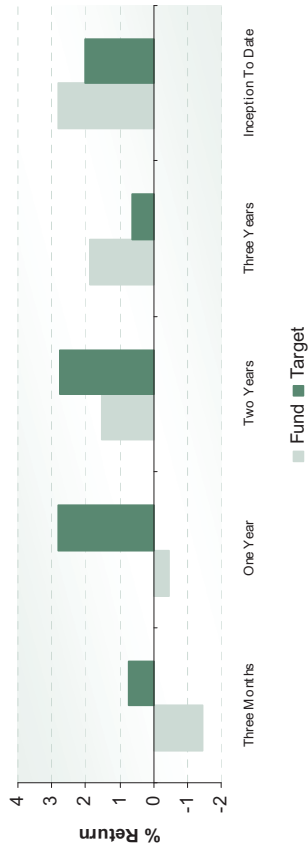
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 manage an active bond fund.

Historical Plan Performance

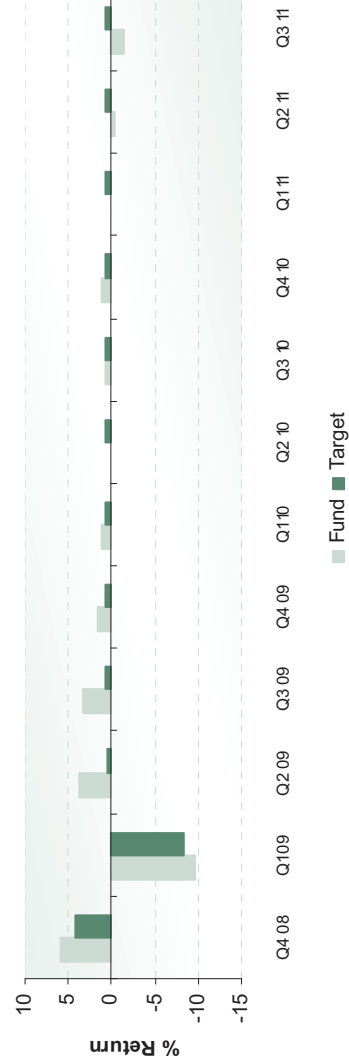


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-1.45	-0.45	1.51	1.85	2.81
Target	0.72	2.82	2.75	0.64	2.01

Quarterly Manager update

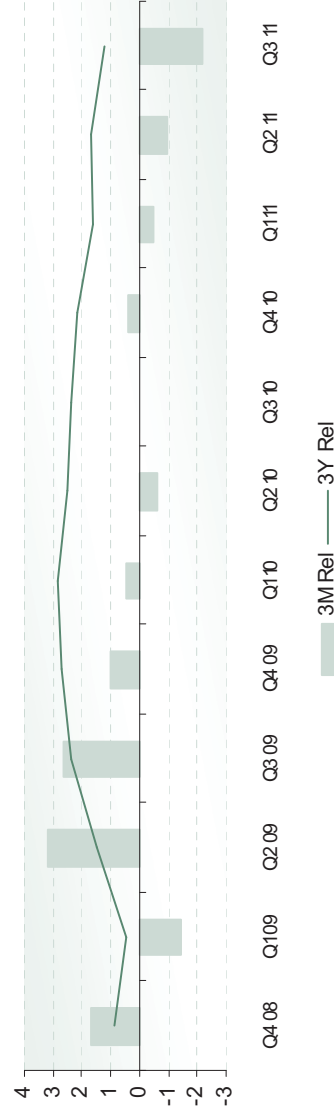
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -1.45% over the quarter, 2.17% behind its target. Over 12 months, performance was 3.27% below the target. The fund's duration and cross-sector and government/agency strategies were the main sources of underperformance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	5.86	-9.70	3.78	3.36	1.66	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45
Target	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15

Three Years Rolling Relative Returns

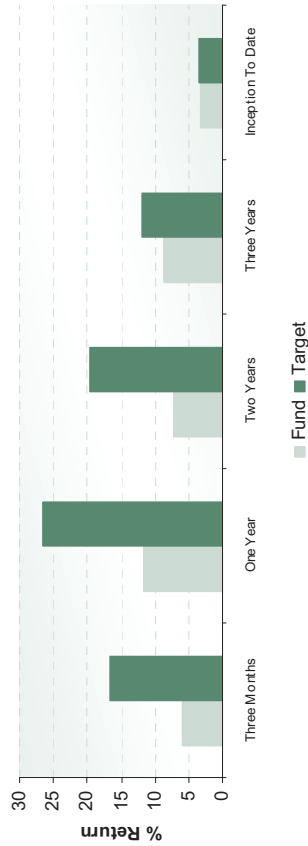


	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15
3Y Rel	0.90	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

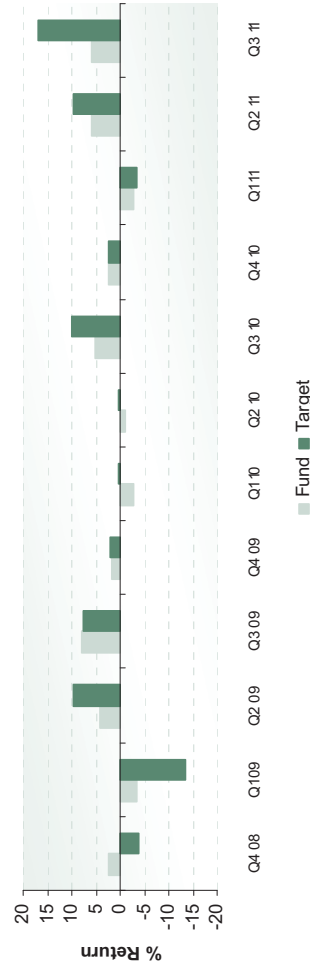
Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in July 2009 following the investment structure review.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	5.96	11.71	7.30	8.61	3.27
Target	16.73	26.65	19.64	11.88	3.37

Three Years Rolling Quarterly Returns

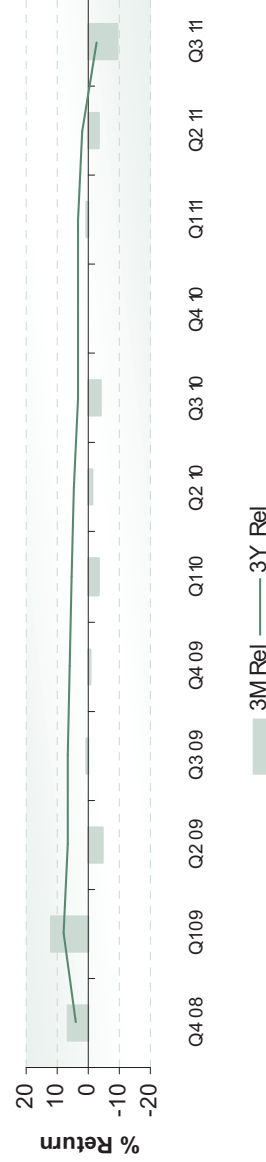


	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Fund	2.34	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96
Target	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38	-3.30	9.60	16.73

Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 5.96% over the quarter, 10.77% behind its target. Over 12 months, performance was 14.94% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again broadly 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 Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Rel	6.49	11.78	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23
3Y Rel	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22	3.37	1.89	-2.92

The third quarter of 2011 saw investor confidence plummeting, driven by the ongoing Eurozone debt crisis. This culminated in the realisation that a Greek default, above the voluntary haircut already in place, was a stark possibility and the ensuing political wrangling between Eurozone members. In addition, growth in many of the major economies showed signs of grinding to a halt, sparking fears of a double-dip recession. All this resulted in global equities falling at a rate not seen since the height of the credit crunch in 2008. The consequential risk aversion and flight to safety resulted in plummeting Gilt yields, with the yield on long dated Gilts falling by 77 basis points over the quarter.

Given the continued bad news stemming from the Eurozone it wasn't surprising to see the area experiencing some of the sharpest falls, with the FTSE World Europe (ex-UK) falling by 20.2% over the quarter. In addition, volatility of markets in the region reached extreme levels, prompting financial authorities in France, Spain, Italy and Belgium to temporarily ban short selling on bank shares.

There was also uncertainty in the political response, which resulted in problems when ratifying an increase to the Euro bail-out fund, something that was strongly opposed by the German taxpayer. This did nothing to sooth fears of contagion in the peripheries, as credit ratings agency Moody's downgraded Portuguese and Irish debt to junk status. However, Standard and Poor's kept these sovereigns as investment grade. Elsewhere, the European Central Bank stepped in to provide liquidity to the Spanish and Italian debt markets to help mitigate rising yields. Moody's also wielded the axe on the rating of two of France's biggest banks, Credit Agricole and Societe Generale, after a review of their Greek debt exposure. A third, BNP Paribas, will be kept on negative watch.

Even the region's economic powerhouse, Germany, suffered losses. Seemingly on the hook for much of the Eurozone debt liability and

experiencing ailing GDP growth the DAX experienced a series of stark falls during August.

On the other side of the Atlantic, the US also had sovereign debt problems. The quarter began with fevered debate between the Democrats and Republicans over a deal to raise the debt ceiling and avoid a default of its own. Despite a deal being agreed at the 11th hour to raise the limit by \$2.4tn, ratings agency Standard & Poor's downgraded long-term credit one notch from AAA to AA+. This set the scene for a difficult period with the FTSE World USA Index finishing 14% lower over the quarter, but it did not appear to change investors' perception of US Treasuries, as yields continued to fall.

In September, the Federal Reserve Open Market Committee announced a scheme dubbed "Operation Twist" to help stimulate the economy. It was designed to put downward pressure on long-term interest rates, by buying up longer term debt, and boost short term rates by selling \$400bn of short-dated bonds. The aim is to keep long term rates low, boosting mortgage lending and business loans, without pumping newly created money into the economy. However, the initial reaction about the effectiveness of the strategy was scepticism, with the Dow Jones down by 2.5% immediately after the announcement.

The UK was hit by falling sentiment on all sides, given its reliance on the US and particularly the Eurozone for trade, with the FTSE All Share finishing down by 13.5%. Peak to trough falls were nearly 17%, with August proving to be particularly difficult, seeing some of the largest losses since the collapse of Lehman Brothers in 2008. Bank shares fell sharply on the prospect that the Eurozone debt crisis was spreading to Italy and Spain. They were also affected by worries that growth prospects remain weak and concerns surrounding money market funds providing liquidity for short-term bank funding.

The poor sentiment and increased risk aversion, fuelled by the Eurozone and poor second quarter US GDP figures, swiftly saw many analysts downgrading corporate earnings and growth projections. This was the source of much of the fall as they envisaged a delay on investment plans until the economic outlook brightens.

As the quarter progressed it became increasingly apparent that the Bank of England was no longer considering an increase in interest rates in the near future, instead moving towards a second round of quantitative easing to boost ailing GDP figures, despite persistently high inflation. The Bank believes that the medium term risk of GDP contraction is still significant, with the economy operating well below capacity.

Corporate bonds benefitted from the rally in core government debt, but some of these gains were eroded by a falling appetite for credit risk. Overall corporate debt made ground over the quarter with the total return on the Merrill Lynch Non-Gilt Sterling Index standing at 1.6%. However, more credit worthy issues tended to produce stronger returns.

Against a backdrop of global volatility and waning investor sentiment markets further a field also suffered, with Japanese and Asia Pacific equity markets experiencing double digit losses. China also showed signs of a slowdown in GDP. This sparked a drop off in industrial metal prices, which are strongly correlated with industrial growth and Chinese demand.

Unsurprisingly, emerging markets were also hit hard, with the FTSE All-World Emerging Market Index losing 19% over the quarter. However, Asian emerging market equities tended to perform slightly better than the benchmark, due to a perceived lack of sensitivity to

the macroeconomic problems in the US and Eurozone. In contrast Latin markets struggled, suffering from the sell-off in commodity markets as a result of a general global slowdown.

In the UK property market, low transaction levels were a key feature. Returns remained positive, with the IPD Property Index returning 1.9%, but the overall upward momentum began to weaken. Overall capital values were stable, but the strength in London and properties with strong income flows, masked weakness in secondary locations and some retail sectors.

In currency markets, the main feature was weakness of the Euro, which declined against the other major currencies. It was also a poor quarter for Sterling, which weakened as the prospect of further quantitative easing grew. Sterling lost ground against the rising Dollar and a strong Yen, although it did make gains on the distressed Euro.

Source: Datastream

CAMRADATA Contact

Ian Bishop
ian.bishop@camradata.com
0131 624 8604
Charlotte House, 2 South Charlotte Street, Edinburgh EH2 4AW

Client Contact

Bob Pearce
Bob.Pearce@lbhf.gov.uk
020 8753 1808
2nd Floor, Town Hall Extension, King Street, Hammersmith, London W6 9JU

P-Solve Contact

Helen Smith
Helen.Smith@psolve.com
020 7024 7480
126 Jermyn Street, London SW1Y 4UJ

Scheme Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION

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AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

DF

INVESTMENT STRATEGY REVIEW

This report seeks approval to a new Liability Benchmark Portfolio (LBP) for the Pension Fund following the 2010 Actuarial Valuation.

WARDS
All

RECOMMENDATION:

1. To agree the new Liability Benchmark Portfolio proposed by Psolve with an outperformance target of 2.2% with effect from 1st April 2011.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

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

1. LIABILITY BENCHMARK PORTFOLIO

1.1 Psolve has produced a report which is attached reviewing the Investment Objectives and Strategy of the Pension Fund. On the 22nd November 2011 Psolve gave a briefing session to members and officers on their proposals.

1.3 One of their proposals is to update the Liability Benchmark Portfolio (LBP) in order to have an investment objective for the fund which closer matches the liabilities of the fund following the results of the 2010 Actuarial Valuation. More details of the reasoning for this are given in section 2 of the attached report.

1.4 Psolve proposes that the LBP is made up of a portfolio of Index-Linked Gilts that would best match the liabilities on a least risk basis plus an outperformance target. The outperformance target is proposed to be 2.2% and is designed to ensure the Investment Strategy meets its funding objectives. The outperformance objective is discussed in more detail in section 3 of the attached report.

1.5 The LBP is designed to have a similar shape to the liabilities in terms of its sensitivity to the change in interest rates and inflation. The proposed LBP uses the returns from five index-linked gilts as follows:-

1¼% Index-Linked Treasury Gilt 2017	45%
1¼% Index-Linked Treasury Gilt 2027	20%
1⅛% Index-Linked Treasury Gilt 2037	10%
¾% Index-Linked Treasury Gilt 2047	5%
1¼% Index-Linked Treasury Gilt 2055	<u>20%</u>
	<u>100%</u>

1.6 The start date for the proposed LBP is 1st April 2011 as the contribution rates from the 2010 Actuarial Valuation came in to force on that date.

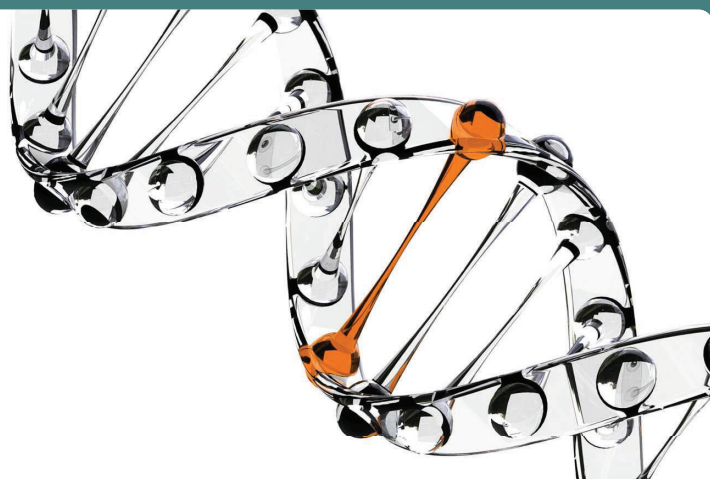
2. INVESTMENT STRATEGY REVIEW

2.1 At the same briefing on the 22nd November, Psolve proposed a change in the investment strategy of the fund to include an allocation of the fund's investments in Alternative Investments. The detailed proposals are in Section 5 of the attached report.

2.2 It was proposed that Psolve prepare a paper for the meeting on 23rd February 2012 on specific proposals for the fund which would include up to 5% in alternative investments. Psolve pointed out that Barings and Ruffer currently have approximately 2% of the fund in alternatives.

3. RECOMMENDATION

3.1 To agree the new Liability Benchmark Portfolio proposed by Psolve with an outperformance target of 2.2% with effect from 1st April 2011.



London Borough of Hammersmith & Fulham Pension Fund

Review of Investment Objectives and Strategy

This paper is addressed to the Audit & Pensions Committee (“the Committee”) of the London Borough of Hammersmith & Fulham Pension Fund (“the Fund”). The purpose of this paper is to consider the following issues:

- The appropriateness of the current investment objective and, within this:
 - Reviewing the current Liability Benchmark Portfolio (the “LBP”, the liability-related objective for the investment strategy) in light of updated liability information
 - Reviewing the outperformance target based on the recently agreed funding plan.
- Considering the ability of the current investment strategy to achieve the objective and the risks associated with the current investment strategy.
- Introducing potential changes that could be made to the current investment strategy.

Our advice to the Committee is summarised below:

<p>How much return do we need?</p>	<p>The Minimum Required Return from the 2007 valuation was 1.75% in excess of the liability-related objective (the LBP). At the 2010 valuation, the Minimum Required Return has been increased to 2.2% p.a. in excess of the risk free rate.</p> <p>Proposal: The Committee should amend their investment objective for governance monitoring purposes.</p>
<p>Objective</p> <hr/> <p>Is the current LBP appropriate?</p>	<p>The Committee previously adopted a LBP that comprised a portfolio of index linked gilts broadly representative of the profile of the Fund’s liabilities. Following completion of the 2010 valuation, the LBP has been updated to reflect current liability information.</p> <p>Proposal: The Committee should update the LBP used for governance monitoring purposes.</p>

Risk allocation	Can the current strategy achieve the objective?	<p>The current investment strategy targets a return in excess of the Minimum Required Return and is expected to achieve its target under various economic scenarios. However, there remain large sources of risk, predominantly from exposure to equity markets.</p> <p>Proposal: Maintain broad strategy but consider how to diversify returns further.</p>
	Is the management of the exposure to economic regime change appropriate?	<p>As mentioned above, the Fund remains exposed to equity markets as a principal source of return and, as such, is exposed to the risks associated with these markets and a diminution arising from a shift to a lower growth environment. Increasing exposure to assets that do not rely on economic growth factors as a principal source of return is therefore attractive.</p> <p>Proposal: Introduce an allocation to alternatives by reducing the equity allocation. Consider the governance mechanisms through which such an allocation could be managed.</p>
Risk Management	Is the management of liability risk appropriate?	<p>The Fund retains significant exposure to liability risk although this is presently being addressed through the development of the LGIM Matching Fund mandate. Once implemented, consideration could be given as to how the influence of this mandate could be extended.</p> <p>Proposal: Continue with the implementation of the LGIM mandate as a mechanism for mitigating liability risk. Once implemented, consider how the mandate could be evolved.</p>
	Are there other opportunities for risk management?	<p>Whilst the use of alternative assets could reduce the volatility of asset returns, further steps could be taken to protect the Fund against equity market falls through the use of derivatives. It is possible that this could be achieved through the new LGIM mandate.</p> <p>Proposal: Although no immediate changes are proposed to the investment strategy, P-Solve will work with LGIM to explore the mechanics of introducing equity market protection.</p>

We look forward to discussing this paper with the Committee at their next meeting.

**P-Solve Asset Solutions
August 2011**

1.0 Where are we now?

The Committee have adopted an investment strategy as set out below.

Asset Class	Manager	Benchmark	Current Allocation (%)	Strategic Allocation (%)
UK Equities	Majedie	FTSE All Share + 2% p.a.	26.7	25.0
Global Equities	MFS	FTSE World ex UK + 2% p.a.	26.9	25.0
DAA	Barings/Ruffer	Libor + 4% p.a.	25.1	25.0
Matching Fund	GSAM/LGIM	Over 15 year IL Gilts +1%	21.0	25.0
Cash			0.3	0.0
Total			100.0	100.0

The objective of the investment strategy is to deliver a return of at least LBP + 1.75% p.a. where the LBP is defined as a portfolio of gilts representative of the Fund's liabilities and the outperformance target is the level of return in excess of the risk free rate assumed within the 2007 valuation.

However, the strategy employed targets a return somewhat above this.

2.0 Updating the Liability Benchmark Portfolio

The funding level of the Fund is affected by both the assets and the liabilities. As a result, the performance of Fund's assets should not be looked at in isolation but instead should be considered in comparison to the liabilities. The investment strategy has been designed to diversify the assets, seeking to generate a stable return. In conjunction with the liability hedging arrangement, the overall performance of the strategy should beat the growth in the liabilities.

But how do we effectively govern this on an ongoing basis? Whilst we address the question of governance in a little more detail as an Appendix to this note, measuring the performance of the assets directly against the liabilities would be cumbersome and costly. It is therefore simpler to measure the performance of the assets against a liability proxy. We call this the Liability Benchmark Portfolio ("LBP").

Put simply, the LBP is the portfolio of assets that best matches the liabilities and could be considered as the portfolio of assets that the Scheme would invest in to fully match the liabilities if it had the assets to do so.

The LBP is usually an "investible" benchmark, made up of a combination of bonds (typically gilts) or cash and swaps. Although the LBP is not intended to be an exact replica of the liabilities, as it cannot take into account membership movements, it aims to capture the effect of changes in market conditions on the liability value e.g. changes in interest rates and inflation. The LBP therefore provides an appropriate and realistic benchmark for the performance of the Fund's overall investment strategy.

To date, the Committee have used a LBP that has been defined by reference to a bespoke portfolio of index linked gilts. This was determined following completion of the 2007 valuation. Given the 2010 valuation has recently been completed, updated liability information can be used to construct a more up to date LBP.

2.1 What characteristics should the LBP have?

The LBP effectively provides a bridge between the calculation of the liabilities and the investment of the assets. It is desirable that the LBP meet a number of different criteria:

2.1.1 It should be representative of the manner in which the liabilities are calculated

The Scheme Actuary has defined a methodology for calculating the basis underlying the Technical provisions. For the Scheme, this relies on the yields on certain gilt indices which are used to derive both an estimate of future price inflation and a suitable discount rate. It is therefore desirable that the LBP be determined in a similar way, using gilts and/or gilt indices. This is the current basis for the LBP.

2.1.2 It should capture as accurately as possible the underlying nature of the liabilities

Gilt indices do not typically reflect the distribution of risk within a pension scheme. Whilst it is possible to capture the split between nominal and inflationary liabilities, capturing the duration and shape of the liabilities using only gilt indices is more problematic. Given the role of the LBP is to reflect the movement in liability values, it is preferable that these characteristics are represented within the LBP. It is therefore proposed that the LBP is constructed in a bespoke manner, using individual gilts.

2.1.3 It should be investible

Whilst it is possible to construct theoretically accurate portfolios that capture quite precisely the changes in liability values, such solutions can be over-engineered and overly complex for the purpose for which they have been created. Further, such solutions may make use of instruments for which a “market value” is not directly obtainable.

Given the role of the LBP is to help aid governance, it is desirable that the proposed LBP be constructed using investments that the Fund can invest in and for which the performance of the Fund can then be easily calculated.

2.1.4 It should be aligned with the Fund’s investments

One of the roles of the LBP is to govern the investment strategy. It is therefore appropriate that the manner in which the liabilities are calculated to change is directly replicated by movements in asset values.

For the Fund, this would mean the value of the assets (particularly the assets devoted to liability risk management) being linked to changing gilt prices. Changes to the Matching Fund and the mechanism for the management of liability risk are currently in progress.

2.2 Proposed LBP

The purpose of the LBP is to provide a measureable proxy for the Fund’s liabilities against which the investment strategy can be benchmarked and managed. The LBP is intended to capture the impact of changing financial conditions – inflation expectations and interest rates – on the liabilities of the Fund. In this respect, there are three factors that are relevant, in order of importance:

- The split between fixed and inflation linked liabilities, reflecting the way in which the Fund’s benefits increase. It is noted that LGPS liabilities are wholly inflationary in nature, being linked to increases in CPI. However, as there are currently no assets that provide a direct link to CPI, index linked gilts that are linked to RPI are used as a proxy.

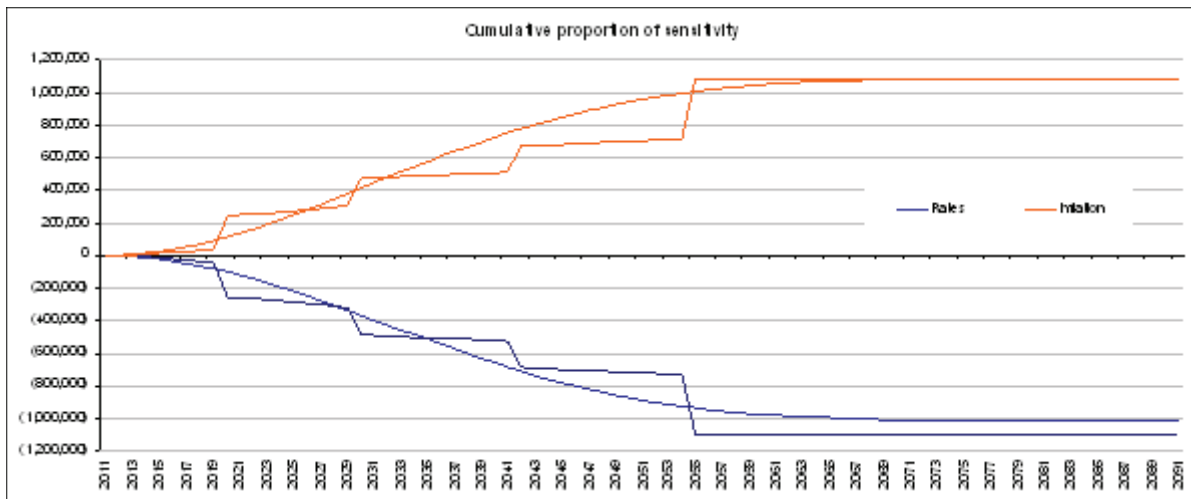
- The average term to payment or duration of the liabilities. Duration measures the overall sensitivity to changes in interest rates/inflation.
- The “shape” of the liabilities. Changes in interest rates/inflation expectations at different terms can have a differing impact on liability values.

In specifying a revised LBP, we are not seeking to precisely replicate the liability cashflows, rather capture the various characteristics set out above as accurately and as simply as possible. We therefore propose the following LBP be adopted by the Committee for ongoing governance purposes:

	2010	2007
1¼% Index-linked Treasury Gilt 2017	45%	-
2½% Index-linked Treasury Gilt 2024	-	27%
1¼% Index-linked Treasury Gilt 2027	20%	63%
1 1/8% Index-linked Treasury Gilt 2037	10%	-
0¾% Index-linked Treasury Gilt 2047	5%	-
1¼% Index-linked Treasury Gilt 2055	20%	10%
	100%	100%

2.3 Suitability of Proposed LBP

The suitability of the proposed LBP can be considered by comparing the sensitivity of the liabilities to a change in interest rates/inflation and comparing the corresponding change in the LBP. This is illustrated in the chart below.



The chart shows how much additional risk is added for each additional year of liability cashflow. What can be noted from the above is that the Scheme is relatively mature with little additional risk beyond the 2055 point. The cumulative risk profile of the LBP tracks the cumulative risk profile of the liabilities reasonably well. However, as the LBP is being used primarily as a proxy for governance reporting purposes, we are satisfied that the LBP is appropriate.

3.0 Outperformance objective

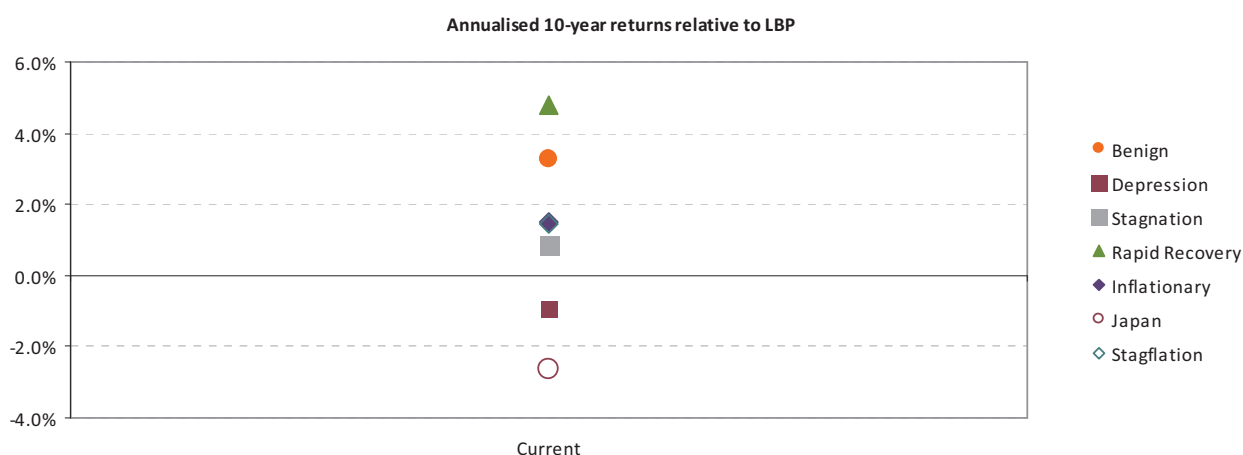
The Fund’s investments need to earn a return in excess of the risk free rate in order for the funding position to “stand still”. The valuation assumed that investments would achieve a return of 6.7% p.a. or 2.2% p.a. in excess of the return on gilts.

The Recovery Plan has also been set by reference to these assumptions and, should the return be in line with that assumed, then the contributions payable will remove the deficit over the 25 year period agreed.

Taking account of experience since the valuation, it is estimated that a slightly higher return than that assumed at the valuation date would be needed to achieve the target of being fully funded by 2035. However, given experience represents shorter term market volatility and the valuation adopted a smoothed asset valuation, the Committee should align their performance objective with the long term assumptions in the Recovery Plan.

As a minimum therefore, the investment strategy needs to achieve a return of at least 2.2% p.a. in excess of the risk free rate over the next 25 years. This is known as the Minimum Required Return (MRR). The current strategy targets a return in excess of this (approximately 2.5% p.a. before consideration of active management). However, for monitoring purposes, we propose the Committee continue to monitor the performance of the strategy against the MRR; this will allow the Committee to judge when their strategy is being successful and narrowing the funding deficit.

Consideration also needs to be given as to whether the current strategy is likely to achieve this. Whilst risk is explored further in Section 4, the chart below considers the potential for the current strategy to achieve its target return over the next ten years under a number of different economic scenarios. These scenarios are explained in the Appendix.



We see that under scenarios that carry low levels of economic growth (Japan, Depression, Stagnation), the strategy falls behind the 2.2% p.a. outperformance target. More optimistic scenarios will see the strategy meet its target return.

The analysis above does not make any allowance for any manager outperformance, relying instead on a static asset allocation. Given the current strategy employs managers who seek to deliver both stock and rotational outperformance, the expected returns from the strategy are likely to be higher, if this outperformance is achieved.

4.0 Introduction to risk

Risk is the potential for loss. What that “loss” is depends on the specific circumstances of the investor. For example, it may be that for a pension plan to improve the funding level, the assets need to grow at a rate of gilts + 2% per annum. The definition of risk is then related to the gilts + 2% threshold, as falling below this would mean the funding level falling.

So in considering risk, we need to have some benchmark compared to which we can evaluate the risk of loss. But what represents a loss? To start thinking about this, let's look at some of the biggest losses in history and see if this tells us something.

- The biggest daily equity market crash was 23% (October 1987). It would take a return of 30% to come back from that.
- We've seen losses of around 50% in equity markets in the space of a year. This is worse, as we need to double our money to get back to where we started.
- But the worst ever developed equity market fall (peak to trough and where the equity market survived) occurred between 1929 and 1932, when the US equity market fell by around 85%. This is a completely different order of magnitude as a problem as to recover requires a return of over 560%.

So we should be worried about losses that occur over longer periods of time. But can we say more about what caused the most severe losses? By examining historic losses in markets, there are some important themes that emerge:

- Biggest losses combine overvaluation and economic regime change
- Where overvaluation and economic regime change occurs, losses take longer to recoup (i.e. they are more "permanent")
- Where losses result from financial stress without overvaluation, markets tend to come back more quickly.

This leads us to an important principle. We believe strongly that risk should be first viewed as "the potential for permanent capital loss, rather than price variation". Markets will wobble, but it's the loss you don't expect to re-coup quickly that causes the real problems. This is not to say that price variation is never an issue – for an institution, failure to manage the effect of price variation on asset values can lead to issues around the pace of funding. But the biggest "risk" is the permanent capital loss, so this should be our primary focus, with managing price variation secondary.

The biggest sources of "permanent loss" are market overvaluation and economic regime change. Financial stress alone tends to be more like price variation, in that markets tend to come back relatively quickly.

In addition to all of this, there is normal price variation – or volatility – which results in "losses" of a lower order of magnitude. Markets also tend to bounce back quickly from losses arising from normal volatility alone.

We believe that it is the timeframe over which losses are recovered that distinguishes between different forms of risk. The table below summarises how we think about risk:

Risk Type	Typical Loss level	Typical Recovery Time	Description
Normal market volatility	Low: up to 10%	A few months	This is the risk (if it is considered a risk) that results from normal price variation in markets. Markets will ebb and flow in the process of rising and there will be periods when markets fall even in reasonably stable conditions.
Market shock/stress	Medium: 20% - 50%	Months to a year	From time to time, markets become subject to stresses, which can push down further than might be expected in normal market conditions.
"Permanent" loss, often over a prolonged period	High: 50% +	Years	This risk generally relates to market overvaluation, but is also caused, or significantly worsened, when coupled with economic regime change (which is generally precipitated by an asset bubble) or a change to the underlying fundamental factors.

Regular Market Volatility can be measured using a VaR ("Value at Risk") type model which can estimate the expected volatility of the strategy in normal market conditions. We generally propose that Market Stress is measured by

calculating the effect on the funding level of one off market shocks e.g. a sharp fall in equity values or a significant rise in inflation. To measure the risk of permanent loss, we think of a range of economic scenarios and project how the strategy would perform in each of these situations.

When examining the return/risk of the portfolios we may propose, it is these return/risk measures that we return to, to compare the value of making a change in strategy.

4.1 Developing a Risk Benchmark

Using the current investment strategy as a base, we determine the level of risk currently being run using the various measures set out above. We consider each in turn.

4.1.1 Normal market volatility

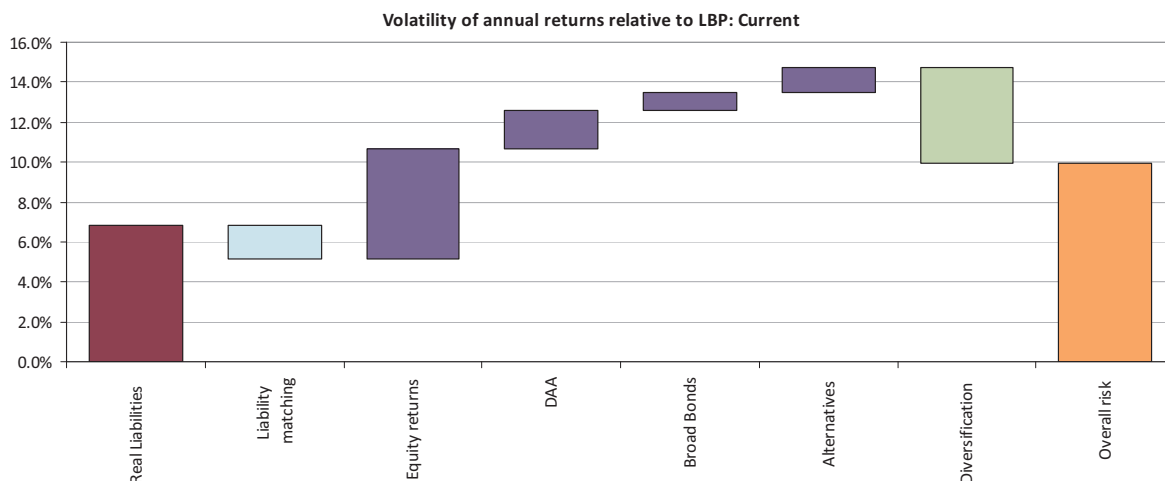
Risk can be tested in a normal manner by considering the volatility of returns (i.e. the potential range of returns that would arise two years in every three). The results of this assessment are shown below:

	Current
Volatility	10%

To explain the volatility numbers; the current strategy targets a return of around LBP+2.5% p.a. With a volatility of 10% p.a., this means that the Committee can expect returns to fall in the range of LBP – 2.5% to LBP + 7.5% two years in every three. One year in six, returns could be expected to be greater than LBP+7.5%. One year in six, returns could be expected to be below LBP – 2.5%.

Compared to an equity only strategy (which would show a volatility of around 16% p.a.), this demonstrates the Fund is running a more conservative strategy. However, it is worth considering further just how the various risks faced within the Fund break down.

The chart below shows the various sources of risk in the current arrangements:



Risk can be split between liability risks and asset risks:

- We know that the liabilities are inherently volatile, with both interest rates and inflation being sources of risk (purple bar).

- The Committee has agreed to implement a Matching Fund arrangement which seeks to mitigate a proportion of the Fund’s interest rate risk and inflation risk. This serves to reduce liability risk (light blue bar).
- Additional contributions to risk are created from the various return seeking mandates within the strategy, i.e. equity, DAA and Broad Bonds (purple bars). These return-seeking allocations benefit from diversification (green bar).

This picture demonstrates that equity exposure remains a very significant contributor to overall risk.

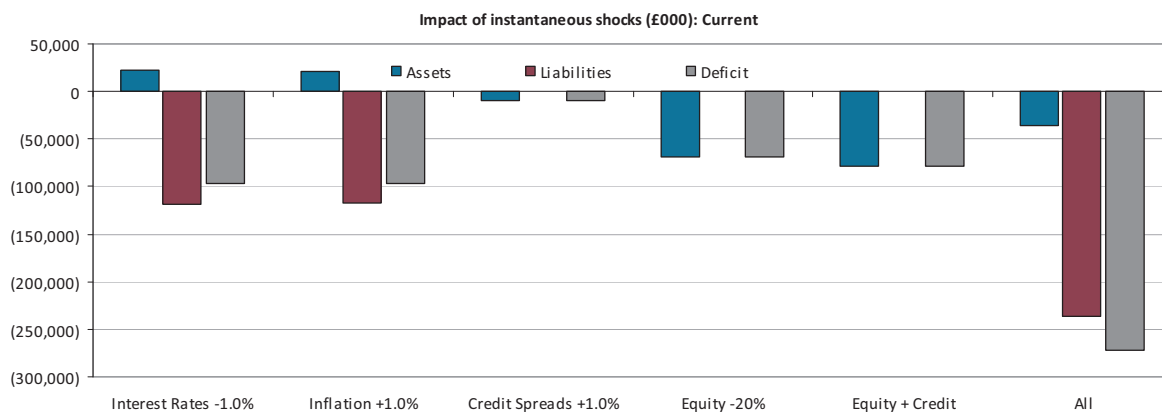
4.1.2 Market shock/stress

We can test the potential for loss from the investment strategy by considering the impact on the Fund deficit of an instantaneous shock to markets. There are four key factors to consider: interest rates, inflation, equity markets and credit spreads (the excess yield over government bonds for taking corporate risk). To illustrate conditions when market shocks have arisen, the table below considers when markets were last subject to some of these stresses:

Shock event	Last occurrence	Recovery period
Interest rates fall by 1% (30 year rates)	09/08 to 12/08	Five months
Inflation expectations rise by 1% (30 year rates)	01/07 to 09/08	Not yet
Credit spreads widen by 1% (AA bonds)	09/08 to 10/08	Three months
Equity markets fall by 20% (UK equity market)	01/09 to 03/09	Two months

Market shocks can be more or less severe and, although they may not all occur simultaneously as factors such as interest rate and inflation movements are correlated, considering the combined impact of each of these shocks as well as their individual impact offers a basis for comparison.

The chart below shows the Fund’s current exposure to shocks.



To comment on the chart above:

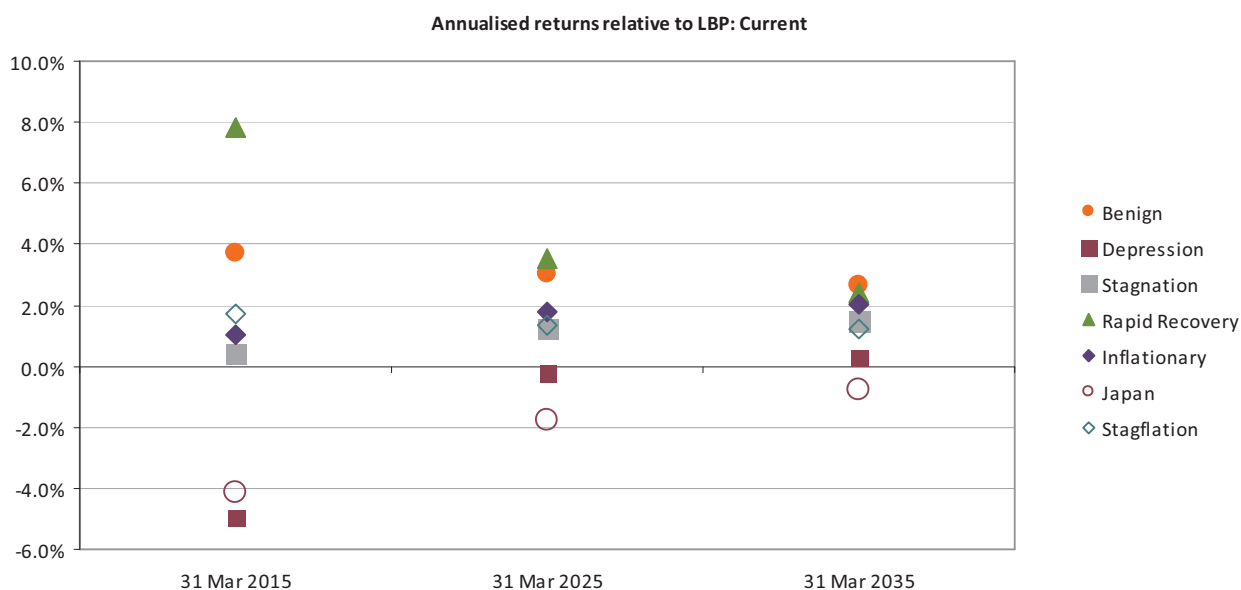
- Given the long-term nature of the liabilities, it is a fall in long-term interest rates and/or an increase in long-term inflation expectations that would be most problematic for the Fund. For example, long-term interest rates are presently around 4% p.a. Whilst it is possible that interest rates will fall (in a scenario similar to that experienced in Japan over the last 20 years), P-Solve believe it more likely that interest rates will rise from present levels (which would have the beneficial impact of reducing the value of the Fund’s liabilities and thus improving overall funding measures).

- Exposure to asset risk remains relatively high, with a fall in equity markets of 20% likely to increase the deficit by around £70 million.

4.1.3 Permanent Loss

The risk of a permanent loss of capital can be considered by examining the performance of the strategy under different long-term economic scenarios. The chart below shows the performance potential relative to the Liability Benchmark Portfolio (LBP) of the strategy over different time horizons. Risk can be measured by reference to the dispersion of outcomes.

Further detail on the economics scenarios used is set out in the Appendix. But if we consider the returns that may arise over various periods from 31 March 2011 under each of the seven scenarios, we see the following:



- The current strategy will underperform significantly under the Japan scenario. In this scenario, interest rates will fall (from current levels) meaning that the value of liabilities will increase significantly. Under such a scenario, the value of the Matching Fund would increase, but this would be more than offset by the increase in the value of the liabilities and the fall in the value of risky assets. It is worth reiterating that as interest rates are at historically low levels, P-Solve perceive the chance of rates rising over time is higher than them falling further, although we acknowledge that this may not happen quickly.
- Under scenarios that see little economic growth (depression, stagnation), risky assets perform poorly over shorter time horizons before recovering over the longer term. Under these scenarios the current strategy is predicted to perform slightly behind, the growth in the liabilities.
- Under an inflationary scenario, although asset returns are expected to be beneficial, returns from the strategy would be held back (relative to the LBP) by the inflationary growth in liability values.
- More optimistic scenarios see returns from the strategy above target although one contributing factor is the expected increase in interest rates under many of these scenarios.

We also note again that none of the scenarios provide advanced credit for successful active management, either via stock selection or rotation, which the Fund has benefited from up to this point. Furthermore, our selected scenarios cover a range of plausible outcomes, rather than the full range of possibilities. If (for example) interest rates were to

rise faster or further than anticipated, the relative performance of the Fund is likely to be better than that shown in many of the scenarios above.

4.2 Summary of Risk Benchmark

By considering the riskiness of the investment strategy in the different manners set out above, the Committee can build up a more complete picture of the risks faced by the Fund. We believe this approach to be preferable to considering risk as a single number. The combined results of this analysis can be used as a risk benchmark against which other investment strategies can be compared.

It should be remembered that the analysis set out above is based on the assumption of a static investment strategy and any additional return and risk control that is generated (or losses that are prevented) through rotation into/out of asset classes over time together with any performance generated by other active management is not reflected. The investment strategy incorporates various mandates that incorporate risk control of this nature, including the Barings DAA Fund and the Ruffer Fund. Both mandates have the ability to vary asset allocation over time, particularly by reference to the longer term nature of pension scheme investment.

What is evident however from the analysis above is that the Fund remains susceptible to equity market volatility and equity market underperformance will result in the Fund failing to meet its objectives. Consideration should therefore be given to further diversifying the Fund's investment strategy away from equity markets.

5.0 Proposed changes to the current investment strategy

As highlighted in the risk analysis, the main asset risk to which the Fund is susceptible is equity risk. There are three principal ways in which the strategy can be changed to reduce the risk associated with equity market investment:

- Diversification: investing in another asset class that offers similar return potential;
- Rotation: employing an investment manager to disinvest from equity markets when the potential for further returns is low and to invest back in equity markets when the potential for further returns increases;
- Insurance: introducing mechanisms which limit the loss from equity exposure when markets fall.

The Committee introduced an allocation to Dynamic Asset Allocation mandates which uses rotation as a source of risk control. We propose the Committee consider both the further Diversification of their equity allocation through the introduction of a dedicated allocation to Alternative investments and also explore the potential "insurance" of the equity allocation through a Structured Equity mandate.

We explore the merits of an allocation to Alternative investments below and comment briefly on Structured Equity.

5.1 Alternatives

The Fund currently has some exposure to alternative investments, through the Private Equity allocations managed by Invesco and Unigestion and separately through the Majedie Tortoise Fund, an equity long/short hedge fund that is incorporated within the UK equity allocation. The Barings and Ruffer DAA vehicles also make limited use of alternative investments.

However, in total, these assets have a value of around £25 million, representing around 3% of total Fund assets. The diversification benefits gained from the use of alternatives is therefore limited and consideration can be given to expanding the use of alternatives.

The most important reason for investing in alternatives is because we should believe there are higher and/or more diverse returns available. The return arguments are relatively straightforward:

- More muted economic growth in developed markets makes seeking alternative sources of return more important.
- Early stage growth opportunities have for some years tended to be illiquid anyway.
- Diversification by return driver is becoming more important – many are hard to access directly other than through alternatives (see below).
- The greater availability of capital in private markets is leading to a need for institutions to think about competing for return. This results partly from the progressive de-listing of capital markets, and partly because of the rise of private financing deals going forward. In addition, shortage of capital (eg in bank lending) is generating opportunities for private capital.

In terms of return drivers, we believe there are ten underlying broad factors that drive the long term return (and risk) of investments. These are shown in the table below.

Driver	Why
Scarcity	Some resources are finite (oil, precious metals), others are unique (artwork). Both offer the potential for return as scarcity drives up prices.
Population Growth	Availability of more people to provide services/goods
GDP per Capita	People working harder/more efficiently increases productivity
Dependency Ratio	Changes in the ratio of workers to dependents can contribute to growth
Savings Ratio	The balance between spending on consumption now and investment to generate future growth (and consumption)
Attractors	Unnecessary spending. Branded items, luxury goods, trophy assets
Risk Transfer	A return premium exists as some are willing to pay extra to insure against unexpected/large losses.
Subsidy	Governments offer targeted return incentives to encourage desired market activity or behaviour, giving exposure to public sector policy stability.
Innovation	Changing behaviours through thought/product development
Alpha/Arbitrage	Return can be generated through the application of skill (intellectual capital) and the exploitation of information.

Of these factors, four essentially make up economic growth, to which the majority of listed assets are exposed. The other factors, however, tend to be significantly less pronounced, if represented at all, in traditional portfolios of listed assets. An alternatives portfolio allows these to be expressed more effectively.

5.1.2 What do we mean by Alternatives?

There is a very wide range of investments that can be considered as “alternative”. However, more simplistically they can be thought of as covering three different types of investment, as shown in the table below.

Broad type	Description	Examples
Traditional illiquid	Assets that pension schemes or institutions have held traditionally but that are illiquid in nature	<ul style="list-style-type: none"> ▪ Private equity ▪ Private debt (e.g. loans) ▪ Property
Non-Traditional “liquid”	Assets that pension schemes have typically not used significantly but that is relatively easy to trade	<ul style="list-style-type: none"> ▪ Commodities ▪ Non-traditional active management strategies (e.g. Hedge Funds) ▪ Carbon-credits

		<ul style="list-style-type: none"> ▪ Shipping
Non-traditional or emerging illiquid	Assets that pension schemes have typically not used significantly and that are also illiquid. These include opportunities that are more recent to emerge	<ul style="list-style-type: none"> ▪ Wine/art etc ▪ Insurance linked securities ▪ Intellectual capital

Although the Committee could choose to pursue investment in one of these assets, we believe consideration should be given to pursuing broader access to such investments.

5.1.3 Gaining access to Alternatives

P-Solve believe there are three governance models through which an allocation to Alternative investments could be introduced and managed. These are summarised below:

- **Pure advice-based:** This is where each individual strategy and manager is reviewed by the Committee. The Committee retains responsibility for ongoing review of the allocation to different alternatives mandates and the suitability of the managers employed.
- **Delegated:** In this situation, the Committee gives the responsibility for determining the allocation to various alternatives, and the selection of managers to implement this to a third party. This could be achieved through the investment in an alternatives fund or via the creation of a tailored/segregated portfolio of investments.
- **Alternatives partner:** In this instance, a specialist is appointed to advise the Committee on alternatives strategy, but where the Committee makes the final decision on what types of alternatives it is comfortable with and the overall allocation to each. The alternatives specialist is then appointed to determine which managers should be used for each alternatives sector (eg private equity, debt, etc).

The Committee presently pursue an advice based approach, having undertaken a selection exercise to appoint a Private Equity manager. However, the Committee have also accepted that their ability to more actively manage the Fund's asset allocation is limited and may therefore have a preference for a partner based/delegated approach.

5.1.4 The potential benefits from investment in Alternatives

We consider the impact on the risk profile of the Fund of introducing a 10% allocation to Alternatives, funded by a reduction in equity exposure as detailed below.

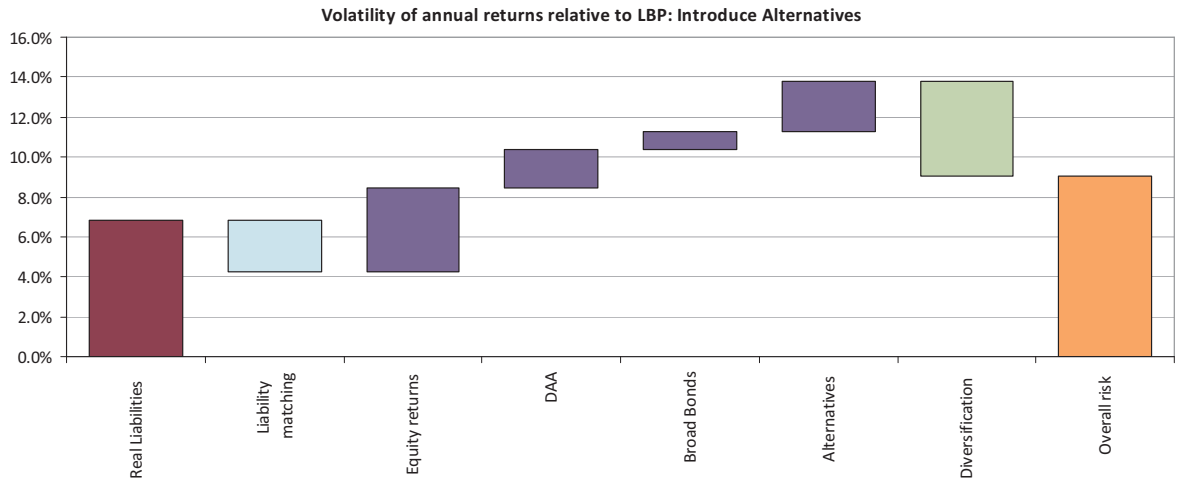
	Current	Proposed
Equity	50%	40%
DAA	25%	25%
Matching Fund	25%	25%
Alternatives	-	10%

Using the same approach to the assessment of risk as set out in section 4, introducing an allocation to alternatives is expected to reduce the overall volatility of returns as illustrated below:

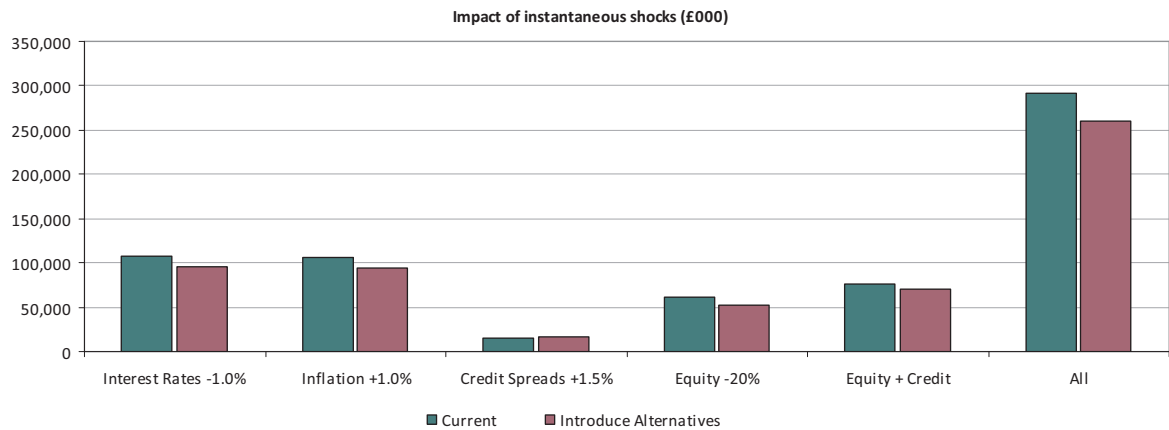
We can first calculate the expected volatility of returns under the revised strategy:

	Current	Proposed
Volatility	10%	9%

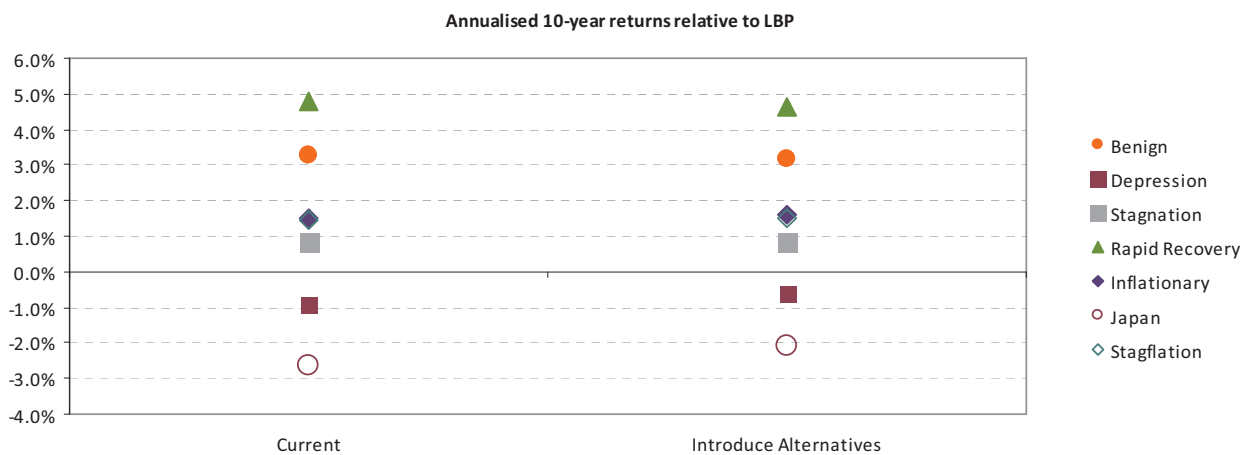
As illustrated in the chart below, the contribution of equity returns to overall volatility is reduced.



Removing equity exposure in favour of uncorrelated assets also reduces the overall exposure to market shocks. The exact risks faced by the Fund would depend on the underlying alternative investment(s) made.



Introducing alternatives is expected to reduce the dispersion of returns under the scenarios considered, i.e. the Fund is expected to be less exposed to asset classes that rely on continued economic growth.

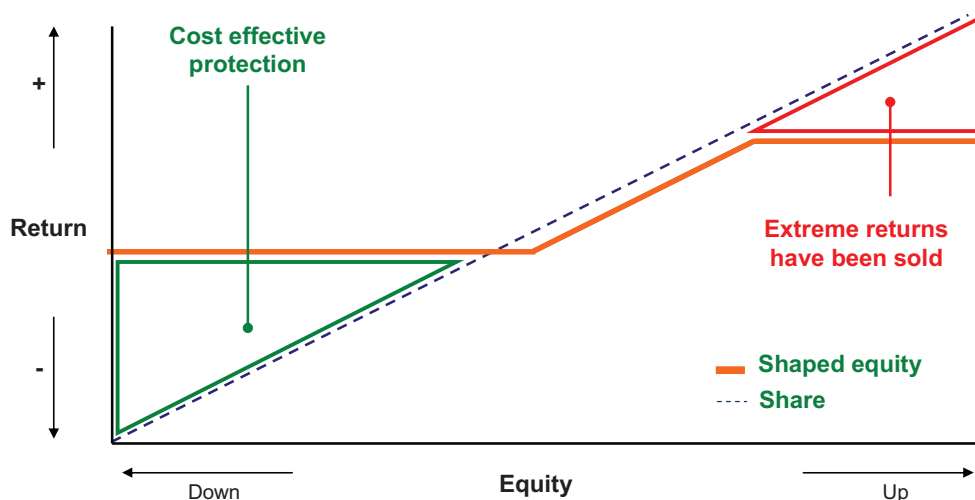


5.1.5 Proposed action

The use of Alternative investments can reduce risk and increase the overall long-term certainty of returns. Given the barriers facing economic growth, particularly in the Developed World, we recommend the Committee agree to explore the merits of introducing an allocation to Alternative investments and the mechanisms by which this could be managed.

5.2 Structured Equity

Investors can use derivatives to “structure” the profile of returns that their equity investment will better meet their objectives. For example, structured equity can provide an investor access to equity like returns, but with downside protection. To offset the cost of this protection, the investor sells the extreme equity returns that aren’t needed, as illustrated in the graph below.



The optimum structure will depend on the prevailing market conditions, but the tools available are flexible and can be used to tailor equity investment to the investment objectives, views and risk appetite of the Committee and needs of the Fund.

A structured equity solution can be based on a specific equity index e.g. the FTSE100 or a combination of indices to allow a more global exposure. The structure is in place for a pre-determined time horizon e.g. 3 years, but can be redeemed earlier with minimal trading costs. However, the target return profile will only be achieved if the structure is held to maturity. An investment of this nature can be considered to be akin to a passive equity investment (as returns are dependent of the movement of market indices) and profits are usually hedged back into GBP to remove all currency risk.

The result of a structured equity solution is to provide participation in equity market returns, whilst protecting the investment from significant falls that characterise equity investment. We believe the inclusion of such an investment can reduce the volatility of the equity investment and the assets overall.

5.2.1 Proposed action

The Fund currently gains exposure to equity markets through the Majedie and MFS mandates. While we do not propose that these mandates are changed at this time, the introduction of the LGIM mandate will also allow the Fund to gain access to equity derivatives.

We propose to work with LGIM to consider how equity protection could be introduced to the Fund's investment strategy and to report back to the Committee at a future meeting.

We look forward to discussing our review and proposals with the Committee at their forthcoming meeting.

P-Solve Asset Solutions August 2011

Appendix 1: A note on economic modelling

For the purposes of this exercise, we consider seven different scenarios, as described below:

Benign	Conditions that represent our views for a generally sluggish economic recovery with increased, but controlled, inflation. Risk assets deliver generally positive returns although sovereign bond yields increase over time.
Inflationary	Inflation increases rapidly before stabilising at a significantly higher level than currently expected. Real economic growth returns to trend levels and nominal sovereign bond yields increase significantly in the face of higher inflation.
Depression	Mild depression with several years of falling GDP before a recovery to above trend levels. Inflation falls in the short term before increasing with sovereign bond yields increasing over the longer term. Risky assets struggle in the short term.
Stagnation	Economy stabilises with growth remaining below historic trend levels over the long term. Inflation remains low but positive but sovereign bond yields remain largely unchanged.
Rapid Recovery	The hoped for V shaped recession with a rapid rebound to trend growth. Inflation remains stable but higher than forecast with risky assets generally delivering higher short term returns.
Stagflation	Inflation continues to run over a prolonged period of time with real growth low but positive. Nominal bond yields increase significantly over time from current levels.
Japan	Conditions where low economic growth persists leads to near zero interest rates and inflation over a long period of time. Nominal bond yields fall from current levels.

Our projected investment returns under each scenario are built up from underlying fundamentals, for example real growth and inflation expectations, but also from expectations for factors such as corporate profits and P/E ratios. We also take into account current views on market pricing.

It is worth noting that our set of economic scenarios will change with time. For example, in more positive times we would include scenarios such as growing asset bubbles and rapid slowdowns in economic activity, caused by external shocks.

We should also note that the economic scenarios are based on a number of assumptions which may not be borne out in practice. In addition, the range of scenarios considered represent a broad range of possible outcomes but should not be considered to be exhaustive. In particular the Depression scenario is not intended to represent a "worst case scenario".

The Trustees should also note that no model, however sophisticated, can be predictive or correct. On balance, we suggest that putting numbers on volatilities, co-variances, and expected returns is at best an inexact science. What is important is that each move/change to investments we make involves a clear expectation of improvement in risk/return terms. So, while putting absolute numbers on these measures is difficult, they are helpful in identifying the relative characteristics of different strategies.



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

DFCS
AD HR S &BC

Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates **WARDS All**

This report sets out the contents of a current Government consultation on proposed increases to employee contribution rates and changes to scheme accrual rates to the LGPS, which are intended to be effective from 1 April 2012 in England and Wales. The Committee is asked to give its views on the draft response attached.

RECOMMENDATION:

That the Committee recommend that the response attached as appendix 1 be submitted as the Council's response to the consultation document

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Consultation Document	Les Green, ext 1878	FCS, Hammersmith Town Hall

1 Context

- 1.1 The Independent Public Service Pensions Commission review chaired by Lord Hutton set out a range of reforms aimed at making public sector pension schemes sustainable and affordable in the long term, while being fair to scheme members and taxpayers. These reforms have been accepted by the Government who intend to introduce these reforms in 2015.
- 1.2 Lord Hutton also published an interim report recommending to the Government that if it wanted to relieve short term costs pressures before the long term reforms begin in 2015 the most effective way would be for increases to be made to employee contribution rates.
- 1.3 This consultation paper sets out two options for a range of increases to employee pension contributions and revised accrual rates, responses to CLG are to be submitted by 6 January 2012. Details of the proposed changes can be found at

<http://www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf>

2 Proposals for the Local Government Pension Scheme

- 2.1 The Communities and Local Government Department has set out two options for amendment to the LGPS with the aim of achieving short term savings of £900M by 2014-15, the equivalent of 3.2 percentage point contribution increases in the unfunded public service pension schemes.
- 2.2 These options are aimed at relieving the current pressures caused by increased longevity and achieving a fairer balance between how much is paid by employees and how much by taxpayers.
- 2.3 The consultation paper asks for comments to the following five questions with regard to each of the two options

Question 1 – Do the proposals meet the policy and objectives to deliver the necessary level savings?

Question 2 – Are there any consequences or aspects of the proposals that have not been fully addressed?

Question 3 – Is there a tariff or alternative measures which consultees think would help to minimise any opt outs from the scheme?

Question 4 – Are there equality issues that could result in individual groups being disproportionately affected by the proposals? If so, what are considered

to be the nature and scale of that disproportionate effect? What remedies would you suggest?

Question 5 – Within the consultation period, consultees' views are invited on the aspect of introducing a link to state pension age as recommended to the Government in Lord Hutton's report

2.4 The options are

Option 1

- 1) an increase in the employees' contribution rate from April 2012, to raise an additional £450M (1.5% of pensionable paybill), and
- 2) a change in the LGPS accrual rate from April 2013, to raise an additional £450M (1.5% of pensionable paybill)

Option 2

- 1) an increase in the employees' contribution rate from April 2012, to raise an additional £300M (1.0% of pensionable paybill), and
- 2) a change in the LGPS accrual rate from April 2014, to raise an additional £600M (2.0% of pensionable paybill)

2.5 A draft response to these questions is set out in Appendix 1.

3. Local Government Group offer

3.1 Following an invitation from the Secretary of State for Communities and Local Government, the Local Government Group has conducted discussions with local government trades unions with a view to establishing a package of measures to achieve the required savings, taking into account the funded nature of the LGPS which makes it unique from the other public sector schemes.

3.2 The Local Government Group proposal is as follows:

Normal pension age to be increased from 65 to 66 in respect of future membership from 1 April 2014 – to generate savings in the range of 1.0% to 1.5% of pensionable pay, equating to £300M per year

The balance of £600M savings would be delivered via an increase to employee contribution rates with a protection for anyone earning less than £15,000 pa, either from 1 April 2014 or on a phased basis from 1 April 2012 – but due to the pressures on personal finances, members should be

given the option of having a reduced accrual rate rather than face increased contributions.

3.3 This solution allows fund actuaries to assess the effects and reflect the results in the next triennial fund valuation on 31 March 2013, with new employer rates applying from 1 April 2014. The Secretary of State for Communities and Local Government has not acted on this proposal by the Local Government Group.

4. Industrial action 30 November 2012

All of the main local government and teaching unions have been balloted and voted in favour of industrial action on 30 November which may cause widespread disruption to services.

5. Improved offer from Government

Shortly before the results of union ballots were announced, the Government made an improved offer aimed at protecting workers who are within 10 years of their normal retirement date; although no formal scheme specific offers have been made.

6. Summary

The case for requiring increased employee contributions to maintain funding levels in the short term is clear, but will inevitably cause hardship to a large number of members. Effectively it will be a cut in net wages at a time of high inflation and local government pay freezes.

The case for reduced accrual rates in the short term is difficult to comment on until the long term position the LGPS from 1 April 2015 is known, and in particular the new accrual rate to be applied.

APPENDIX 1- Draft Consultation response

Question 1 Do the proposals meet the policy objectives to deliver the necessary level of savings in the LGPS

The proposals will meet the policy objectives provided that the increase employee contribution rates and reduced accrual rates do not cause large scale opt-outs from the LGPS

Option 1 and 2 – Increased employee contribution rate

Prior to 1 April 2008 most employees contributed at the rate of 6% of pensionable pay with some protected manual workers retaining a 5% contribution rate. Following the LGPS stocktake, effective from April 2008, employee contribution rates were revised based on a tariff whereby the employee contribution rate was in the ranges from 5.5% to 7.5% of pensionable pay depending on the employee's full time equivalent annual salary. This new tariff was introduced with the intention of achieving a fairer share between employee and employer, of the costs of providing benefits.

The revised tariffs set out in Option 1 are aimed at further sharing of the costs of providing benefits in recognition that improvements in life expectancy have meant that pension benefits are being paid for longer than ever before, with protection given to any employee earning less than £19,401 pa which will mean that they do not have an increase to their rate until 1 April 2013 if they earn more than £15,100 pa.

The revised employee contribution tariffs under both options will achieve the aim of a much higher income of contributions by 2015 but only if the higher contribution rates do not lead to a large scale movement of employees opting out of the LGPS. A high number of opt outs will lead to a corresponding increase in the number of members with deferred benefits held in the pension fund, so it will not result in a lessening of administration costs and may restrict the amount of savings.

Also, the requirements of the Workplace Pensions legislation which begin to take effect in 2012 will require employers to automatically enrol their employees into a qualifying workplace pension scheme, even those who have previously opted out of their pension scheme.

This will lead to employees who have opted out of the pension scheme, possibly because of the increased cost of membership and reduction to the accrual rates, being re-admitted on the relevant staging date with the option to opt out again. This may lead to higher administration costs to local authorities and the prospect of financial penalties because of non compliance with the strict processing deadlines.

Revised accrual rate beginning April 2013- Option 1

There will be no change to the accrual rate in 2012/13 but it will change from 60ths to 64ths in 2013/14 and to 65ths in 2014/15.

The new accrual rates will result in a reduction of 6.25% in 2013/14 and 7.69% in 2014/15, the amount of annual pension earned for one year of full time membership, as follows:

Grade		2011/12	2012/13	2013/14	Lower pension value compared to 1/60 th accrual	2014/15	Lower pension value compared to 1/60 th accrual
		1/60 th accrual	1/60 th accrual	1/64 th accrual		1/65 th accrual	
MEG	17,298	288.30	288.3	270.28	6.25%	266.12	7.69%
SO1	29,571	492.85	492.85	462.05	6.25%	454.94	7.69%
PO4	40,506	675.10	675.10	632.91	6.25%	623.17	7.69%
SMG3	71,193	1,186.55	1,186.55	1,112.39	6.25%	1,095.28	7.69%

These changes will produce savings, but in view of the changes to public sector pensions schemes which will take effect from 1 April 2015 following Lord Hutton's review and the prospect of LGPS becoming a Career Average Revalued Earnings (CARE) scheme much will depend on the accrual rate that is to be used in the CARE scheme from 1 April 2015, making it difficult to comment on these proposals to change accrual rates in the short term.

Option 2 - Revised accrual rate beginning 1 April 2014

No change to the accrual rate until 1 April 2014 when it will change from 60ths to 67ths

The new accrual rates will result in a reduction of 10.45% in 2014/15, to the amount of annual pension earned for one year of full time membership, as follows:

Grade		2011/12	2012/13	2013/14	2014/15	Lower pension value compared to 1/60 th accrual
		1/60 th accrual	1/60 th accrual	1/60 th accrual	1/67 th accrual	
MEG	17,298	288.30	288.3	288.3	266.12	10.45%
SO1	29,571	492.85	492.85	492.85	454.94	10.45%

PO4	40,506	675.10	675.10	675.10	623.17	10.45%
SMG3	71,193	1,186.55	1,186.55	1,186.55	1,095.28	10.45%

These changes to accrual rates will produce savings, but in view of the changes to public sector pensions schemes which will take effect from 1 April 2015 following Lord Hutton's review and the prospect of LGPS becoming a Career Average Revalued Earnings (CARE) scheme much will depend on the accrual rate that is to be used in the CARE scheme from 1 April 2015, making it difficult to comment on these proposals to change accrual rates in the short term.

A progressive change to accrual rates as outlined in Option 1 has the advantage of producing savings in year one, rather than delaying the change until 1 April 2014 when it produces a much more dramatic effect on member's entitlements and by which time more members may have decided to opt out, thereby reducing the savings which would follow from the lower accrual rate.

Question 2 – Are there any consequences or aspects of the proposals that have not been fully addressed

Option 1 and 2

There will be a significant reduction in amount of contributions being paid into the scheme if large numbers of members choose to opt out, with a resultant drop in funding levels. The prospect of large scale opt-outs is very likely as there has been a pay freeze in local government for three years at a time when cost of living and inflation are high.

A consequence of these proposals may be that large scale opt outs will increase the burden on the state pension and ultimately on the benefits system if more people do not have sufficient retirement income. The LGPS provides a wide range of benefits including death benefits, dependents pensions and ill health retirement benefits, which members will jeopardise by opting out.

Question 3 – Is there a tariff or alternative measures which consultees think would be help to minimise any opt outs from the scheme

Option 1 and Option 2

The reduction in the Lifetime Allowance and the Annual Allowance is already making higher earners review their LGPS membership, if they opt out there is a large financial loss to the scheme in terms of future income from contributions. If these limits were increased it would assist in retaining these members in the scheme.

Question 4 – Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies might you suggest?

Option 1 and Option 2

There is a large number of lower paid staff who are from ethnic minorities, lone parents or disadvantaged backgrounds, any increase in the cost of the pension scheme will cause them hardship, even if they opt out in the long term their pension will be reduced. An increase in the threshold at which increased contributions are introduced may encourage lower earners to remain in the scheme.

The average pension in local government is £3,800 pa and any reduction in accrual rates will reduce this further, meaning lower retirement income for many more people, especially women who are more likely to be employed in part time and low paid jobs.

Question 5 – Within the consultation period, consultees views are invited on the aspects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report

Option 1 and Option 2

A link to the state retirement age, which is being progressively increased, would increase the amount of contributions to pension funds so further reducing the fund deficit. A later retirement age would also reduce the term of pensions paid. Such an increase to the normal retirement age in the LGPS is justifiable on the grounds of increased longevity.



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

Annual Audit Letter 2010-11

**WARDS
All**

This letter summarises the external audit work for 2010/11.

RECOMMENDATION:

The committee is asked to note the content of the letter.

Annual Audit Letter

London Borough of Hammersmith and Fulham

Audit 2010/11



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Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	My findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I issued an unqualified opinion on the financial statements.

Value for money

I issued an unqualified conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Other audit work

I have also completed other work in the year including:

- certification of the Council's whole of government accounts submission;
- monitoring of progress on the national fraud initiative;
- certification of grant claims with a total value of £355 million; and
- issue of an unqualified opinion on the Wormwood Scrubs Charitable Trust accounts.

Current and future challenges

Local Government Finance Settlement

The Local Government Finance Settlement reduced Central Government funding available to the Council. The Council's financial strategy shows the need for £27 million of savings in 2011/12 increasing to £64 million by 2013/14. The latest budget monitoring reports show that the Council is on track to meet these savings in the first year. Finding further savings for the 2012/13 budget while maintaining service quality will be the biggest challenge facing the Council over the coming year.

Tri-borough partnership

In May 2011, the Council agreed plans to combine certain services with City of Westminster Council and the Royal Borough of Kensington and Chelsea. Children's services and libraries are the first services to be shared under this 'tri-borough' programme and discussions are ongoing with Central London Community Healthcare NHS Trust over further integration of adult social care. In addition, there are some 'bi-borough' initiatives involving the Council and the Royal Borough, including the appointment of a joint chief executive from October 2011. The tri-borough programme's objective is to improve people's lives across the three boroughs whilst delivering significant savings to the partners that can be used to protect front-line service provision. Demonstrating the improvement and efficiency outcomes and embedding sound governance arrangements to underpin the initiative will be critical to the Council's (and its partners') continuing achievement of value for money in the use of resources.

Financial statements

With international financial reporting standards (IFRS) implemented in the previous year, the framework for preparing local government financial statements will remain relatively stable in 2011/12. However there are some changes, notably:

- changes to the Housing Revenue Account financing system;
- authorities are required to account for tangible heritage assets in accordance with FRS30 Heritage Assets; and
- CIPFA may publish additional guidance on how to account for schools.

The Audit Commission is running a series of workshops in 2012 to help ensure finance teams are briefed on the impact of such changes and that lessons are learned from IFRS implementation.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements. The Council met its statutory deadline to publish its accounts by the 30 September. This is a significant achievement given the additional work required to convert the current year and previous years' accounts from being prepared under UK Generally Accepted Accounting Principles to International Financial Reporting Standards. However, as a result of the additional work required a complete set of accounts and working papers was not provided to audit until later than in previous years. I recommended in the Annual Governance Report that arrangements are put in place to ensure a complete set of accounts and working papers is available at the commencement of the 2011/12 audit.

I did not identify any significant weaknesses in your internal control arrangements. I did however make recommendations in the Annual Governance Report where current arrangements could be strengthened in respect of property, plant & equipment, school bank accounts and contracts with partners.

Pension Fund accounts

I also issued an unqualified opinion on the Pension Fund financial statements and did not report any significant matters in the Annual Governance Report. The Pension Fund accounts and working papers were prepared earlier than the Council accounts for audit. Officers should ensure similar strong arrangements are in place for 2011/12, particularly given that there may be additional risks to the audit from the change in Pension Fund administrator and the transfer of treasury management functions to 'tri-borough' arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.	The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to operate for the foreseeable future.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. The Council has approved ambitious proposals for sharing services, premises and management capacity in partnership with the Royal Borough of Kensington and Chelsea and Westminster City Council. I reviewed the initial proposals and there was no impact on my 2010/11 conclusion.

Criterion

Key messages

The effectiveness of the proposals will be reviewed further as part of the 2011/12 conclusion in the context of:

- short and medium-term financial planning (including savings projections) and supporting budgetary processes;
- the methodology for the attribution of costs and savings; and
- governance arrangements to support the joint management of services.

Other audit work

Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Local authority auditors are required to submit an audited 'pack' to the Department for Communities and Local Government by the end of September. I received the pack in time to allow me to issue an unqualified opinion and to meet this deadline.

National Fraud Initiative

Since 1996 the Audit Commission has conducted the National Fraud Initiative (NFI), a data matching exercise which matches electronic data within and between participating bodies, to prevent and detect fraud. NFI has led to the detection of fraud and payments totalling £765 million nationally (as at June 2011). New NFI matches were released to the Council on 25 January 2011. The Council has made some progress in investigating these matches, though some high risk reports remain unopened. The remaining high risk matches should be investigated as a matter of priority.

Grant Claims

I will certify nine grant claims for the authority with a total value of £355 million. Work on six of these has already been completed and I expect to certify the remaining three in December. Overall the quality of grant claims presented to audit is good. The two qualifications issued to date are as follows.

- The national non-domestic rates return was qualified as evidence was not retained to demonstrate that one property from a sample of ten was entitled to receive empty property relief.
- The housing benefits claim was qualified as some overpayments were incorrectly classified as either claimant or local authority error. We are currently undertaking additional testing to quantify the impact.

Table 1 summarises the results of my grants certification work.

Table 1: 2010/11 Grant Claims

Scheme	Value (£)	Amendments to the claim required?	Qualifications?	Date certified
National non-domestic rates return	154,909,390	Yes	Yes	September 2011
Pooling of housing capital receipts	1,494,480	Yes	No	September 2011
Disabled facilities	459,000	No	No	October 2011
Housing finance base data return	n/a	No	No	October 2011
Sure start, early years and childcare, and aiming high for disabled children grant	9,937,542	No	No	October 2011
Teachers' pensions return	8,871,720	No	No	October 2011
Housing and council tax benefits scheme	162,665,468	Yes	Yes	TBC
Housing revenue account subsidy	13,799,756	TBC	TBC	TBC
New deal for communities	2,890,775	TBC	TBC	TBC

Wormwood Scrubs Charitable Trust

The Council is sole trustee to Wormwood Scrubs Charitable Trust. The Council have appointed me as auditor to the charity under Section 43 of the Charities Act 1993. My audit work is substantially complete and I plan to issue an unqualified opinion on the financial statements in December 2011.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 8 December 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Opinion audit plan	January 2011
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum	October 2011
Wormwood Scrubs Charitable Trust auditor's report giving the opinion on the financial statements	December 2011
Annual audit letter	December 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, Department for Communities and Local Government Ministers confirmed their preference for transferring this work to the private sector through a contractual outsourcing exercise. The Audit Commission is therefore carrying out a procurement process to give private sector bidders the chance to compete for this audit work. This will mean all the Audit Commission's in-house work undertaken by the Audit Practice, including the Council's audit, will be outsourced from the audit of the 2012/13 accounts. The Audit Commission itself will remain in place to oversee the contracts and its other statutory functions, but will be significantly smaller following the outsourcing.

Against this background, my focus remains:

- fulfilling my remaining responsibilities and delivering the Council's 2011/12 audit to the high standards the Council expects; and
- managing a smooth transition to the new audit provider for 2012/13.

Jon Hayes
District Auditor
November 2011

Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Council scale fee	400,000	400,000	0
Pension fund scale fee	35,000	35,000	0
Grant claim certification work	75,000*	110,000	35,000
Non-audit work	0	0	0
Total	510,000	545,000	35,000
Wormwood Scrubs Charitable Trust	11,500	11,500	0

The Audit Commission is paying a rebate of £36,907 to you in respect of the financial year 2010/11 as part of its strategy to reduce audit costs for audited bodies. This rebate is not included in the figures above.

* Grant fees are estimated based on the likely time required to complete all certification work

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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



www.audit-commission.gov.uk

November 2011



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

Audit Commission

**Wormwood Scrubs Annual Governance
Report 2010-11**

**WARDS
All**

The audit of the Wormwood Scrubs Accounts 2010-11 is complete and an unqualified opinion has been issued. Auditing standards require external auditors to report findings from the audit to the Committee; this report details those findings.

RECOMMENDATION:

That the report be noted

Annual governance report

Wormwood Scrubs Charitable Trust

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Assistant Director of Finance & Resources - Residents Services on 21 November 2011 and updated it as issues have been resolved.

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

It asks you to:

- consider the matters raised in the report before approving the financial statements (page 5);
- note the adjustments to the financial statements set out in this report (appendix 2); and
- approve the letter of representation on behalf of the Trust before I issue my opinion and conclusion (appendix 3).

Yours faithfully

Jon Hayes
District Auditor
December 2011

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It contains the messages arising from my audit of your financial statements.

Audit opinion

1 All audit work is complete and I intend to issue an unqualified opinion on the financial statements.

Independence

2 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

3 The Audit Commission's Audit Practice has not undertaken any non-audit work for the charity during 2010/11.

Next steps

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

4 I ask the Trustees to:

- consider the matters raised in the report before approving the financial statements (page 5);
- note the adjustments to the financial statements set out in this report (appendix 2); and
- approve the letter of representation on behalf of the charity before I issue my opinion (appendix 3).

Financial statements

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

Opinion on the financial statements

5 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.

Key areas of judgement and audit risk

6 In planning my audit I did not identify any specific risks or areas of judgement that required specific consideration.

Errors in the financial statements

7 There are no uncorrected errors. Appendix 2 details one material adjustment made to the accounts as a result of the audit.

Quality of your financial statements

8 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

9 There are no matters that I wish to bring to your attention.

Letter of representation

10 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 Draft independent auditor's report to the trustees of Wormwood Scrubs Charitable Trust

I have audited the financial statements of Wormwood Scrubs Charitable Trust for the year ended 31 March 2011 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Charity's trustees, 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 trustees 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 trustees as a body, for my audit work, for this report, or for the opinions I have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement set out on page 4 of the Trustees Report, the trustees are responsible for the preparation of financial statements which give a true and fair view.

I have been appointed as auditor under 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 and express an opinion on the financial statements in accordance with applicable law and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

I read all the information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 March 2011, and of its incoming resources and application of resources, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 1993.

Matters on which I am required to report by exception

I have nothing to report in respect of the following matters where the Charities Act 1993 requires me to report to you if, in my opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Jon Hayes
District Auditor

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

December 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatement during my audit and management have adjusted the financial statements. I bring it to your attention to help you in fulfilling your governance responsibilities.

Table 1:

Description	Item of account	Balance sheet	
		Dr (£)	Cr (£)
Account for the audit fee as a creditor rather than a provision	Creditors: amounts falling due within 1 year	-	11,500
	Provision for audit fees	11,500	-

Appendix 3 Draft letter of representation

To:
Jon Hayes,
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

Wormwood Scrubs Charitable Trust - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wormwood Scrubs Charitable Trust, the following representations given to you in connection with your audit of the Charity's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the financial position and financial performance of the Charity, for the completeness of the information provided to you, and for making accurate representations to you as set out in the engagement letter.

Supporting records

All relevant information and access to persons within the entity as agreed in the engagement letter has been made available to you for the purpose of your audit, and all the transactions undertaken by the charity have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. 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;
- 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; and

- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Wormwood Scrubs Charitable Trust related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Wormwood Scrubs Charitable Trust

I confirm that this letter has been discussed and agreed by the Trustees on 8 December 2011.

Signed

Name

Position

Date

Appendix 4 Glossary

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

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- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

November 2011



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS **Audit Commission recommendations updates & Annual Governance Statement 2011 Action Plan** **WARDS All**

Internal Audit Manager

This report provides the Committee with an update on progress towards the implementation of Audit Commission recommendations and on the implementation of the AGS 2011 Action Plan.

RECOMMENDATION:

That the report be noted.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Annual Governance Statement 2011	G. Drake Extn. 2529	FCS, Hammersmith Town Hall

Internal Audit

Update on Audit Commission report recommendations

Updates on Audit Commission recommendations were last reported to the Committee in June 2011 at which point all the outstanding recommendations had been cleared. No further reports have been issued since that date and there are therefore no updates to report to this meeting.

Annual Governance Statement Action Plan

The 2011 Annual Governance Statement (AGS) was considered by the Audit and Pensions Committee at its September 2011 meeting.

Attached as Appendix 1 is the first update to the action plan relating to the control weaknesses identified in the statement and report on its progress. Updates have been provided for all 4 of the identified control weaknesses. For 3 the relevant issues have now been reported resolved and no further remedial action is required. An action plan has been provided for the other weakness and further updates will be reported to future meetings.

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 1 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.	Annual Governance Statement Action Plan	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

2010/11 Annual Governance Statement**Action Plan**

AGS Finding re Significant Control Weakness	Responsible Officer	Update for December 2011 Audit and Pensions Committee meeting
<p>Reconciliation of Financial Systems</p> <p>The Council has progressed well in redeveloping financial systems and processes over the past few years through the journey to World Class Financial Management (which strengthens the resource dedicated to this area) and the adoption of International Financial Reporting Standards. While External Audit note the improvement made over recent years further improvement is still needed.</p>	<p>Head of Corporate Accountancy</p>	<p>A closing 'post-mortem' will be undertaken to identify weak spots and areas for improvement</p> <p>{Target Date 31 October 2011}</p> <p>Workplan for Corporate Accountancy and Capital and detailed closing calendar to be produced.</p> <p>{Target Date 31 December 2011}</p> <p>The accounts production process will be reviewed and revised as necessary, sharing best practice from other Authorities</p> <p>{Target Date 31 January 2012}</p> <p>Quarterly closedown (excluding a period 3 close down) to be implemented for 2012/13</p> <p>{Target Date 30 June 2012}</p>

AGS Finding re Significant Control Weakness	Responsible Officer	Update for December 2011 Audit and Pensions Committee meeting
<p>Contract Management</p> <p>The use of consultants was raised in the Annual Governance Statement last year. While some improvement has been made there continue to be weaknesses in managing contracts for consultants.</p>	<p>Assistant Director – Human Resources</p>	<p>A full review of consultants has taken place and a new corporate procedure for the procurement of consultants has been agreed and implemented by EMT with effect from 1st August 2011. Existing consultants' contracts have been reviewed and HR is in the process of converting these, where appropriate to new contracts in line with the agreed procedures.</p>
<p>Information Requests</p> <p>The provision of information in compliance with the Freedom of Information Act has been the subject of a review from the Office of the Information Commissioner who has sought a written undertaking from the council to improve the responsiveness to Information requests. In response the council has increased the resource, training and support in this area.</p>	<p>Information Manager</p>	<p>Official monitoring finished at the end of November 2010 with a marked improvement in performance. However staff capacity issues resulted in Geoff Alltimes and the Information Commissioner signing an Undertaking in April 2011. However, performance significantly improved with 92% of all RFIs processed within timescale since April 2011 and 85% (the ICO's target) processed within timescale since October 2010.</p>

AGS Finding re Significant Control Weakness	Responsible Officer	Update for December 2011 Audit and Pensions Committee meeting
<p>Health & Safety</p> <p>Substantial progress has achieved in the delivery of a reasonable Health & Safety environment. This has included the training, support, resource and guidance provided by the Corporate Safety Team. Issues remain in relation to the management and control of gas safety certification for temporary accommodation and that of departmental wide risk assessment as a counter-balance to newly emerging areas of risk. There continues to be a focus on addressing these issues</p>	<p>Assistant Director – Building & Property</p>	<p>Quarterly updates are provided to the Executive Management Team of the current status of organisational health and safety.</p> <p>Agreed performance indicators provide information on salient pieces of information including gas safety, risk assessments etc.</p> <p>The status of departmental corporate safety audits are included based on a basic RAG system. (red/amber/green).</p> <p>The report also provides details on organisational accident/incident rates and training records.</p> <p>The sum of this information is conveyed at the quarterly Safety Committee, which is attended by departmental representatives, Unions, HR etc. The minutes are placed on the intranet.</p> <p><i>In addition to this update from the Head of Corporate Safety, Internal Audit has recently carried out audit work relating to Accommodation Services which included coverage of this issue. The audit work concluded that there are no remaining significant issues in this area.</i></p> <p><i>In addition, EMT now sees quarterly reports from the Corporate Safety Unit on gas certification compliance.</i></p>



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

DFCS

Treasury Management update for the first six months of 2011-12

WARDS

All

This report provides information on the Council's debt, borrowing and investment activity up to 30th September 2011

Recommendations:

To note the Council's debt, borrowing and investment activity up to the 30th September 2011.

Treasury Management update for the first six months of 2011/12

1. Introduction

1.1 Treasury management is defined by the CIPFA Code of Practice 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 The CIPFA Code of Practice on Treasury Management (revised November 2009) has been adopted by the Council.

The primary requirements of the Code are as follows:

- 1 Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - 2 Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - 3 Receipt by the full council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead, a Mid-year Review Report (this report) and an Annual Report covering activities during the previous year.
 - 4 Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - 5 Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Pensions Committee.
- 1.3 This mid-year review has been prepared in compliance with the Code of Practice, and covers the following
- An economic update for the first six months of 2011/12
 - A review of the Annual Treasury Strategy
 - A review of the Council's investment portfolio for 2011/12
 - A review of the Council's borrowing strategy for 2011/12
 - A review of compliance with Prudential Code indicators for 2011/12

2 Economic Update

- 2.1 The Euro zone sovereign debt crisis continued: Spain and Italy became the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response caused anxiety over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the 440 billion euro bail out fund in September has brought temporary relief to financial markets but does not provide a remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.
- 2.2 Political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy. Growth prospects in the US, UK and the euro zone have receded. World stock markets fell in the second quarter of 2011/12 as a consequence.
- 2.3 Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12. Overhanging debt, high inflation and concerns over employment are likely to impede growth in the short term.
- 2.4 The announcement by the MPC on 6 October of a second round of quantitative easing of £75bn reflected the threat of recession. Although inflation remains stubbornly high, the MPC's expectation of future falls will result in a reduction below 2%. The longer term trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012
- 2.5 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The increase in demand for gilts has helped to lower yields and reduce PWLB rates to low levels.

2.6 The Council's Treasury Adviser, Sector, has provided the following interest rate forecast:

Table 1 – Interest Rate Forecast

	Oct 11 %	Dec- 11 %	Mar- 12 %	Jun- 12 %	Sept- 12 %	Dec- 12 %	Mar- 13 %	Jun- 13 %	Sept- 13 %	Dec- 13 %	Mar- 14 %	Jun- 14 %	Sep- 14 %
Sector's Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00
5 yr PWLB Rate	2.30	2.30	2.30	2.30	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.10	3.30
10 yr PWLB	3.30	3.30	3.30	3.30	3.40	3.40	3.50	3.60	3.70	3.80	4.00	4.20	4.40
25 yr PWLB	4.20	4.20	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00
50 yr PWLB	4.30	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10
3mth LIBID	0.75	0.70	0.70	0.70	0.70	0.70	0.75	0.80	0.90	1.20	1.40	1.60	2.10
6 mth LIBID	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.20	1.40	1.60	1.80	2.00	2.50
12 mth LIBID	1.50	1.50	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.20	2.40	2.60	3.10

3. Annual Investment Strategy.

3.1 The Treasury Management Strategy for 2011/12 was approved by Council on 23rd February 2011. The Council's Annual Investment Strategy, which is incorporated in the overall strategy, outlines the Council's investment priorities as follows:

- Achieve optimum returns on investment subject to;
- Security of Capital
- And a level of Liquidity in its investments appropriate to the Council's need of funds over time.

3.2 In the current economic climate it is considered appropriate to keep all new investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices.

3.3 It should be noted that the reason we have Lloyds and RBS on the Council's lending list and with limits of £35 million is not because of their credit ratings but because of the fact that they are part nationalised.

- 3.4 Investments within the first 6 months of the year have been in line with strategy. A full list of investments held as at 30 September 2011 are as follows:

Table 2 – Investments at 31 October 2011

Money Market Fund	Principal £'m	Interest Rate	Start Date	Maturity Date
Primerate Capital	10	0.88%		Call
Insight Investments	6.0	0.70%		Call
Blackrock	0.6	0.70%		Call
Bank				
National Westminster Bank	20	0.87%		Call
Lloyds Bank	5	1.90%	19/11/10	18/11/11
Lloyds Bank	5	1.45%	20/07/11	20/01/12
Lloyds Bank	5	1.25%	21/10/11	23/01/12
NatWest Bank	5	1.28%	19/05/11	20/02/12
NatWest Bank	5	1.21%	01/08/11	01/05/12
Lloyds Bank	5	2.65%	02/06/11	27/07/12
Lloyds Bank	5	2.65%	19/05/11	27/07/12
NatWest Bank	5	1.42%	01/08/11	30/07/12
Lloyds Bank	5	2.10%	03/08/11	01/08/12
Total Investments	81.6			

- 3.5 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the first half of 2011/12.
- 3.6 Investment rates available in the market are at an historical low point. The table below shows that the authority outperformed the benchmark by 0.74%.

Table 3 – Investment Performance against benchmark

Benchmark	Benchmark Return Average Rate as at 30/09/11	Council Performance as at 30/09/11
7 days LIBID	0.46%	1.20%

4. Outstanding Debt and Investments

- 4.1 This table below shows the Council's outstanding debt and investments at 30th September 2011 compared to 31st March 2011

Table 4 – Debt and Investments at 31st March & 30st September 2011

	31 March 2011		30 September 2011	
	£000's		£000's	
	Principal	Ave. Rate		Ave. Rate
Fixed Rate PWLB	475,520	5.75%	468,520	5.70%
Variable Rate PWLB	Nil		Nil	
Market & Temporary Loan	Nil		Nil	
Total Loans	475,520		468,520	
Total Investments	100,300	0.96%	86,600	1.20%
Net Borrowing	375,220		381,920	

It is quite usual for cash balances to fluctuate daily but at the end of September a PWLB loan of £7 million matured and was repaid which has resulted in a reduction in overall cash balances.

- 4.2 This table below shows the split of the Council's debt between the HRA and General fund.

Table 5 – HRA & GF debt

	31 March 2011		30 September 2011 (Estimate)
	£'000		£'000
HRA	414,527		414,678
GF	60,993		53,842
Total Debt	475,520		468,520

- 4.3 The General Fund Capital Financing Requirement (CFR) was £122 million as at 31/03/11 compared to £132 million as at 31/03/10 million a reduction

of £10 million. The HRA CFR was £416 million as at 31/03/11 compared to £406 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 CFR is £538 million as at the 31/03/11. 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.

- 4.4 The proposed reform of the HRA subsidy arrangements is expected to take place on 28 March 2012. This will involve the Council debt being reduced by an estimated £210.3 million which will remove the Council from the HRA subsidy system. Although this figure may change once national figures are recalculated, this will impact on the capital structure of the Council as the HRA capital financing requirement will reduce by the size of the CLG payment. The treasury management service will need to consider the treasury implications of the debt reduction.

5. Prudential Indicators

- 5.1 As part of the Strategy the Council sets a number of prudential limits for borrowing. This section shows the Council's position against the prudential indicators for 2011/12 agreed by Council in February 2011. These are outlined below.

5.2 Limits to Borrowing Activity.

The Authorised Limit – This represents the expected maximum borrowing need with some headroom for any unexpected movements.

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.

5.3 Interest Rate Exposures

Interest rate risk management is a top 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. The key indicators are :

- 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 then 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.

5.4 The above key indicators are summarised in the table below.

Table 6 – Key Prudential Indicators

	2011/12 Limit	30 September 2011 Actual
	£000's	£000's
Authorised Limit for external debt	569,523	381,920
Operational Limit for external debt	495,520	381,920
Limit of fixed interest rate exposure based on net debt	544,000	381,920
Limit of variable interest rate exposure based on net debt	108,800	Nil
Principal sum invested >364 days	20,000	Nil

- 5.5 Maturity structure 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.

Table 7 - Maturity structure of fixed rate borrowing during 2011/12

	Upper Limit	Lower Limit	Actual
Under 12 months	15%	0%	0.00%
12 months and within 24 months	15%	0%	0.00%
24 months and within 5 years	60%	0%	9.14%
5 years and within 10 years	75%	0%	16.57%
10 years and above	100%	0%	74.29%

6. Compliance with Treasury Limits and Prudential Indicators

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

7. Comments of the Director of Finance and Corporate Services

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

8. Comments of the Head of Legal Services

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

9. Recommendation

- 9.1 To note the Council's debt, borrowing and investment activity up to the 30th September 2011.

10. 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	Room 4 Hammersmith Town Hall
2	CIPFA-Prudential Code -Accounting for Capital Finance	Rosie Watson Ext. 2563	Room 4 Hammersmith Town Hall
3	Various Economic commentaries	Rosie Watson Ext. 2563	Room 4 Hammersmith Town Hall



AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

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.

**WARDS
All**

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.** The Corporate Risk and Assurance Register has been reviewed by the Council's Executive Management Team. The full version accompanies this paper for Members information at **Appendix 1**.

3.2. Revision highlights include;

3.3. Corporate risk number 1. - Business Continuity - Medium risk – Stable

- 3.3.1.** As services are redesigned within the TriBorough working programme consideration is being given to ensure service continuity is maintained throughout the process. The Councils Business Continuity Manager is to also provide a service for the Royal Borough of Kensington and Chelsea. This will be an important factor in ensuring consistency of planning and response in the event of a potential major service interruption. Key Risk Indicators are being developed for this area in line with the recommended approach from the Institute of Operational Risk Management.

3.4. Corporate risk number 2. – Managing Projects – Low risk – Stable

- 3.4.1.** The Executive Management Team receive consolidated statistics on four Portfolios;

- 3.4.1.1.** Customer Access & Service Delivery

3.4.1.2. Transforming the way we do business

3.4.1.3. Market management

3.4.1.4. Tri-borough

3.4.2. All portfolio managers have now met with the Principal Consultant Risk Management and confirm that each report on risks and mitigations to EMT on a monthly basis. They highlight a number of key risks that include, but are not limited to;

- Challenging Medium Term Financial Strategy savings
- Rapidity and complexity of change
- Development of commercial skills
- H & F Bridge Partnership negotiations
- Key staffing changes

3.4.3. Each risk is accompanied with a proposed mitigation and provides an update on the Organisational Development and Transformation resource requirements, benefits realisation and plans to provide increased Programme Assurance.

3.5. Corporate risk number 3 – Managing Statutory Duty – Medium risk – Stable

3.5.1. Meetings between Tri-Borough colleagues to discuss health and safety management systems are being held fortnightly. It has been agreed that the Host Borough will coordinate the cascade of health and safety information from all boroughs to senior managers through a designated health and safety advisor.

3.5.2. Arrangements need and will be robust to ensure that there is clarity around responsibility and the 'controlling mind', in terms of staff, contractors, buildings, members of the public and facilities management and that those who are responsible understand this.

3.5.3. There are many nuances with multiple reporting systems and information exchange mechanisms that need to be considered so that the left hand always knows what the right hand does whilst not duplicating efforts. Given the complexity (including Mutuals, NHS etc) it is fundamental that health and safety information is shared at a senior level both for legal compliance but principally to safeguard everyone.

3.6. Corporate risk number 7. – Maintaining reputation and service standards - Low risk – Stable

3.6.1. Increasingly apparent are the numbers of high profile information security incidents reported in the national media. Added to this is the interest shown by the Information Commissioners Office into individual cases where local authorities have fallen below expected standards of Information security management. ITSOG, the councils Information Technology Standards Operational Group, periodically review the councils breaches of information management protocols and other incidents. A copy of the October ITSOG report is attached as **Appendix 2** that highlights the number of Statistical summary of incidents.

3.7. Opportunity risk number 2. – Tri Borough, Merging of services with Westminster and the Royal Borough of Kensington & Chelsea.– Low risk of realisation– Stable

3.7.1. An update on Tri Borough working was issued for general consumption via the Tri-borough bulletin on 7th October 2011. This also contained reference to a number of events and operating principles associated with the move to shared service provision.

3.7.2. Additional information was made publically available through the Driving Change document which encompassed lessons learnt from the first year of the project and the application of the seven tests. They relate to political relationships; the quality of advice; accountability of the business case; the level of trust; the need to break new ground, the ability to communicate your vision and plan and the momentum necessary to drive the project forward.

3.8. Opportunity risk number 5. - Re-integration of H & F Homes.– Low risk of realisation– Stable

4. Detailed information on controls and assurances is contained in the fabric of the corporate risk register, project tracking record and contract and market testing schedules. Work is in progress to mitigate these risks. The exposure rating of corporate risks has not proven to be volatile indicating a reasonable and consistent level of Internal Control.

5. Programme and projects

5.1. The Transformation Office are refreshing their project and programme governance reporting arrangements. Departments will in future track and

report on progress of individual projects. Aspects of which will be discussed at their respective Department Management Teams. This revised arrangement replaces historic centralised reporting previously managed by the now decommissioned Programme Management Office.

6. Operational highlights

- 6.1.** Tri Borough working arrangements have now been put into place for Insurance Services. This will be hosted by the Royal Borough of Kensington & Chelsea and will cover the Internal claims handling and Insurance purchase processes. Background information on Risk Management activities for the past three years and forward plans have been requested by the Insurance Broker in advance of re-tendering of the insurance portfolio.

- 6.2.** Work is also proceeding to align the business continuity processes across Westminster City Council, the Royal Borough of Kensington & Chelsea and Hammersmith & Fulham. This is expected to be tabled for approval by the end of 2011 and will shift the focus to having plans in place for all areas to robust plans for the most critical of services. This approach would require additional development of the councils Service resilience Group or its future equivalent.

- 6.3.** A recent asbestos incident in a library was reported to the Health & Safety Executive from an anonymous source, and competency issue of a contractor subsequent to works instructed by departments, highlights the risk to the organisation and the public when the corporate system, around the control of contractors, is not adhered to. Protocols have been reviewed with relevant parties.

- 6.4.** Following a request by the Health and Safety Executive a copy of the council's asbestos strategy and management procedures have been forwarded. A programme of asbestos awareness training, to kick off the new management strategy, had already been scheduled for November/December. This forms part of a targeted programme of health and safety training based on the revamped procedures that are being rolled out.

7. Market Testing

- 7.1.** An update to contract schedules (market testing programme, new contracts, contract renewals and contract review & negotiation Programme) was reviewed and discussed at the councils Competition Board. Competition Board has asked the councils Contracts Register Group to monitor progress on new contracts, contract renewals and renegotiations, Market Testing Programme, and contract monitoring and

report back to Competition Board on an exception basis. In effect this concerns reporting on red flag items where major problems or issues have been encountered and Competition Board need to be advised. It was also considered sensible to report on any major headlines issues.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	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
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	OGC Website	http://www.ogc.gov.uk/documents/Risk.pdf
3.	Departmental Risk Registers	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
4.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith



AUDIT AND PENSIONS COMMITTEE

8 December 2011

<p>CONTRIBUTORS Head of Fraud Service Chief Internal Auditor Director of Finance</p>	<p>Corporate Anti Fraud Service Report 1 April to 30 September 2011.</p> <p>The report updates on progress on delivering Corporate Anti-Fraud Service service plans in quarters 1 and 2 of the 2010-11 year, including key results of the work undertaken and the level of performance achieved.</p>	<p>WARDS All</p>
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RECOMMENDATION:

Note the content of this report and the work of the service.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Corporate Anti Fraud Service operational investigation files and performance reports	K Quinn 2551	Corporate Anti Fraud Service, 4th Floor, Town Hall, Hammersmith



Hammersmith & Fulham Council

Corporate Anti Fraud Service

**Corporate Anti Fraud Service Report
1 April to 30th September 2011**

Management Summary

1. This report details the counter fraud work undertaken during the first two quarters of the financial year to 30th of September 2011, by the Council's Corporate Anti Fraud Service (CAFS).
2. Performance is measured in numbers of sanctions (prosecutions, penalties, formal cautions or other action taken directly) delivered. CAFS has delivered 76 sanctions (including 10 prosecutions) in the first half of the year.
3. The service has also recovered £235k to the council from its operations so far this year. Applying the Audit Commission's recommended values for property recoveries, as well as calculating the value of overpayments generated and penalties applied to offenders, the value of CAFS work to the council for the first half year stands at £3.6 million, against an annual projected operating cost of £695k. These figures exclude the £47k we have also paid out to both the police and to the CDRP (Crime & Disorder Reduction Partnership).
4. A full re structure of the service took place at the start of the year which has incorporated the reduced unit resources available, which has resulted in a higher percentage of resources being put into investigation.
5. We are working closely with Housing & Regeneration Department to review how tenancy fraud can be better addressed including using the council's internal data more effectively and joining up the process of investigation between housing and the CAFS unit
6. Joint working with the police continues aimed at targeting known criminals, we have approximately 15 joint cases live at this time. Discussions are now starting on expanding coverage of this programme to include problem residents using wider council data.

1. Introduction

- 1.1 The service provides a full, professional counter fraud and investigation service for fraud attempted or committed against the council. It is an intelligence led operation covering 3 areas. These are corporate fraud, which also includes our proactive response and our financial investigators, Benefits fraud and a Housing fraud. We work closely with other law enforcement units including the Met Police and UKBA. The unit also successfully manages the National Fraud Initiative programme on behalf of the council.

2. Performance

- 2.1 CAFS has delivered 76 sanctions in the first half of this year, including 10 prosecutions, against a mid-year target of 60. The full set of performance figures are provided at Appendix 1, **Figures 2** and **3** show the outturn for Quarter 1 and Quarter 2, for each type of fraud, and by sanction delivered.
- 2.3 The unit has introduced a pro-active projects programme for the first time this year. The research involved in these projects and their results, along with other intelligence, will help to inform our future business planning. It is hoped it will also attract new business to the service and create a better informed fraud risk register.

Tenancy Fraud

- 2.4 The funding to investigate tenancy fraud has been reduced this year, mainly through the withdrawal of funds from central government and from other departments. A housing fraud steering group has been formed comprising of the Interim Assistant Director for Housing services, the Chief Internal Auditor and the Head of the Corporate Anti Fraud Service. This group will provide a strategic overview of tenancy fraud and has developed a plan to address fraud related issues in housing on a proactive basis. This will help ensure the best use of resources and the targeting of high risk areas.

- 2.5 DCLG funding for two years of £200k plus some additional funding from housing is currently subject to the bidding process in order that the project can be adequately resourced to produce the best value for the council. A data matching exercise in partnership with a private company will ensure intelligent use of the information the council already holds.

Corporate fraud

- 2.6 There has been an upsurge in referrals needing CAFS intervention at the same time that there has been a reduction in resource undertaking this work. We have received permission to recruit a temporary member of staff to assist in clearing the backlog until 31/03/2012.
- 2.7 The Proactive Officer has a full timetable of projects and is actively testing areas of concern to better inform the risk register and to more effectively target the valuable resources of the unit. Their work will better inform our work going forward and should provide us with innovative opportunities for new work within the council as well as joint working with other boroughs and law enforcement agencies.
- 2.8 One officer is currently fully accredited to undertake financial investigations, two others are partially accredited. This provides LBHF with the ability to launch out own financial investigation under the POCA legislation and any financial gain will be directly of benefit to LBHF. Partially because we now have our own facility to do this we are no longer providing a seconded officer to the pay back unit at Fulham police station. We have also trialled using these skills more widely, including supporting a planning enforcement case and a fraud investigation case for another council – we are talking to Legal about establishing model service level agreements to sell these services in the future.

Benefits Investigations – Proposed changes to benefit counter fraud measures

- 2.9 Universal Credit is scheduled for introduction in April 2013, with Housing and Council Tax Benefit being phased out completely by 2017. Consultation on these changes is still ongoing however it will have an impact on how we provide the Counter fraud support for these activities. A proposed timetable for changes is yet to be agreed however it is likely

that there will be a Single Fraud Investigation Service (SFIS) from approx 2015. As more information becomes available future audit committees will be kept informed.

- 2.10 As a consequence of the likely funding review there are now only 2 investigators who investigate Benefits fraud on behalf of LBHF. The post of senior investigator and the agency individual left our employ in March 2011.

Financial value of counter fraud work

- 2.11 The financial value of Counter fraud work for the first 6 months of the year is included at figure 4 in Appendix 1. This shows the funds that are recovered by the council totalling £235k, and the additional funds that may be recovered of £245k (plus further benefit overpayments of £50k recoverable to the public purse). The table doesn't identify the benefit overpayments recovered (which are significant because the council also retains these monies in full) as these figures cannot be provided from council systems. The table also puts a nominal value on house recoveries based on an average calculation produced by the Audit Commission of £75k a property. This increases the value delivered by the service to £3.6 million.

Nation Fraud Initiative 2010 – 2012

- 2.15 The new NFI data arrived in the council in March and has been distributed to the relevant parties. The CAFS unit is managing the process and will deal with any fraud matters that arise from the data. Output data and financial savings will be noted in the next report.

3. Major Service Changes

- 3.1 In 2009/10 CAFS pioneered the secondment of a Council fraud officer to the local police. For 2010/11 the objective was to target prolific criminals identified by the police from their intelligence where there is also suspected benefit. Following a review of the value of this post and in light of the budget constraints this secondment was ended in May 2011. The service continues to work closely with police to share intelligence plus on a case by case basis which currently involves approximately 15 cases.

3.2 A major restructure to reduce costs and flatten the management structure within CAFS has been completed and the complement has decreased from 18 to 12. This is being kept under review and where specific projects warrant it temporary staff will be sought for a fixed period with additional delivery targets.

4. Future Plans

4.1 The framework being developed by the housing fraud steering group will allow a joined up process between housing and the fraud service so that fraud can be prevented more readily and investigated more effectively.

4.2 An enforcement group is being arranged so that all council units who have a fraud interest can share intelligence and develop proposals to address concerns. As a first step a small group is to meet shortly to pool information on the area's most difficult tenants. Investigations and any subsequent legal actions will be more holistic and will offer the residents of the borough confidence that we as a council communicate and use the powers at our disposal effectively. This will be subject to a bid for additional funding from CDRP.

4.3 Discussions are under way with the National Fraud Authority to progress some projects which would benefit both us and other London councils. For example a way of being able to share information on tenant we have evicted with neighbouring boroughs.

4.4 We are discussing the possibility of sharing our Financial Investigation skills with other councils and charging for our services.

4.5 An update report is to be developed for the Audit & Pensions Committee to provide information on a more regular basis so that key issues can be highlighted at an earlier stage than 6 monthly.

4.6 Filming has taken place for the BBC series "Saints and Scroungers" to be aired in January 2012. Other cases have been submitted to consideration.

4.7 Investigators are taking part in a full training programme to enhance their skills. This is part of the programme to make all officers experienced in generic investigation and therefore be able to offer a more flexible and better value resource to the council.

Appendix 1

CAFS performance tables

Fig. 1 Cases Opened, Rejected, and Closed 2011-12 (to Q2)

	01/04/11 – 30/09/11
Cases referred	254
Cases rejected due to poor quality	79
Cases rejected due to overload of case	127
Cases closed with a successful sanction/outturn	76
Total number of cases closed	175

Fig. 2 Performance by Outcome Achieved to Date (to Q2)

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	9	8	5	22
Tenancy	1	45	0	46
Corporate	0	8	0	8
Grand Total	10	61	5	76

Fig.3 Performance Outturn against Target (cumulative o Q2)

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Benefits	11	22			22
Tenancy	22	46			46
Corporate	7	8			8
Total All	40	76			76
Target 2011/12	30	60			
<i>Previous Years' Comparatives</i>					
Total 2010/11					
Total 2009/10	55	92	40	91	278
Total 2008/09	31	54	98	186	186
Total 2007/08	32	65	97	130	130
Total 2006/07	33	66	99	132	132

Fig.4 Financial Value of Counter Fraud Work Undertaken 2010-11 (to Q2)

		Recovered		Recoverable		Additional value to the Council	Recoverable to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by CAFS	Recoverable by LBHF	Value of properties recovered or lets avoided or salaries ceased	Recoverable	Value of Assets Currently Restrained
Benefits	Penalties			3,378				
	Costs, Compensation, POCA	138,392		840				
	HB Overpayments			241,121				
	40% Bounty on HB O/Ps		96,448					
Tenancy	Tenancies recovered (19)					1,425,000		
	Housing Register removals (21)					1,575,000		
	Right to Buys prevented (2)					32,000		
Corporate	Corporate cases					53,525		
NFI*	HB Overpayments							
	40% Bounty on HB O/Ps							
	Pay & pensions							
	Creditors							
Income support overpayments							49,932	
Assets Restrained								183,500
Total		138,392	96,448	245,339		3,085,525	49,932	183,500
Total recovered		234,840						
Total balance recoverable				245,339				
Total overall recoverable value to the council				£480,179				
Total value to council due to CAFS work				3,565,704				
Total value to the public purse						3,615,636		

Appendix 2

Prosecutions

Catherine Hennessy

Claimant was living and working in Bognor Regis while continuing to claim DWP and LA benefits for a Housing Association property in LBHF. Hennessy jointly owned the property that she lived in with her children and their father, whom she had stated in interview that "she had not seen for years". Hennessy admitted that she had acted dishonestly. During interview she also confessed that she had been subletting her property. She visited the Housing Association later that day to cancel her tenancy. Hennessy pleaded guilty to offences under Social Security Administrations Act for the benefit fraud and a charge under the Fraud Act for the subletting. She was sentenced to 3 months imprisonment, suspended for 2 years with a requirement to undertake 150 hours of Unpaid Work. LBHF are currently seeking confiscation.

Ann Templeman

Claimant had been working for a Solicitors firm since 1998. This had not been declared to the DWP or LBHF. When her benefit was revised, she had been overpaid over £30K in HB and CTB. Templeman pleaded guilty to all charges. She was sentenced to 6 months imprisonment, suspended for 2 years.

Ferideh Kazemzadeh

Claimants partner was investigated by DWP and it was established that he was living together with his partner; Kazemzadeh in her LBHF property. The property was searched and evidence showed that the husband was paying all of the utility bills for the property that his wife was claiming at as a single parent. Kazemzadeh was overpaid £29K HB and CTB. She pleaded guilty on the first day of the trial. She was sentenced to 6 months, suspended for 2 years and 150 hours unpaid work.

Satu Redmond

Claimants details were flagged up on a data matching report that she had undeclared capital. The investigation established that she had over £35K in savings in undeclared bank accounts. Whilst being interviewed, it was established that Redmond had over £100K in savings that she had received through inheritance, a payout from the former employer and money that she had saved. She stated that she had become very ill during her pregnancy and it was for that reason that she had failed to declare the capital. Also during interview, she stated that she had been trying to save money in order to buy a flat for her and her child. She was overpaid £13K. She pleaded guilty at the 1st hearing and was sentenced to 12 months suspended sentence alongside a 6 months supervision order. She was ordered to pay costs of £493.50.

John Robert Dalton

Claimant had enrolled into a university and received student loans and grants that were not declared. His attendance was terminated when he failed to attend his course. He then claimed JSA. This also ended and again this change in his circumstances was not declared to LBHF. Dalton failed to attend IUCs and so was prosecuted. He had been overpaid £6K. He pleaded guilty to all charges and was sentenced to a community order for 6 months to include alcohol treatment and supervision treatment. He was order to pay £575 towards costs.

Maria Ribeiro

Ms Ribeiro had capital over £16K and made transfers to other peoples accounts in order to claim HB from LBHF. Ribeiro transferred large sums of savings, up to £140,000.00 from her account when she initially claimed HB and CTB. She claimed that the money did not belong to her and that it was money that she had borrowed from her mother in law when she had purchased her property that she had previously owned. Ribeiro was overpaid £53759. During IUC it was established that £120,000.00 belonged to Ms Ribeiro and that she had failed to declare her true circumstances to LBHF for benefit purposes. She pleaded guilty and was sentenced to 10 months, suspended for 12 months.

Ali Adan

Arrested November 2009 by Met Police Cab Enforcement Officers, cash seized and dealt with by Payback Fulham and subsequently forfeit. Mr ADAN on HB/CTB and JSA totalling about £26,000. It transpired he had 26k savings at date of HB claim rising to £29k by end of claim. Mr Adan absconded and police/CAFS tracked him down to Liverpool, Sheffield and Bexleyheath following search warrants for all addresses being executed in March 2009. Mr Adan was found in Liverpool where he gave his brothers name, evidence also found that he had given money to this brother who had then bought a house with no mortgage. Restraints obtained on both brothers.

Ali ADAN - successfully prosecuted for benefit fraud (s.111A x 2) and Money Laundering (x 1). Sentenced to a total of 22 months imprisonment for those plus a variety of other offences on 21/09/2011.

Rubina Mallick

Ms Mallick held savings in excess of £100,000 which she had not declared to the DWP or LBHF. During interview Ms Mallick claimed the money was not hers, but belonged to two of her sisters following the death of her father. Ms Mallick was also shown a copy of her father's will, which showed that she was a recipient to 25% of the estate which was in excess of £300,000. Despite this, she continued to maintain throughout the interview that the savings in her bank accounts did not belong to her. Ms Mallick was overpaid Council Tax Benefit totalling £4113.53 and Income Support totalling £5681.05.

Ms Mallick was charged with offences under section 111 of the social security Administration Act and pleaded not guilty at West London Magistrates Court on 06/05/09. On 03/12/09 Ms Mallick was sentenced to a 12 months community punishment order and was required to carry out 200 hours unpaid work and ordered to pay £500 costs.

Tracey Giffen.

Ms Giffen was in receipt of DWP and Local Authority benefits in the name of Tracey Giffen whilst working full-time in the name Tracey Irvine as a driver for the London Borough of Hammersmith and Fulham She had used her correct National Insurance number (NINO) for her benefit claims but had altered her NINO by one digit on her employment application form. Consequently she had been overpaid Income support of £27,057.73, Housing Benefit £187.29 and Council Tax Benefit £57.33.

Ms Giffen was charged with offences under section 111 of the social Security Administration Act Ms Giffen pleaded guilty to all charges on 09/10/09 and was sentenced at Wimbledon Crown Court on 18/12/09 to 52 weeks imprisonment suspended for two and a half years. She was ordered to pay costs totalling £750 to be paid within 3 months.

Demis UBIRIBO

Part of 2010 Operation Razorback (met police pre Notting Hill Carnival pro active operation). Warrant also executed at another family address at same time. Cash seized and Demis, his father Lucky and his sister Sandra arrested on suspicion of money laundering. Evidence to suggest undeclared income and undeclared residents at both addresses. Investigation showed Joys UBIRIBO had over £300k passing through her bank accounts even though she was HB on basis of £340 per month earned income. Arrested and charged, pleaded guilty. Lucky found to have signed form stating that he only had one bank account and was self employed earning about £3k per year, his wife Gladys (he was married to both in Nigeria under Nigerian law) was the claimant. Gladys arrested for false statement and also not declaring Lucky lived at the address. Lucky charged with false statement. Lucky pleaded guilty Gladys convicted by jury trial

GOT A STORY?
www.chroniclestory.co.uk

News in brief

Society's AGM

HAMMERSMITH: The Hammersmith Society's annual meeting takes place at Burlington Danes Academy, in Wood Lane, on Wednesday, June 22, at 7pm. Light refreshments are available from 6.30pm and all are welcome.

Open studios

HAMMERSMITH/BROOK GREEN: The studios of 55 painters, potters, printers, sculptors, photographers, jewellers, wood carvers and stained glass workers – including those of Hammersmith and Brook Green residents Noonie Minoque and Keith Davidson – will be open to the public between June 17 and 19. Visit www.artistsathome.net for details.

Benefits fraud

SHEPHERD'S BUSH: Ferideh Kazemzadeh, 39, of Uxbridge Road, was convicted of claiming nearly £30,000 in housing and council tax benefits from 2005, on the basis she was a single parent in receipt of state benefits.

But the Department for Work and Pensions found she actually lived with a partner who had a job earning more than the threshold of £16,000.

She was sentenced to six months in jail, suspended for two years. She was also told to do 150 hours' unpaid work.



by **Steve Daw-Jones**
newswestlondon@trinitysouth.co.uk

A NEW music festival took over Shepherd's Bush on Saturday, with 30 bands attracting more than 1,000 fans to four local venues.

Guillemots, Peggy Sue, Fink and Cloud Control were just a few of the headline acts at the four sites – Gingitk, Shepherds Bar, The Goldhawk and St Stephen's Church – each of which is a short walk from Shepherd's Bush Green.

Organised by the Communion record label, which runs a venue in Notting Hill and was founded five years ago with help from Mumford & Sons' Ben Lovett, Bushstock aims to rival festivals in other parts of London, such as the Camden Crawl in the north and Stag and Dagger in the east.

"It's great for the area and gives the place a real sense of community," said Tom Aldridge, 23, a Shepherd's Bush resident and festival-goer.

"It's just like the other festivals I've been to, like Camden Crawl, Great



New festival goes west

■ **BUSHSTOCK:** (Main) Crowd's pack out Shepherd's Bar for The Pitt Part

Welcome Committee plays The Goldhawk

Photos by Edley
and
Liam
Livesey

Escape in Brighton and Dot-to-Dot in Nottingham, where you're always on the move throughout the day, going from one venue to the next. It's a good set-up and it's slightly surreal to have it on my doorstep, but definitely nice."

Fellow fan Louise Grange, 36, who lives off Shepherd's Bush Green, said:

"We've had such nice weather that we've spent a lot of time sitting outside and not listening to music – if it had been pouring with rain we'd probably have seen a lot more bands."

"But all the bands we have seen have been great and it's nice to see inside some of these venues. I'd never

even been to Shepherds Bar before."

Bushstock was originally planned for May 7 but was moved to June 4 after police advised against holding the festival on the same day as a football match between Leeds United and QPR.

● **Full story on page 31**

ABOUT

RECENT POSTS

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Champions visit Town Hall

The Government's localism scorecard

Landlord receives derisory fine

Salford Council's shameful housing record

Thames Water customers set to pay £4,000 sewer life sentence

Plans to improve Fulham Palace Road announced

Fraudster is convicted

Antony Lillis Building is opened - a new theatre for Henry Compton School

Perfect pitch for QPR's Bradley

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Hammersmith & Fulham Council

Greg Hands MP - Member of Parliament for Chelsea & Fulham

Shaun Bailey - Conservative Candidate for Hammersmith

Kensington, Chelsea & Fulham Conservatives

[« Antony Lillis Building is opened - a new theatre for Henry Compton School](#)
[| Main | Plans to improve Fulham Palace Road announced »](#)

Friday, May 20, 2011

Fraudster is convicted

A woman who swindled Hammersmith & Fulham Council out of almost £15,000 has narrowly avoided being sent to prison.

Catherine Hennessy claimed housing and council tax benefit for a flat in Osram Court, Hammersmith, despite the fact that she was subletting the property and had purchased a home in Bognor Regis with the father of her children.

In September 2008, Hammersmith and Fulham Council's corporate anti fraud service received contact from the local Department for Work and Pensions (DWP) fraud office in Fulham who had information that Hennessy, 41, was living and working in the Bognor Regis area.

When interviewed under caution Hennessy admitted subletting the Osram Court flat that she was the social tenant of. She also admitted failing to declare changes that would affect her benefits.

Hennessy pleaded guilty to four charges of benefit fraud against Hammersmith and Fulham Council, four charges of benefit fraud against the DWP and a charge of fraud against the housing association.

On Tuesday, May 3, at Isleworth Crown Court, Hennessy was sentenced to three months in prison, suspended for two years. She was also told to do 150 hours of unpaid work to be completed within two years.

Cllr Greg Smith, Cabinet Member for Residents' Services, said:

"Benefit fraud will simply not be tolerated in Hammersmith & Fulham. Our corporate anti fraud service work round the clock to catch benefit cheats and the message to anyone who is considering acting in such an unscrupulous fashion is that you will be caught and brought to justice. Subletting council and housing association flats has very serious implications, leaving people in temporary accommodation - when they could be settled in a social tenancy and we will continue to crackdown on this kind of behaviour."

In total, she dishonestly claimed £12,332 of housing benefit, £1,989 of council tax benefit and £6,665 from the Department for Work and Pensions.

Posted at 08:27 AM | [Permalink](#)

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Jail for benefit cheat who bought a house

Fraudster claimed money was a family saving scheme

by **Adam Courtney**
adamcourtney@trinitysouth.co.uk

A BENEFITS cheat who bought a house using money he stole has been jailed for 22 months.

Ali Adan, 36, formerly of Coningham Road, Shepherd's Bush, was originally stopped for taxi touting in Stoke Newington in November 2009 but as police questioned him he let his car roll away, breaking an officer's finger.

He was arrested and bailed but then moved house. Police found he was claiming housing and council tax benefits while declaring he had no savings and was unemployed.

In fact, he had 13 bankaccounts, of which he had declared only two to Hammersmith and Fulham Council.

He had built his savings over a long period, moving thousands of pounds through his accounts.

It was also found that money withdrawn from his account was

paid into an account in the name of his brother. Officers finally caught up with him in Liverpool in March this year.

When confronted by officers he pretended to be his brother and was found to have keys that were for another Liverpool address in his brother's name, bought shortly after Adan had paid £29,000 into his bank account.

Adan was arrested and brought back to Fulham and was subsequently charged and remanded in custody.

He claimed the laundered money in his accounts was not his and that he was holding it for family members as part of a Hagbad, a traditional Somali savings scheme used by the family so that his brother could buy a house.

On Wednesday, September 21 at Isleworth Crown Court, a jury found Adan guilty of laundering money obtained through criminal conduct.

He was sentenced to eight months for the benefits fraud, a further six months for the money

laundering and six months' imprisonment for actual bodily harm on the police officer.

He was given a further two months' imprisonment for tax evasion and breaching his bail. The sentences will run consecutively.

He was also disqualified from driving for 12 months.

Detective Sergeant Simon Rogers, from Hammersmith and Fulham's Drugs and Payback Unit, said: "This is a fantastic result, which once again highlights the effectiveness of the Payback Unit working in tandem with the Drugs Squad and Corporate Anti Fraud Service.

"The tenacity, commitment and determination displayed by my officers throughout this complex investigation was exemplary.

"This should send a clear message that benefit cheats in Hammersmith and Fulham will be pursued and brought to justice."

A confiscation order was issued in an attempt to recover the £26,000 Adan managed to accrue in benefits.

Daisy Trust celebrates 30th anniversary



LANDMARK:
Pepita Stonor, Frances Stainton and Sandy Cahill at the Daisy Trust fair. Contributed

A FULHAM charity celebrated its 30th anniversary at the Hurlingham Club as more than 100 people enjoyed a gift fair with a live jazz band.

The Mayor of Hammersmith and Fulham, Frances Stainton, opened the proceedings for the Daisy Trust alongside Sandy Cahill, Representative Deputy Lieutenant for Hammersmith and Fulham.

The Daisy Trust raises money to give in grants to charities and voluntary organisations.

Representatives of more than 70 businesses from across the country set up their stalls at the club, in Ranelagh Gardens, on Monday, for the trust's major fundraiser of the year.

The participating companies donated a percentage of their takings on the day to the charity.

"This is a truly special day for the

Daisy Trust as it celebrates its 30th anniversary after going from strength to strength," said Mrs Stainton.

"Today sees the largest fair ever to take place and personally I think it is a wonderful opportunity for me to get a head start on buying my Christmas presents."

Entertainment in the evening was provided by the Simona Bibi Jazz Trio.

The trust's chairwoman, Pepita Stonor, said: "I would like to thank all the stallholders, the Hurlingham Club and everyone who supported us on this most special of days as we celebrate a huge landmark for our organisation."

The charity has previously donated money to the Sir Oswald Stoll Foundation and Volunteer Reading Help. For more information, go to www.daisytrust.org.



MS RUBINA MALLICK
DOB 23/10/54
114 FARM LANE
FULHAM
SW6 1QH

A joint investigation between the Department of Work and Pensions (DWP) and the London Borough of Hammersmith and Fulham (LBH&F) established that Ms Mallick held savings in excess of £100,000 which she had not declared to the DWP or the local authority.

Ms Mallick was interviewed under caution by investigators from LBH&F and the DWP. During the interview Ms Mallick was shown copies of her own bank statements showing the capital in excess of £100,000. Ms Mallick maintained that the money was not hers, but belonged to two of her sisters following the death of her father.

Ms Mallick was also shown a copy of her father's will, which showed that she was a recipient to 25% of the estate which was in excess of £300,000. Despite this, she continued to maintain throughout the interview that the savings in her bank accounts did not belong to her.

The joint investigation established that Ms Mallick was overpaid Council Tax Benefit totalling £4113.53 and Income Support totalling £5681.05.

Ms Mallick was charged with offences under section 111 of the social security Administration Act and pleaded not guilty at West London Magistrates Court on 06/05/09.

On 30/11/09 a trial took place and Ms Mallick was found guilty on all counts.

On 03/12/09 Ms Mallick was sentenced to a 12 months community punishment order and was required to carry out 200 hours unpaid work and ordered to pay £500 costs.

MS TRACEY GIFFEN
DOB 10/08/57
2 GRANVILLE PLACE
FULHAM
SW6 2HB

Following a referral from a Housing Benefit assessor an investigation by CAFS established that Ms Giffen was in receipt of benefit while not declaring income from full-time employment.

She was in receipt of Housing Benefit, Council Tax Benefit and Income Support under the name Tracey Giffen while at the same time and was working as a driver for the London Borough of Hammersmith and Fulham since 2003 under the name of Tracey Irvine.

She had used her correct National Insurance number (NINO) for her benefit claims but had altered her NINO by one digit on her employment application form.

As a consequence of Ms Giffen's dishonest actions, the investigation established that Ms Giffen had been overpaid Income support of £27,057.73 , Housing Benefit £187.29 and Council Tax Benefit £57.33.

Ms Giffen was interviewed under caution by Investigation officers from the LBH&F and the Department for Work and Pensions (DWP) ON 24/10/07. Ms Giffen gave a no comment interview.

Ms Giffen was charged with offences under section 111 of the social Security Administration Act and the matter was initially heard at West London Magistrates Court on 09/09/09. Ms Giffen elected for a crown court hearing.

Ms Giffen pleaded guilty to all charges on 09/10/09 and was sentenced at Wimbledon Crown Court on 18/12/09 to 52 weeks imprisonment suspended for two and a half years. She was ordered to pay costs totalling £750 to be paid within 3 months.

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Father and son jailed following multi-agency investigation

A father and son have been jailed for a total of 30 months for possessing thousands of pounds, believed to be the profits of drug dealing.

54 year-old Lucky Ubiribo, of Margaret House, Hammersmith W6, and 33 year-old Demis Ubiribo of Norbrooke Street, W12 were sentenced at Isleworth Crown Court on 25 July 2011, following a 12 month investigation by officers from Hammersmith and Fulham Drugs Squad, Payback Unit and the local authority's Corporate Anti-Fraud Service.

At an earlier hearing, Demis Ubiribo had pleaded guilty to possession of two separate amounts of cash, totalling £2161.98, which he admitted was criminal property. He received two nine month prison sentences to run consecutively and a confiscation order.

Lucky Ubiribo pleaded guilty to possessing £7000 cash, which was said by the prosecution to be the profits of Demis' drug dealing. He was sentenced to nine months imprisonment for possession of criminal property.

He received a further 12 months imprisonment to run consecutively for a separate conviction for possession of criminal property involving a fraudulent notice on the internet in 2008 advertising a shipment of scrap metal for sale. A Chinese company paid Lucky a \$34,000 advance fee for this shipment, which never arrived.

Lucky Ubiribo also received a three month concurrent sentence of imprisonment for possessing a false driving licence. He also pleaded guilty to benefit fraud. However, no separate sentence was given.

Lucky Ubiribo's two wives, Gladys and Joys Ubiribo also faced criminal charges. 51 year-old Joys Ubiribo pleaded guilty earlier this year to benefit fraud and received a 40 hour community order with a 30-day activity requirement. Gladys Ubiribo, aged 50 years, pleaded not guilty to fraudulently claiming £28,000 of housing benefit. She was found guilty at trial and will be sentenced in early September.

Confiscation investigations have now commenced in respect of Lucky, Joys and Gladys to establish how much they have benefited from crime and how much they can pay back.

In August 2010, officers from Hammersmith and Fulham Drugs Squad carried out a raid at the home of Demis Ubiribo, who had been jailed in 2005 for possession with intent to supply class A drugs. Police seized several thousand pounds in cash along with several false documents in the name of his father, Lucky. Demis Ubiribo was arrested on suspicion of money laundering.

A simultaneous raid was carried out at Margaret House, Queen Caroline Street, W6. £7,000 cash was seized and Lucky Ubiribo was arrested on suspicion of possessing criminal property

Further investigations found that the £7000 cash seized during the raids was contaminated with high levels of cannabis and heroin.

In December 2010, whilst on bail for money laundering, Demis Ubiribo was stopped by police in his car late at night. He ran away but was detained and found to be in possession of another £1000 in cash.

Following a thorough multi-agency investigation, it was established that Lucky

Reporting crime
[Non-emergency](#)



Ubiribo had two wives and families, one living in Margaret House, W6 and the other in Norbrooke Street, W12. He had married both women in Nigeria and had children by them both.

The investigation showed that Lucky had falsely declared to the local authority that he only earned £3800 a year. Gladys was accused of not revealing that Lucky had lived with her till 2010 when it is thought he had been there since as early as 2005, as bank accounts and businesses were registered there during the period mentioned.

Between December 2010 and January 2011, Lucky, Demis, and Lucky's two wives Gladys and Joys Ubiribo were all charged with conspiracy to launder money. Lucky and Demis Ubiribo were also charged with possession of criminal property. Joys Ubiribo was also charged with housing benefit fraud. Lucky and Gladys Ubiribo were charged with benefit fraud.

Due to the seriousness of this case, Demis and Lucky were remanded in custody because of the perceived risk of them absconding.

Detective Sergeant Simon Rogers from Hammersmith & Fulham's Drugs Squad said: "This was a very complex and protracted investigation which took place over a 12 month period. For years the family instilled fear amongst the community and rival criminals portraying themselves as untouchable. In these fiscal times they bled the benefits system while leading a lavish lifestyle dealing drugs and laundering the profits. This investigation highlights the level of criminality that the Drug Squad & Payback Unit are continuing to target in the stance against drug supply on this borough.

"I would like to personally thank both departments for all the hard work, determination and professionalism displayed throughout this enquiry. "

Detective Sergeant Richard Gilbert from Hammersmith & Fulham's Pay Back

Unit said: "The multi-agency approach has brought this case to a successful conclusion. The sentences reflect the courts' attitude to money laundering. My unit's work continues into the finances of Lucky and Joys to ensure that they are made to payback their benefit from crime. Demis has already lost his unlawfully earned cash."

2/8/2011 RG

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AUDIT AND PENSIONS COMMITTEE

8 December 2011

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

**Internal Audit Quarterly report for the
period 1 April to 31 September 2011**

**WARDS
All**

This report summarises internal audit activity in respect of audit reports issued during the period to 31 September 2011, as well as reporting on the performance of the Internal Audit service.

RECOMMENDATION:

That the report be noted.

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1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 31 September 2011 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices 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 14 audit reports were finalised in the second quarter of 2011/12 (see **Appendix A**). In addition 9 other management letters were issued.
- 2.3 One audit report issued in this period received limited assurance. HFBP has investigated the practicality of the 6 recommendations made in the report on the *Powersuite Application* with the software supplier who have informed the Council that it will not be possible at this time to fully implement any of them. We are now discussing with senior officers whether they will accept accountability for the risks remaining as a consequence of this, or whether they will look to introduce alternative compensating controls.
- 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 5 reports still outstanding that were due to be signed off on or before 31 September and these are listed in **Appendix B** for information.

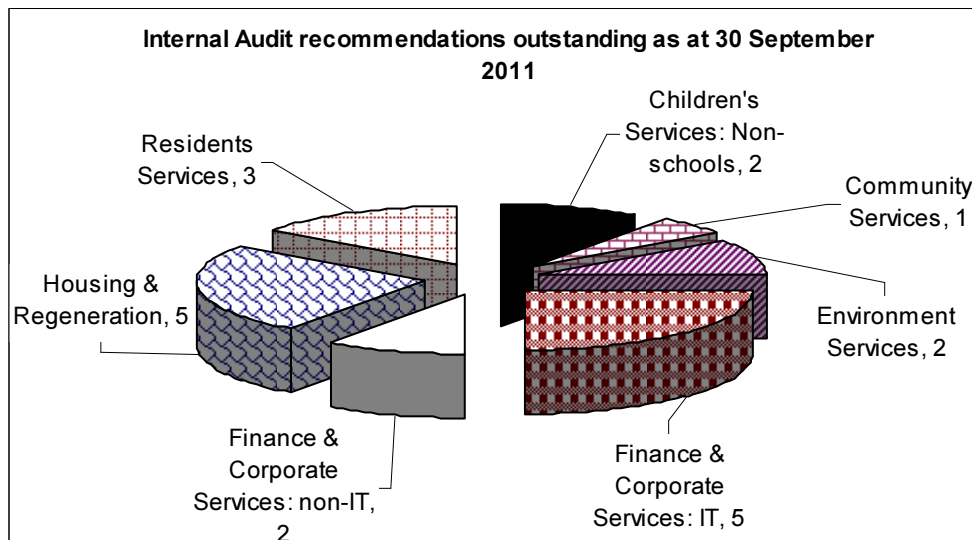
Three of these outstanding reports relate to Schools and 2 to Finance & Corporate Services. None of these reports will be over 6 months old at the time of the Committee meeting. We are very pleased to report

that there are no reports outstanding for Children's Services (non-schools), Community Services, Environment Services, Housing and Regeneration or Residents Services.

2.6 There are now 20 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 17 reported as outstanding at the end of the previous quarter and represents a slight deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

2.7 The breakdown between departments is as follows:

- ◆ Children's Services (non-schools) – 2
- ◆ Community Services - 1
- ◆ Environment Services Dept – 2
- ◆ Finance & Corporate Services Dept – 7
- ◆ Housing & Regeneration - 5
- ◆ Residents Services – 3



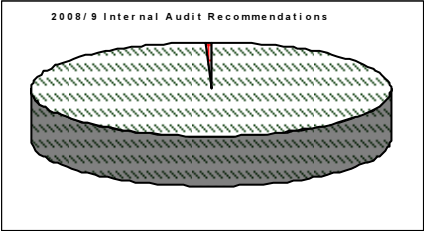
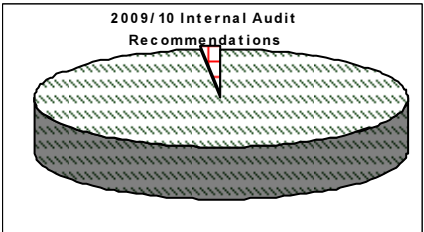
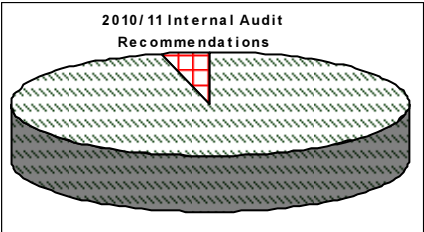
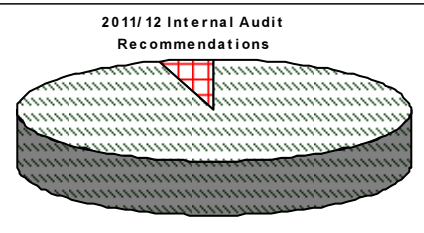
6 of these outstanding recommendations relate to HFBP. We are very pleased to note that there are no recommendations outstanding for Schools.

2.8 9 of the 20 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the specific managers and Assistant Directors

responsible for all recommendations overdue by more than 3 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 prior to 2008/09 have been implemented

<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.35%</p>	<p>460 recommendations implemented out of a total of 463</p> <p>3 recommendation outstanding</p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>98.28%</p>	<p>399 recommendations implemented out of a total of 406</p> <p>7 recommendations outstanding</p>	
<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>96.1%</p>	<p>197 recommendations implemented out of a total of 205</p> <p>8 recommendations outstanding</p>	
<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>95.65%</p>	<p>44 recommendations implemented out of a total of 46</p> <p>2 recommendations outstanding</p>	

3 Internal Audit Service

3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual

audits and also periodically provides management information to support the reporting requirements of the in-house team

- 3.2 Part of the CIA's function is 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 July to 31 September 2011 are shown below.

Performance Indicators 2010/2011 & 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
2010/11						
1	% of deliverables completed (2010/11)	95%	95%	99%	+4%	114 reports delivered out of a total plan of 115
2	% of planned audit days delivered (2010/11)	95%	95%	100%	+5%	944 days delivered out of a total plan of 947 days
2011/12						
3	% of deliverables completed (2011/12)	95%	50%	47%	-3%	52 reports delivered out of a total plan of 110
4	% of planned audit days delivered (2011/12)	95%	50%	43%	-7%	412 days delivered out of a total plan of 949 days
5	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	93%	-2%	25 out of 27 briefs issued more than ten working days before the start of the audit.
6	% of Draft reports issued within 10 working days of exit meeting	95%	95%	87%	-8%	26 out of 30 draft reports issued within 10 working days of exit meeting.

4 Audit Planning

- 4.1 The Internal Audit plan for 2012/13 is currently being drafted in discussion with departments and senior management. The Committee is invited to suggest any areas where audit work may be particularly useful. The draft plan will be presented to the February meeting of the Committee for approval.

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 July to 30 September 2011

We have finalised a total of 14 audit reports for the period to 30 September 2011. In addition, we have issued a further 9 management letters.

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	10/11	Carbon Reduction Commitment	Nigel Pallace	Substantial
2	10/11	Ending of Tenancies	Mel Barrett	Substantial
3	10/11	Powersuite Application	Lyn Carpenter	Limited
4	10/11	Financial Management in Libraries	Lyn Carpenter	Substantial
5	11/12	St Augustine's Primary School	Andrew Christie	Substantial
6	11/12	Vanessa Primary School	Andrew Christie	Substantial
7	11/12	Bayonne Nursery	Andrew Christie	Substantial
8	11/12	The Good Shepherd Primary School	Andrew Christie	Substantial
9	11/12	Licensing Income	Nigel Pallace	Substantial
10	11/12	Langford Primary	Andrew Christie	Substantial
11	11/12	Jack Tizard School	Andrew Christie	Substantial
12	11/12	Market Testing – HF News	Jane West	Full
13	11/12	Cedar - Pre Implementation	Jane West	Substantial
14	11/12	Emergency Planning	Lyn Carpenter	Substantial

Audit Reports

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

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
15	11/12	Register of Officers' Interests	Jane West
16	11/12	MTFS Savings	Jane West
17	11/12	Benchmarking of IT Security Policies	Jane West
18	11/12	WCFM Balance Sheet Monitoring	Jane West
19	11/12	Demand Forecasting	Heather Schroeder
20	11/12	School Funding Criteria	Andrew Christie
21	11/12	Play Capital Grant	Andrew Christie/Jane West
22	11/12	Preliminary Testing of Key Controls	Jane West
23	11/12	Market Testing - Summary Report	Jane West

Follow ups

No follow up reports were issued in quarter 2 of the 2011/12 financial year.

APPENDIX B

Internal Audit reports in issue more than two weeks as at 31 September 2011

	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2011/12	School	Andrew Christie	Bentwoth Primary School	Substantial	07/07/2011	Headteacher	21/07/2011	Auditee and Director
2	2011/12	School	Andrew Christie	Randolph Beresford Early Years Centre	Substantial	30/06/2011	Headteacher	14/07/2011	Auditee and Director
3	2011/12	School	Andrew Christie	Canberra Primary School	Substantial	30/06/2011	Headteacher	14/07/2011	Auditee and Director
4	2011/12	Finance & Corporate Services (HFBP)	Jane West	Source Code	Substantial	02/09/2011	Contract Monitoring Officer / Project Delivery Manager	16/09/2011	Auditee and Director
5	2011/12	Finance & Corporate Services (HFBP)	Jane West	Remote Working	Substantial	11/08/2011	HFBP Service Manager	25/08/2011	Auditee and Director

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By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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