

Audit, Pensions and Standards Committee

Agenda

Thursday 27 September 2012

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Michael Adam (Chairman) Councillor Marcus Ginn Councillor Robert Iggulden Councillor Lucy Ivimy	Councillor Michael Cartwright Councillor PJ Murphy	Eugenie White

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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: 18 September 2012

Audit, Pensions and Standards Committee Agenda

27 September 2012

<u>Item</u>	<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING	1 - 8
(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit, Pensions and Standards Committee held on 28 th June 2012	
(b) To note the outstanding actions.	
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST	
<i>If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.</i>	
<i>At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant 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.</i>	
<i>Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.</i>	
<i>Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.</i>	
4. REVISED TERMS OF REFERENCE	9 - 14
5. LEGAL AND GENERAL PRESENTATION	
6. PENSION VALUE AND INVESTMENT PERFORMANCE	15 - 32
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 June 2012.	
7. TREASURY MANAGEMENT 2011-12 OUTTURN	33 - 41

This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31st March 2012.

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| 8. | LONDON BOROUGH OF HAMMERSMITH AND FULHAM
STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR
2011/12 | 42 - 205 |
| | <p>This report gives a brief review of the Council's annual Statement of Accounts and the Council's Pension Fund Accounts for 2011/12. It also provides an overview of the recommendations arising from the audit of the accounts prior to the publication of the Audit Commission's formal opinion on those accounts. The Audit Commission's Annual Governance Reports 2011/12 are attached as appendices, along with the Statement of Accounts for approval.</p> | |
| 9. | 2011/12 WORMWOOD SCRUBS CHARITABLE TRUST ACCOUNTS | 206 - 240 |
| | <p>This report presents the 2011/12 Wormwood Scrubs Charitable Trust statement of financial activity. The Audit Committee is the specific body that the Council has established to receive the annual reports of the Trust.</p> | |
| 10. | ANNUAL GOVERNANCE STATEMENT 2012 | 241 - 250 |
| | <p>This report presents the Annual Governance Statement 2012.</p> | |
| 11. | VOLUNTARY DISCLOSURE TO HMRC | 251 - 255 |
| | <p>This report is to update the Committee on progress with the voluntary disclosure made to HMRC on 16th April 2012 with respect to people who had been incorrectly treated by the council as being self employed and were paid without deduction of tax and National Insurance Contributions (NIC's).</p> | |
| 12. | COMBINED RISK MANAGEMENT HIGHLIGHT REPORT | 256 - 293 |
| | <p>This report updates the Committee of the risks, controls, assurances and management action orientated to manage Enterprise Wide risks.</p> | |
| 13. | INTERNAL AUDIT QUARTERLY REPORT | 294 - 303 |
| | <p>This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2012, as well as reporting on the performance of the Internal Audit service.</p> | |
| 14. | FINAL INTERNAL AUDIT REPORT FOR NATIONAL NON-DOMESTIC RATES (NNDR) | 304 - 331 |
| | <p>This report presents the final Internal Audit report for National Non-Domestic Rates (NNDR)</p> | |
| 15. | EXCLUSION OF THE PUBLIC AND PRESS | |
| | <p>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, 3 and 7 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.</p> | |

- 16. EXEMPT MINUTES OF THE MEETING HELD ON 28TH JUNE 2012**
- 17. FUND MANAGEMENT FEES**



London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes

Thursday 28 June 2012

PRESENT

Committee members: Councillors Michael Adam (Chairman), Robert Iggulden and Lucy Ivimy

Coopted Member: Eugenie White

P-Solve: Nikhil Aggarwal and John Conroy

Majedie: Simon Hazlitt and Rob Hawkins

Deloitte and Touche Tax Advisory: Tim Waterhouse and Ian Stone

Officers: Jane West, Executive Director for Finance and Corporate Governance; Mel Barrett, Executive Director for Housing and Regeneration; Hitesh Jolapara, Bi-Borough Director for Finance; Debbie Morris, Bi-Borough Director for HR; Stephen KIRRAGE, Director for Property and Regeneration; Mike England, Director of Housing Options; Jonathan Hunt, Tri-Borough Director of Treasury and Pensions; George Lepine, Head of HR, HRD; Geoff Drake, Chief Internal Auditor; Michael Sloniowski, Principal Consultant, Risk Management; Piero Ionta, Principal Litigation Lawyer; and Owen Rees, Assistant Committee Coordinator.

1. MINUTES OF THE PREVIOUS MEETING

Councillor Iggulden raised the issue of employer contributions, and asked whether the agreement between the Local Government Association and trade unions would result in a reduction. Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, said that the proposals as they stood would result in a small reduction, estimated at 2%, and included provision for cap and collar/cap and share for employer contributions. However, he said that the primary driver for pension fund deficits was low interest rates, and the consequent high prices of gilts, and that employer contributions would likely remain high until interest rates rose.

The Chairman asked officers to contact Goldman Sachs to ask how the mandate had performed in the light of the poor investment conditions of the current period, and their positive position as stated in their presentation to the previous meeting.

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.

Nikhil Agarwal, P-Solve, gave the Committee figures for the fees due following the introduction of the revised Legal and General mandate; he said that these were appropriate to the work entailed in the new mandate. Councillor Ivimy asked to see details of the fees due to each fund manager: officers agreed to present this to the next meeting of the Committee.

RESOLVED THAT

- (i) The minutes of the meeting of the Audit and Pensions Committee held on 15 March 2012 be agreed as a true and correct record, and;
- (ii) That officers be requested to write to Goldman Sachs regarding their performance in quarter 2, and;
- (iii) That a full summary of fees be reported the next meeting of the Committee.

2. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Cartwright, Ginn, and Murphy, and from the trade unions representative, Sheela Selvajothy.

3. DECLARATIONS OF INTEREST

There were none.

4. MEMBERSHIP AND TERMS OF REFERENCE

RESOLVED THAT

- (i) The terms of reference be noted, and that;
- (ii) The appointment of a Vice-Chairman be deferred until the next meeting.

5. APPOINTMENT OF CO-OPTED MEMBER

RESOLVED THAT

Eugenie White be reappointed as a non-voting, independent cooptee.

6. MAJEDIE MANDATE

Simon Hazlitt, relationship manager, and Rob Harris, fund manager, attended the Committee to explain Majedie's request to vary the terms of the Council's mandate to allow it to invest 20% of funds in overseas equities.

Simon Hazlitt set out Majedie's performance from the inception of the mandate, noting that it had closed its funds a year after receiving the H & F contract, giving Majedie greater freedom of manoeuvre and ensuring a closer focus on existing clients. He then explained the recent performance of the funds, and explained the

factors that Majedie believed would influence future equity performance, and would influence their decision making process.

He said that, while Majedie remained positive regarding London-listed equities as a whole, it was felt that certain sectors were underrepresented in it, meaning that stock related risk was higher, with holdings necessarily concentrated in a few stocks. He gave, as examples, the pharmaceutical sector, given the small number of large cap pharmaceutical companies listed in London, and the technology sector, which was poorly represented on the London exchanges.

He concluded by saying that the change was not structural but would enable Majedie to have additional options as it sought to exceed the benchmark.

The Chairman noted that Majedie had not coupled London-listed stocks with the UK economy, or sought to purchase overseas stocks in pursuit of overseas earnings. Mr Hazlitt confirmed that this was Majedie's view, and that London was a thoroughly internationalised market with good exposure to overseas earning. He said that Majedie also believed that London-listed equities were well-priced, and the smaller exchange made investment more practical. However, it was felt necessary to have some flexibility for the reasons described given earlier.

Councillor Ivimy asked what funds the Council had invested with Majedie, and where these were held. Mr Hazlitt said that the Council had £136.8 million invested, £90 million in Majedie's UK Equities fund, £35 million in the UK Focus fund, and £10 million in Tortoise, a long/short absolute return fund, focused on delivering steady returns. In response to a further question from Councillor Ivimy, he set out the fee structure applying to each element of the Council's holdings, and how these were affected by performance. He said that there would be no increase in fees as a result of the change, but there would be an increase in custodial costs, offset by what Majedie believed to be the greater advantages of the new arrangements.

With regards to the Tortoise fund, Mr Hazlitt confirmed that it was able to invest overseas, for up to 45% of its holdings. It was also allowed to undertake short selling, doing this through the purchase of contracts for difference, with gross exposure greater than the value of the investment. However, the fund did not use financial gearing, and was designed to ensure steady returns, with a focus on performing well in adverse market conditions.

Eugenie White said that the Committee had been misadvised with regards to its investment in the Tortoise Fund, which she believed had been to increase exposure to emerging markets, rather than to allow short-selling. Officers agreed to check the background of the decision.

Eugenie White said that the UK/London market was currently unfashionable and potentially undervalued, with companies trading there benefiting from a weak currency. She asked if it was correct to purchase overseas stocks at a time of currency weakness, currency risk being one of the reasons why pension funds were generally invested locally.

Rob Harris said that the correlation between equity market returns and GDP growth were historically weaker than generally supposed, and that Majedie only wished to make investments overseas where it was felt it would genuinely add value. He confirmed that the UK market remained attractive and the fund's main focus.

Councillor Iggulden asked whether Majedie could expect to outperform American fund managers in selecting technology stocks, for example. Mr Hazlitt said that the Tortoise fund had performed very strongly when investing overseas, and that that technological basis of stock selection at Majedie now made it able to invest overseas.

In response to a question from Councillor Iggulden, Mr Hazlitt clarified that the changes would apply to the UK Equities and UK Focus products, but the Council could chose to opt out of the change for its UK Equities holding.

The Chairman thanked Majedie for attending. The Committee agreed that the proposal should be agreed, but wanted to look at its allocations more widely, in advance of the next actuarial valuation in 2013.

RESOLVED THAT

- (i) That the request from Majedie to revise the mandate to allow 20% of funds to be invested in overseas equities be agreed, and;
- (ii) That officers investigate the advice given regarding Tortoise, short-selling and emerging market equities and report back to the Committee, and;
- (iii) That officers bring forth a report to a future meeting on the allocation of the fund's assets.

7. **PENSION VALUE AND INVESTMENT PERFORMANCE**

ikhil Agarwal, P-Solve, introduced the report, which set out the fund's performance in the quarter to 31st March 2012. He said that it had been a good quarter, with riskier assets performing reasonably well. He said that confidence had declined starkly in the following quarter, with risk assets performing more poorly. The Chairman asked whether, given that the Dynamic Asset Allocation Mandates had failed to capitalise on improved markets, they could expect to outperform a negative market as previously. Mr Agarwal said that the equities mandates were performing in line with the market, but the Dynamic Asset Allocation mandates were designed to perform in such circumstances.

Eugenie White requested that the report show LIBOR, Councillor Ivimy requested that report show whether returns were net of fees, Councillor Iggulden noted that the period to judge Goldman Sachs' performance should be shorter than their suggested 5 years, and the Chairman requested that officers invite the private equity fund managers to attend a future meeting of the Committee.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That future performance reports include the LIBOR rate and state the position of the figures in relation to fees, and
- (iii) That the private equity fund managers be invited to a future meeting of the Committee.

8. STATEMENT OF INVESTMENT PRINCIPLES

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the updated Statement of Investment Principles.

RESOLVED THAT

The Statement of Investment Principles be agreed, subject to references to the Audit and Pensions Committee being amended to read Audit, Standards and Pensions Committee.

9. ANNUAL REVIEW OF RETIREMENTS AND REDUNDANCIES 2011-12

Debbie Morris, Bi-Borough Director for HR, introduced the report, which set out the retirements and redundancies affecting the fund in 2011-12. She said that while these did not give rise to an increase in employer contributions for the local authority, they would require an interested contribution from three admitted bodies.

RESOLVED THAT

The report be noted

10. EXTERNAL AUDIT PROGRESS REPORT

Jon Hayes, District Auditor, introduced the report, which set out the external auditor's current work and general issues. He said that work had begun on the Pension Fund and Wormwood Scrubs Charitable Trust, and that the General Fund accounts were due shortly.

In response to a question regarding Housing Benefit, Mr Hayes clarified that the issue related to the time taken to process changes in claims. He said that the additional days required made claim files more complex, increasing the difficulty of the audit and increasing the risk of a claim being mishandled.

RESOLVED THAT

The report be noted.

11. HEAD OF INTERNAL AUDIT ANNUAL REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out his annual report to the Committee. He said that significant control weaknesses were identified in 2.2, and that these would be fed into the Annual Governance Statement. With regards to the item relating to reconciliation, Hitesh Jolapara, Bi-

Borough Director for Finance, said that this would not be in the AGS Action Plan, as it had been agreed as unnecessary following discussions between Internal Audit and himself.

With regards to the issue regarding home repairs and adaptations, Mr Drake said that the issue related to the calculation and apportionment of charges. With regards to the programme of tests mentioned at 1.7.5, Mr Hayes clarified that these were carried out by the Internal Audit service to check whether external audit testing was necessary.

RESOLVED THAT

The report be noted.

12. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity undertaken in the previous period. He described ongoing work with the Housing and Regeneration department, and the increased focus on Tri and Bi-Borough integration. He also described work undertaken with Business Continuity and Emergency Planning in the light of discussions at the previous meeting of the Committee.

Councillor Ivimy asked whether the legal and contractual risks that the Council faced, such as judicial reviews, were included in the risk register.

RESOLVED THAT

The report be noted.

13. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which was the annual report of CAFS for the 2011-12 financial year. He said that the service had seen a reduction in staff numbers at the start of the year. The service had made 24 prosecutions, with 209 successful outcomes overall, with £8.5 million in fraud detected. He said that £700,000 had been recovered in the year, of which £280,000 had been recovered by CAFS. He said that work was underway to establish a single Tri-Borough fraud investigation service.

The Chairman asked whether CAFS was able to monitor what percentage of funds recoverable were subsequently recovered. Mr Drake said that the system used by debtors did not automatically tie the funds recoverable to the CAFS investigation, and would require some interrogation. Jane West, Executive Director for Finance and Corporate Governance, said that officers would look at what information could be made available.

Eugenie White noted that the performance of the service had been good, but asked whether a reduction in capacity meant that cases worthy of investigation were not proceeded with, with a possible reduction in the deterrent effect. Mr Drake said that CAFS investigated those cases in which the evidence was

strongest and the possible offence committed most serious, and that the service manager was given a target based on the quality of outcomes. He said that there would always be cases that were not investigated.

RESOLVED THAT

The report be noted.

14. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out internal audit activity in the period to 31 March 2012. He said that there had been 19 reports and 3 management letters issued from which 3 limited assurance reports had been issued in the period, which had been distributed to members with the agenda, all recommendations for these reports past their due date for implementation had been implemented. He was also able to report that there no outstanding reports or recommendations to report to Committee. It was reported that the updated Internal Audit plans for the 2012/13 year were provided at Appendix B following agreement of the tri- and bi- borough elements of the plan with K&C and Westminster. A tri-borough project has now commenced to establish single tri-borough services for internal audit, risk management, and fraud. Progress on these will be reported to future Committee meetings

RESOLVED THAT

The report be noted.

15. 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 1,2,3 and 7 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

16. UPDATE ON TAX ISSUES - VERBAL UPDATE FROM DELOITTE TAX ADVISORY

RESOLVED THAT

The update be noted.

17. GAS SAFETY CERTIFICATION

RESOLVED THAT

The report be noted.

18. ANNUAL REVIEW OF RETIREMENTS 2011/2012- EXEMPT ASPECTS

RESOLVED THAT

The report be noted.

Meeting started: 7.00 pm
Meeting ended: 10.13 pm

Chairman

Contact officer: Owen Rees
Committee Co-ordinator
Governance and Scrutiny
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AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

MEMBERSHIP AND TERMS OF REFERENCE

**WARDS
All**

Committee Co-
Ordinator

RECOMMENDATION:

(The Committee is asked to note its terms of reference, as revised at the Meeting of Full Council on 4 July 2012.

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Council Agenda, Annual Meeting, July 2012	Owen Rees 020 8753 2088	Hammersmith Town Hall

AUDIT, PENSIONS AND STANDARDS COMMITTEE
TERMS OF REFERENCE

1. Membership

1.1 The Committee will have the following membership:

4 Administration Councillors
2 Opposition Councillors

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

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

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

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

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

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

2. Quorum

2.1 The quorum of the Committee shall be 3 members.

3. Voting

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

4. Procedures

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

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

5. **Meetings**

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

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

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

6. **Reporting**

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

7. **Responsibilities**

(a) Audit

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

- the strategic processes for risk, control and governance and the Statement on Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;

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

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

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
- acting as the Approval of Accounts Committee, to be held in June;
- to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;
- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

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

- the establishment of risk management across the organisation, including partnerships;
- awareness of the Council's risk appetite and tolerance;
- reviewing of the risk portfolio (including IT risks);
- being appraised of the most significant risks;
- determining whether management's response to risk and changes in risk are appropriate.

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

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

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

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

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

- 7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls,
- 7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents,
- 7.10 To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy,
- 7.11 To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.
- 7.12 To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- 7.13 To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- 7.14 To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.
- 7.15 To approve the arrangements for the provision of AVCs for fund members.
- 7.16 To receive and consider the Audit Commission's report on the governance of the Pension Fund.

(c) Standards

- 7.17 To promote and maintain high standards of conduct by the Executive, non-executive Councillors, co-opted Members and church and parent governor representatives;
- 7.18 To assist Councillors, co-opted Members, and church and parent governor representatives to observe the Members' Code of Conduct;
- 7.19 To advise the Council on the adoption or revision of the Members' Code of Conduct;

- 7.20 To monitor the operation of the Members' Code of Conduct;
- 7.21 To advise and recommend training for Councillors, and co-opted Members and church and parent governor representatives on matters relating to the Members' Code of Conduct;
- 7.22 To fulfil the requirements under Section 28 of the Localism Act 2011 to put in place "arrangements" under which allegations that a Member or co-opted Member of the Council, or of a Committee or Committee of the Council has failed to comply with Code of Conduct are considered, investigated and determined.



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27th September 2012

CONTRIBUTORS	PENSION FUND VALUE AND INVESTMENT PERFORMANCE	WARDS All
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DF	<p>This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30th June 2012.</p>
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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	B Pearce, Extn 1808	16 th Floor, Westminster City Hall,



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2012

September 2012



CAMRADATA
Pension Reporting

Summary

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

The UK Equity Mandate is managed by Majedie and the Overseas Equity Mandate by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer. 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 2.2% 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:

45% Index-linked Treasury Gilt 1¼% 2017, 20% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2037, 5% Index-linked Treasury Gilt 0¾% 2047, 20% Index-linked Treasury Gilt 1¼% 2055.

This Liability Benchmark was last reviewed in December 2011.

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>L&G Benchmark</i>

Private Equity

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

Breakdown of Scheme Performance by Manager as at 30th June 2012

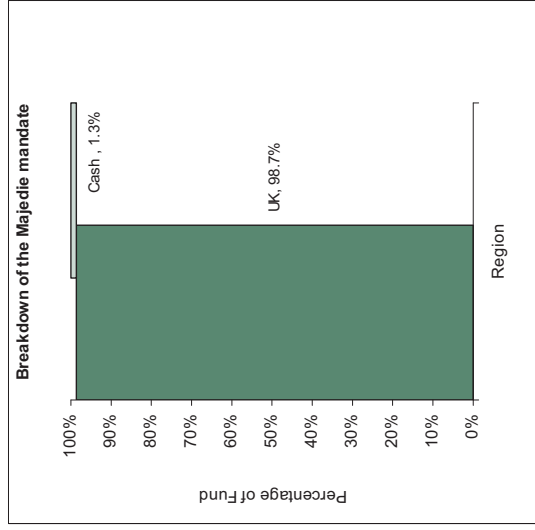
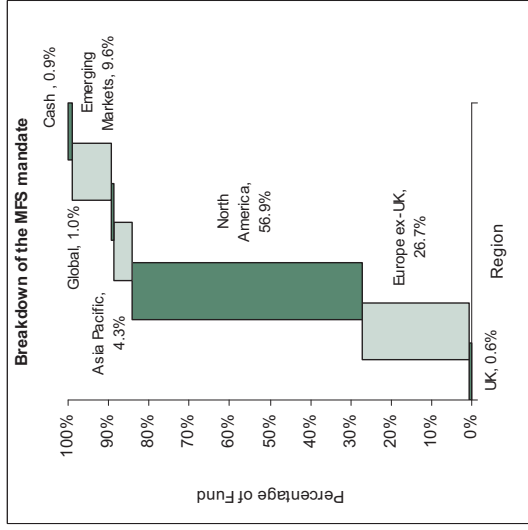
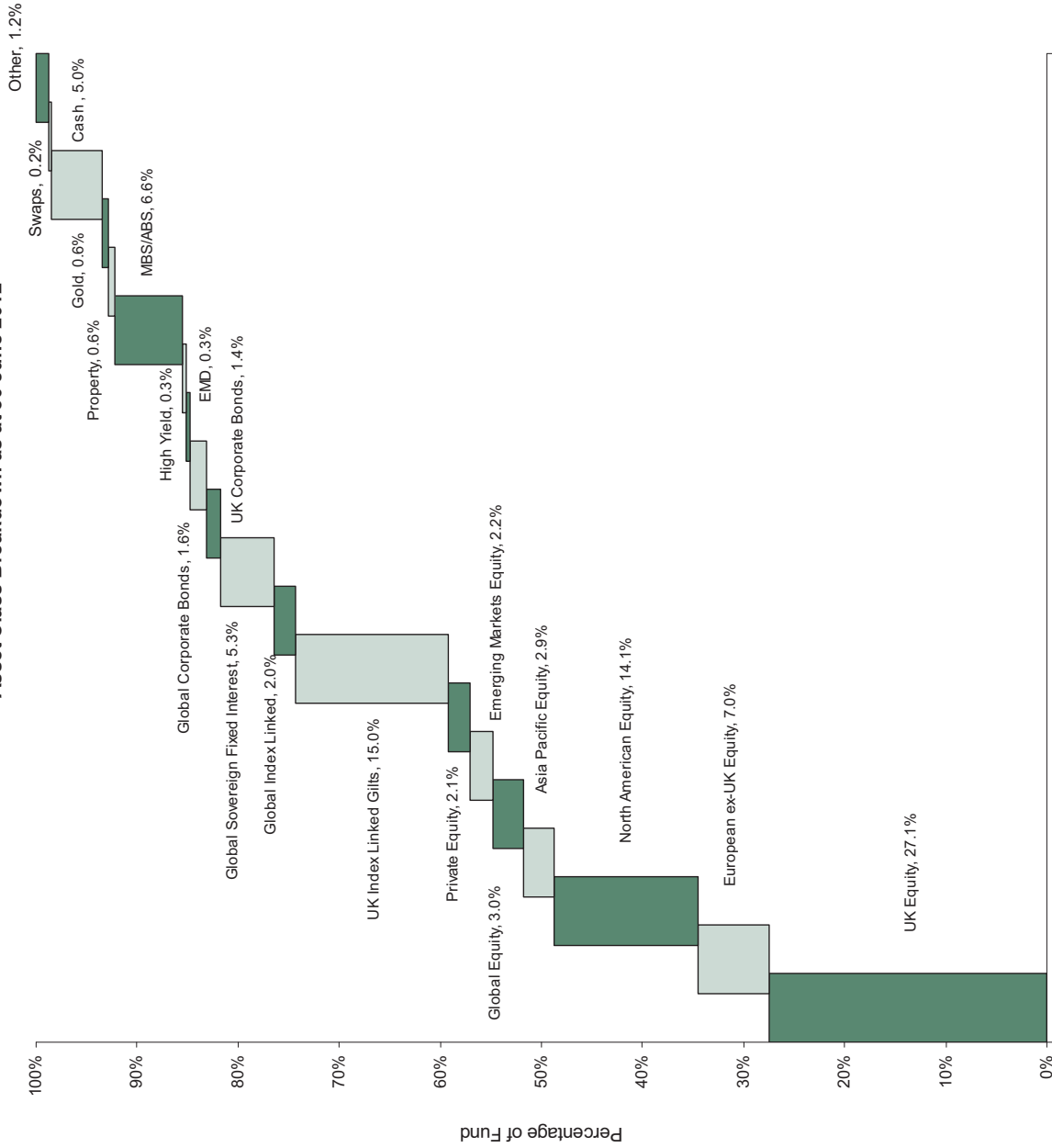
Fund Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	2 year return (%) p.a.	3 year return (%) p.a.
Total Fund	626,189	100.0	100.0	(2.4)	3.3	9.6	12.1
<i>New Liability Benchmark + 2.2% p.a.</i>				0.9	16.9	14.4	13.4
<i>Difference</i>				(3.3)	(13.6)	(4.8)	(1.3)
UK Equity Mandate	143,121	22.9	22.5				
<i>Majedie</i>				(4.1)	(0.2)	11.3	13.7
<i>FTSE All Share + 2% p.a.</i>				(2.1)	(1.2)	12.5	16.1
<i>Difference</i>				(2.0)	1.0	(1.2)	(2.4)
Overseas Equity Mandate	143,807	23.0	22.5				
<i>MFS</i>				(5.1)	(0.9)	10.3	15.5
<i>MFS Custom Benchmark</i>				(4.0)	(2.4)	9.0	14.3
<i>Difference</i>				(1.1)	1.5	1.3	1.2
Dynamic Asset Allocation Mandates	183,089	29.2	30.0				
<i>Barings</i>				(0.9)	2.6	6.9	10.0
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
<i>Difference</i>				(2.1)	(2.4)	2.0	5.2
<i>Ruffer</i>				(2.6)	1.0	4.9	10.4
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
<i>Difference</i>				(3.8)	(4.0)	0.0	5.6
Matching Fund	142,901	22.8	25.0	1.0	13.2	9.7	8.5
<i>Liability Benchmark + 1% p.a.</i>				0.6	15.5	13.2	12.3
<i>Difference</i>				0.4	(2.3)	(3.5)	(3.8)
<i>Goldman Sachs</i>				0.0	1.0	1.3	3.0
<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	3.0	2.9	2.8
<i>Difference</i>				(0.7)	(2.0)	(1.6)	0.2
<i>Legal & General</i>				1.8	23.9	17.2	13.2
<i>L&G Benchmark</i>				0.4	43.4	30.8	23.6
<i>Difference</i>				1.4	(19.5)	(13.6)	(10.4)
Private Equity	13,271	2.1	0.0	(0.3)	10.2	16.3	13.7
<i>Invesco</i>				1.9	21.7	18.2	18.9
<i>Unicapital</i>				(3.2)	(2.7)	13.7	7.1

Notes:

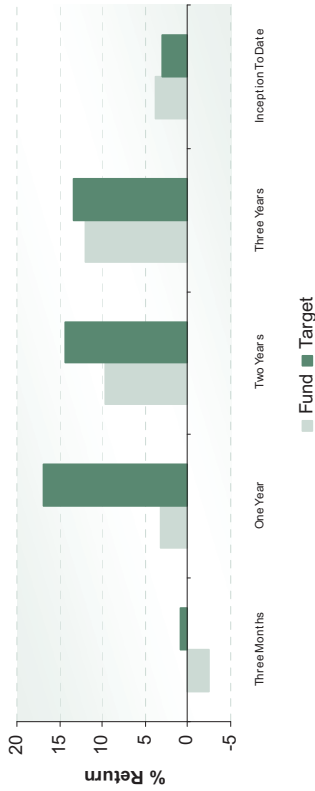
- 1) Over the 3 months to 30 June 2012, 3 Month LIBOR returned 0.2%, over a 12 month period the return was 1.0%.
- 2) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.
- 3) Returns are shown gross of fees throughout.
- 4) Figures may be affected by rounding.

Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 31st March 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2012 £000	% of Total Fund	Target % of Total Fund
Total Fund		641,524	100.0	175	(18,227)	2,616	-	626,189	100.0	100.0
UK Equity Mandate	Majedie	165,495	25.8	(16,000)	(7,628)	1,229	-	143,121	22.9	22.5
Overseas Equity Mandate	MFS	167,829	26.2	(16,000)	(9,097)	1,048	-	143,807	23.0	22.5
Dynamic Asset Allocation Mandates		153,629	23.9	32,000	(2,935)	370	-	183,088	29.2	30.0
	Barings	114,060	17.8	-	(1,077)	28	-	113,029	18.1	18.8
	Ruffer	39,569	6.2	32,000	(1,857)	342	-	70,060	11.2	11.2
Matching Fund		141,441	22.0	-	1,437	0	-	142,901	22.8	25.0
	Goldman Sachs	59,637	9.3	-	8	-	-	59,654	9.5	12.5
	Legal & General	81,804	12.8	-	1,430	0	-	83,246	13.3	12.5
Private Equity		13,131	2.0	175	(5)	(31)	-	13,271	2.1	0.0
	Invesco	7,600	1.2	-	141	0	-	7,742	1.2	0.0
	Unicapital	5,530	0.9	175	(146)	(31)	-	5,529	0.9	0.0

Asset Class Breakdown as at 30 June 2012



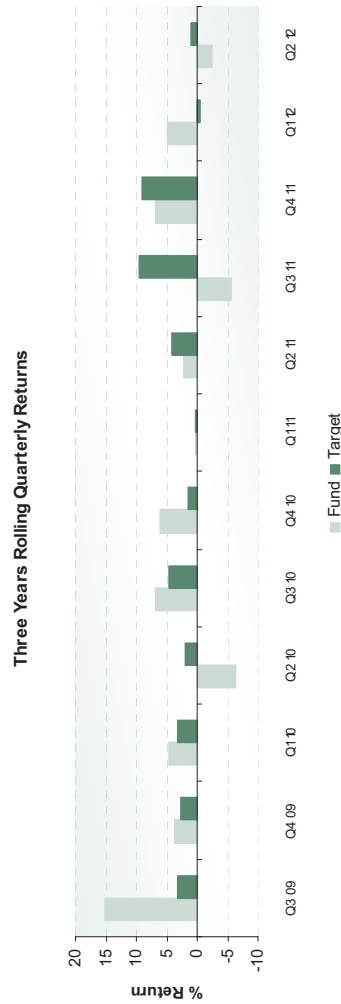
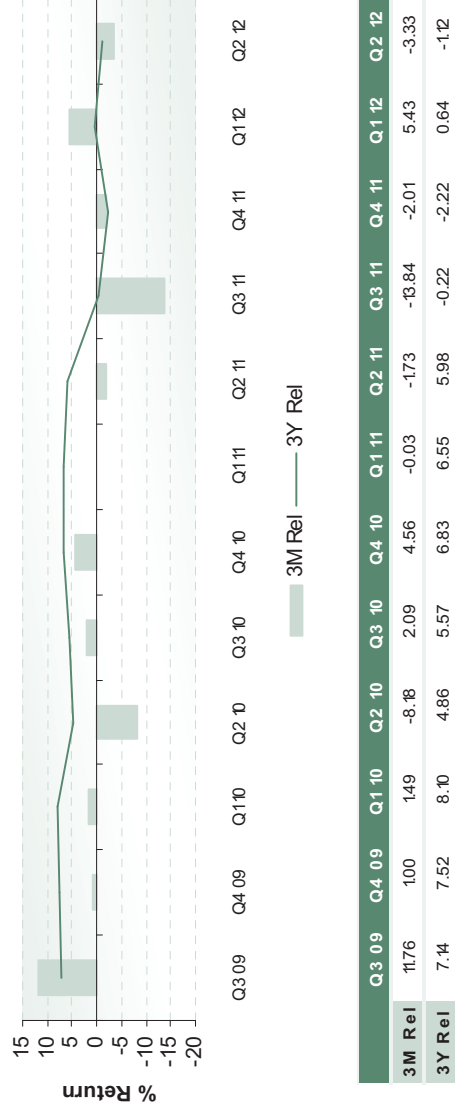
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-2.42	3.26	9.62	12.08	3.74
Target	0.94	16.89	14.39	13.35	3.02

The Fund underperformed its liability benchmark by 3.36% over the quarter, returning -2.42% compared to the target of 0.94%. Continued volatility in equity markets combined with falling gilt yields caused this underperformance. The Fund's performance of 3.36% over the year was behind its target by 13.63%, as it suffered from the underperformance of on-risk assets over the third quarter of 2011 and this quarter. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

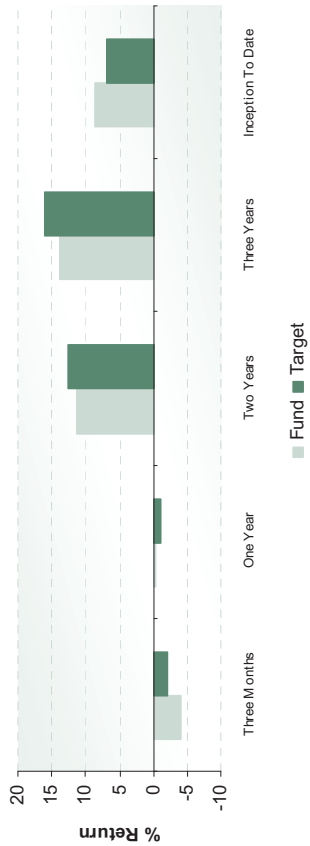
Three Years Rolling Relative Returns



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. Returns are gross of fees.

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.

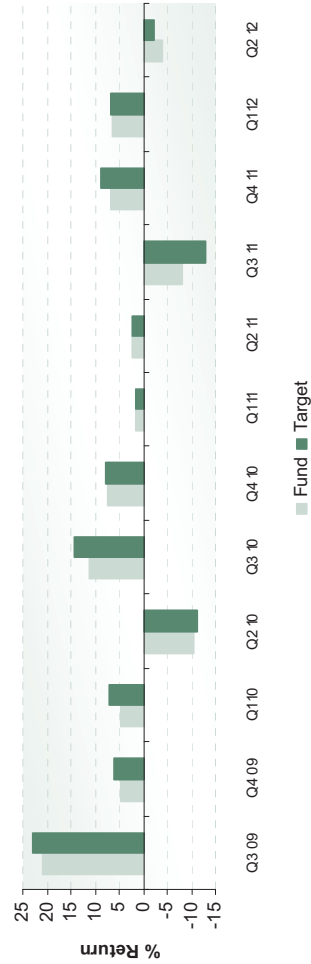
Historical Plan Performance



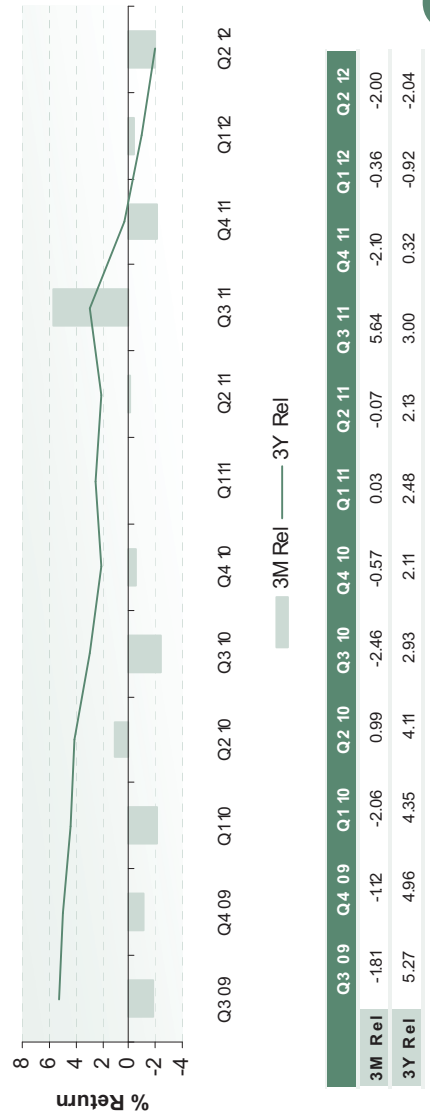
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -4.10% over the quarter, 1.96% behind its target. Over 12 months, the portfolio was 0.96% ahead of its target. The portfolio's long position in Nokia, who continued to post disappointing results, and long position in Barclays, who were fined for their part in the LIBOR manipulation scandal, harmed performance. However, the portfolios positions in Carnival and Petrofac aided the overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

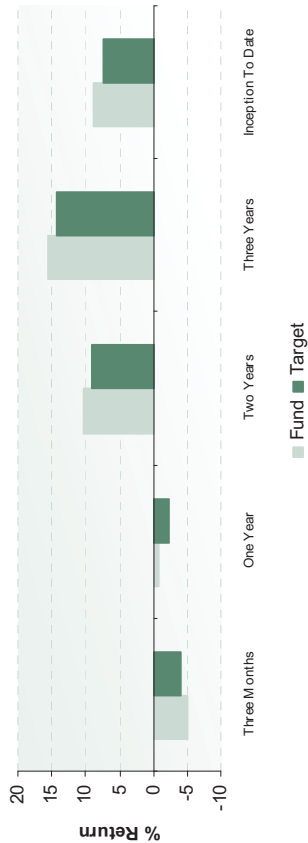


Three Years Rolling Relative Returns



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

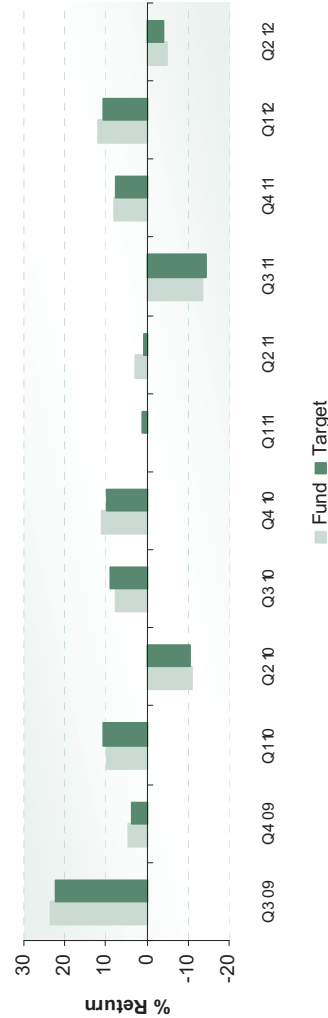
Historical Plan Performance



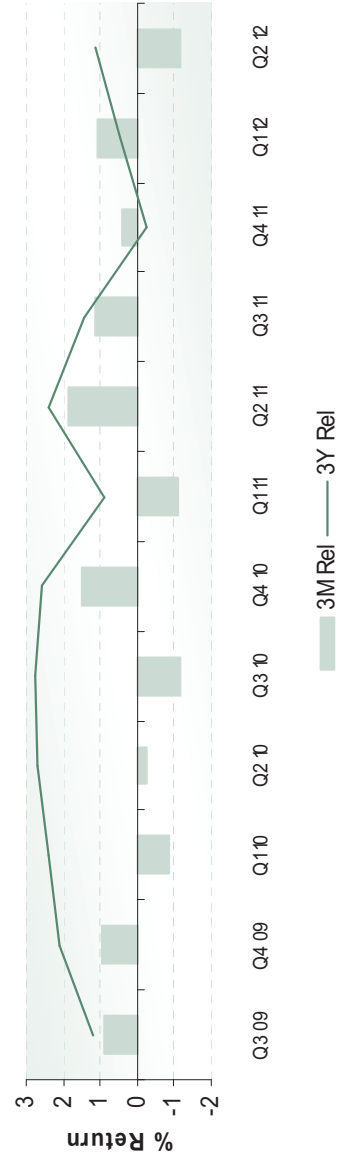
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was -5.08%, 1.11% behind the target. Over 12 months, the fund was 1.42% ahead of its target. Stock selection in energy, basic materials and technology aided performance. Additionally an underweight position in energy and individual stock holdings in Colgate-Palmolive, Inditex, Perno Ricard, Visa and not holding QUALCOMM. However, stock selection in financial services, retailing and transportation was detrimental to performance. Individual holdings of Sensata Technologies, Check Point Software Technologies, Coca-Cola and the funds exposure to the Euro also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

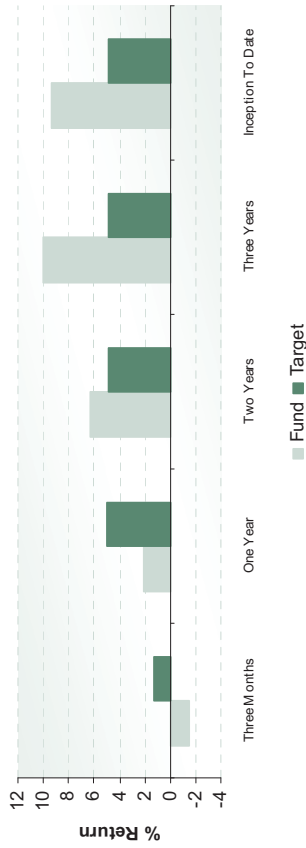


Three Years Rolling Relative Returns



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

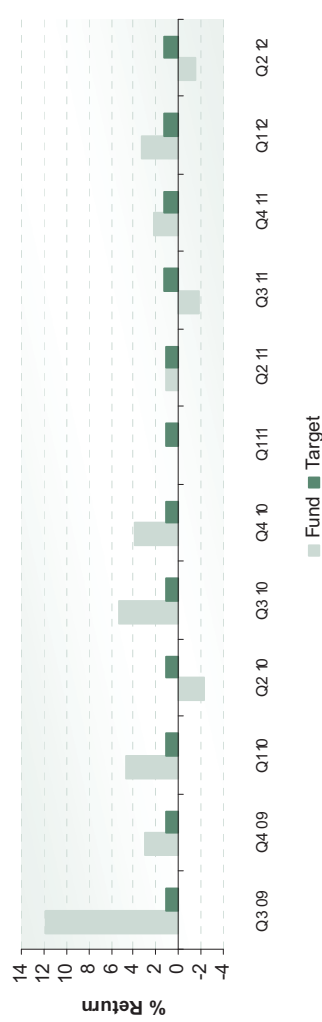
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-1.44	2.05	6.32	10.05	9.33
Target	1.23	5.03	4.91	4.84	4.89

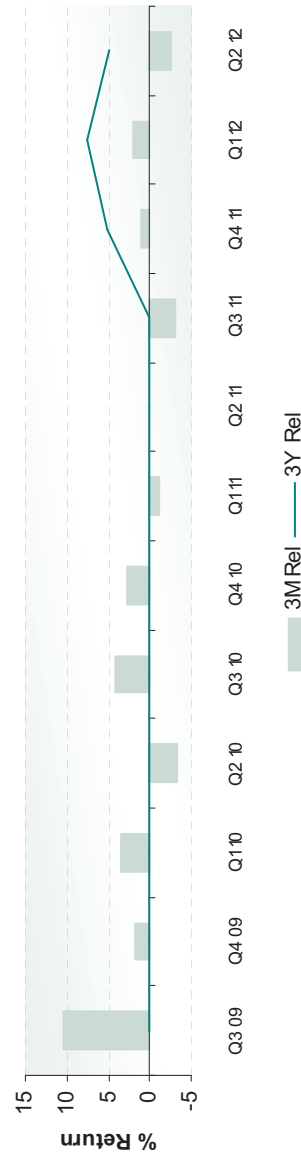
The performance of the group over the quarter was -1.44%, the LIBOR-based target returned 1.23%. The increased exposure of Ruffer to equities resulted in it suffering larger losses than the Barings fund over the period. Over the past 12 months, performance has been 2.98% below target, as both managers have underperformed the target.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.8	-1.86	2.16	3.27	-1.44
Target	1.19	1.14	1.44	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23

Three Years Rolling Relative Returns

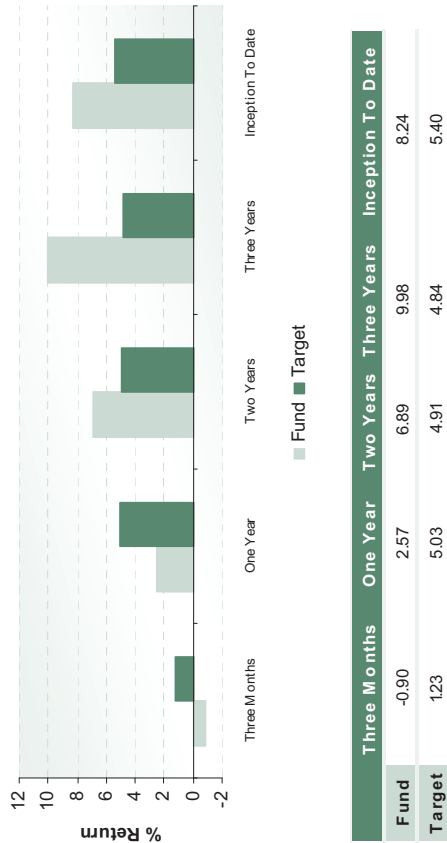


	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64
3Y Rel	-	-	-	-	-	-	-	-	-	5.10	7.54	4.97

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.

They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU

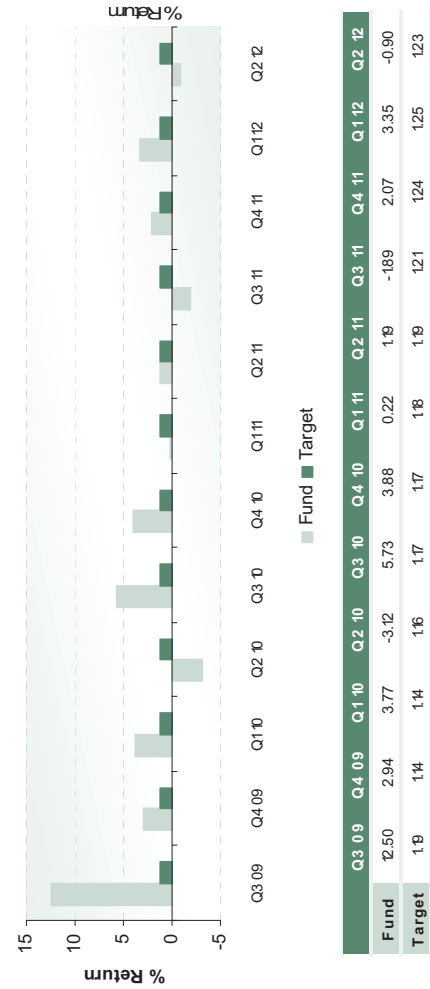
Historical Plan Performance



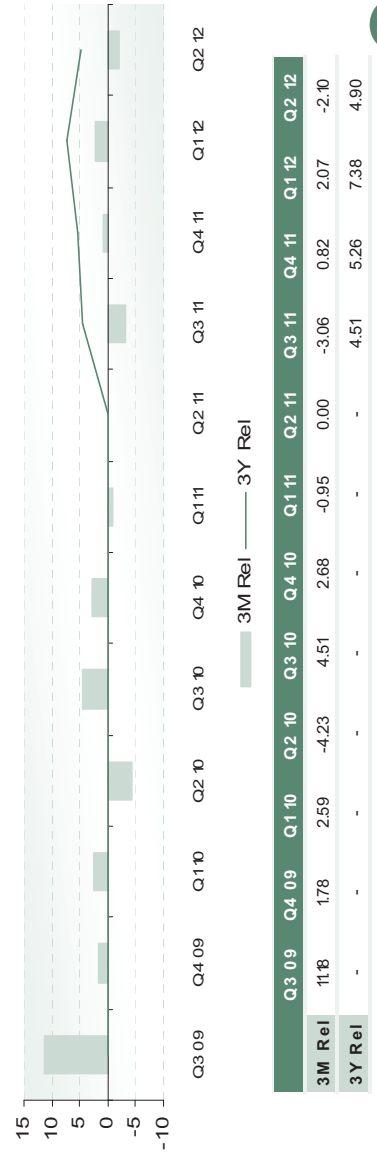
Quarterly Manager update

Organisation	Baring Asset Management has appointed Eric Poon as regional head of its institutional business for Asia ex-Japan, and Alexander Garton as a director in client services and relationship development.
Product	No significant changes over the quarter.
Performance	The fund performance was -0.90% over the quarter, 2.13% behind its target. Over 12 months, the fund is 2.46% below target. The largest detractor in performance came from the UK equity holdings, however the fund did move to reduce its equity holding to protect value. The largest positive contribution came from non-UK government bonds with US 30 year bonds the single largest contributor.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

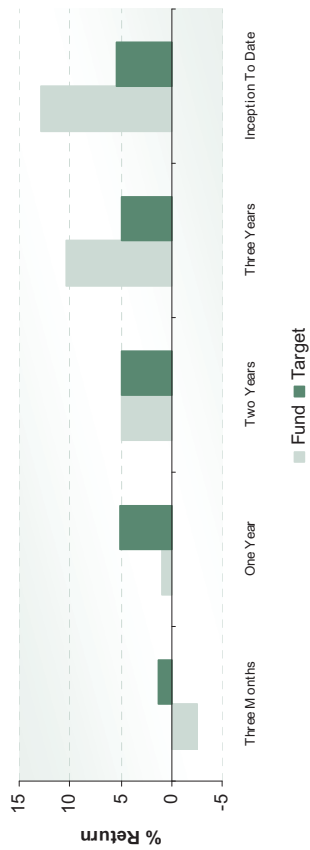


Three Years Rolling Relative Returns



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

Historical Plan Performance

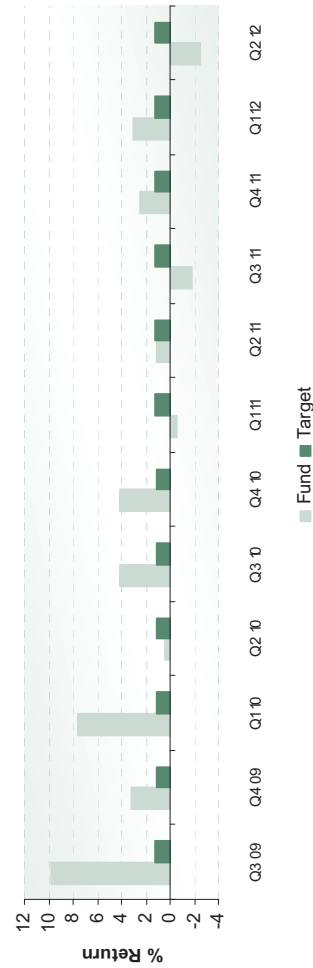


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-2.55	10.1	4.91	10.44	12.93
Target	1.23	5.03	4.91	4.84	5.40

Quarterly Manager update

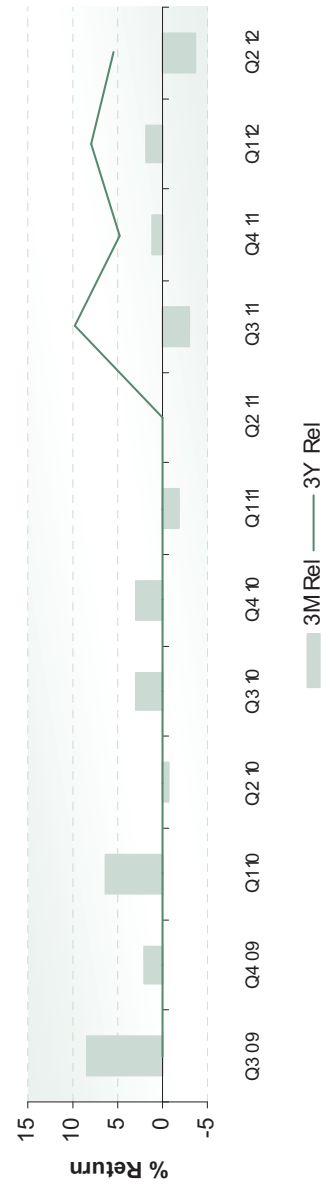
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -2.55% over the quarter, 3.78% behind its target. Over 12 months, the fund was 4.02% below the target. The portfolio made losses from an increased exposure to equities, particularly its holding in JP Morgan which fell on the back of \$2bn trading losses revealed in May. However, the portfolio was able to limit losses by its stock selection policies and bias towards resilient companies who display sound balance sheets and a strong cash-flow history.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



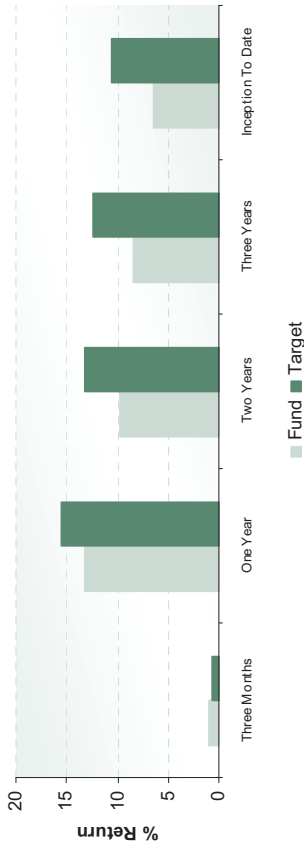
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	9.81	3.2	7.64	0.41	4.3	4.11	-0.61	1.3	-1.80	2.44	3.04	-2.55
Target	1.9	1.4	1.4	1.6	1.7	1.7	1.8	1.9	1.21	1.24	1.25	1.23

Three Years Rolling Relative Returns



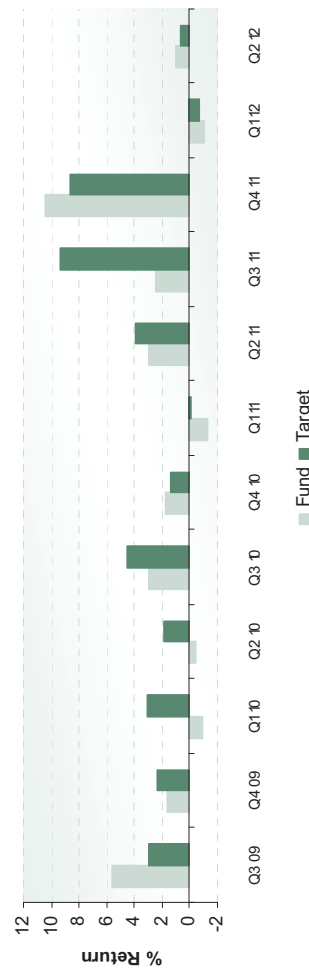
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	8.52	1.96	6.42	-0.74	2.93	2.91	-0.06	-2.97	1.9	4.86	1.77	-3.73
3Y Rel	-	-	-	-	-	-	-	-	9.79	8.01	8.01	5.34

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	103	13.16	9.72	8.45	6.38
Target	0.64	15.54	13.24	12.32	10.61

Three Years Rolling Quarterly Returns

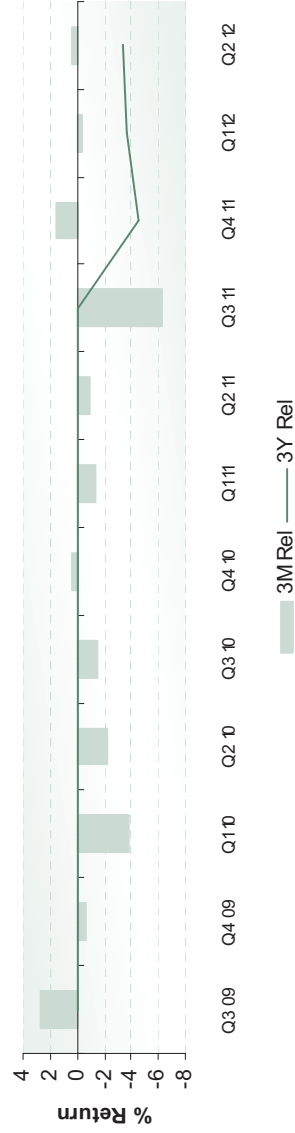


	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-10.4	103
Target	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64

During the first quarter of the year LGIM implemented a new Matching Fund solution for the Fund, the solution has created a bespoke mandate within the confines of a pooled fund. This now allows the Fund access to use a broad toolkit of matching assets as appropriate for prevailing market conditions. It aims to enhance the ability to manage risk whilst also allowing for a slightly higher return from the matching assets.

The performance of the Matching Fund over the quarter of 1.03% was 0.39% ahead of its gifts-based liability benchmark. The Matching Fund return of 13.16% over the year was 2.38% below target.

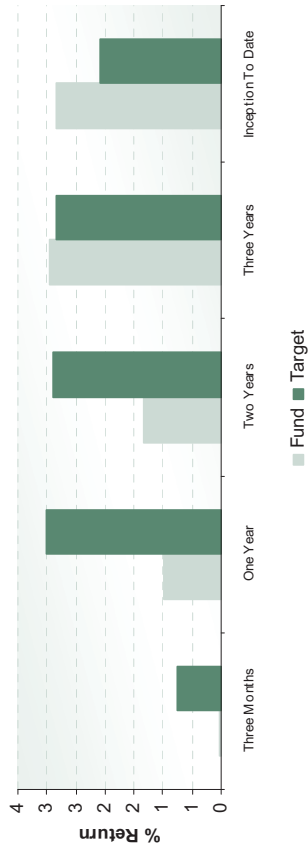
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39
3Y Rel	-	-	-	-	-	-	-	-	-	-4.47	-3.64	-3.45

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 managed an active bond fund.

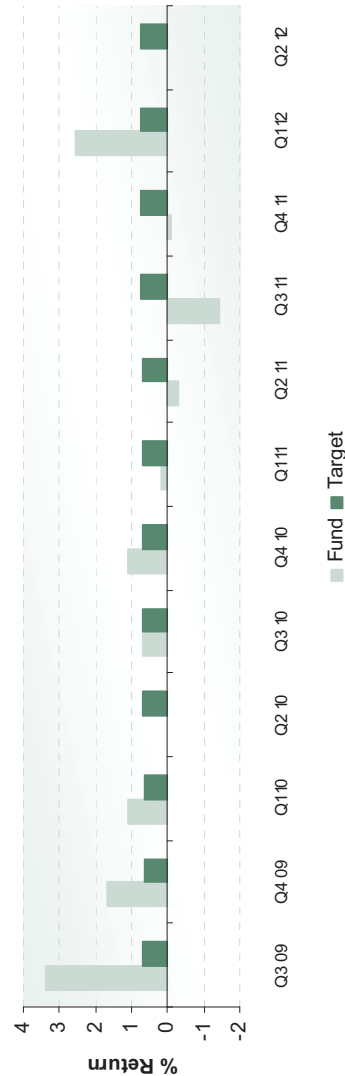
Historical Plan Performance



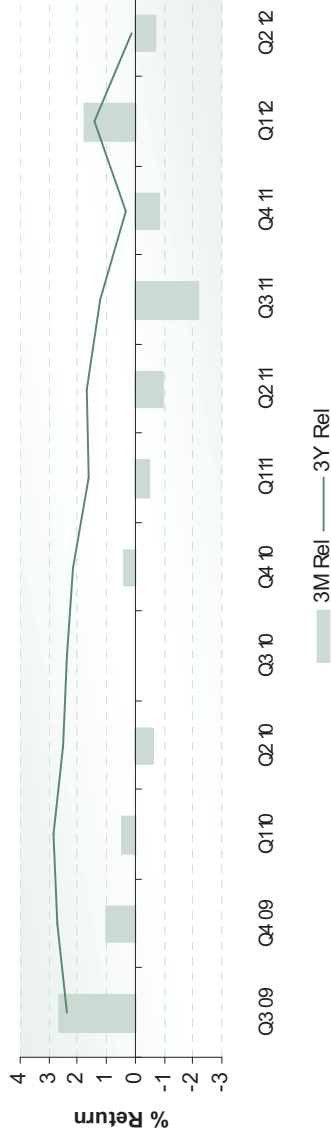
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.03% over the quarter, 0.71% behind its target. Over 12 months, performance was 2.03% below the target. The underperformance was led predominantly by the funds duration and government/agency selection strategies. However, the emerging market debt selection strategy did aid performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns

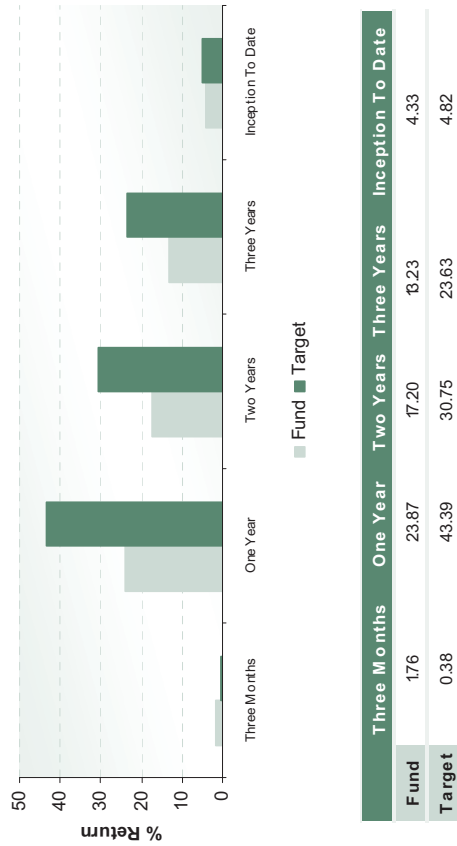


	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74
Target	3.36	1.66	1.00	0.03	0.88	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03

	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70
3Y Rel	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12

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 the first quarter of 2012, although performance has been blended with the previous holding in the LGIM 2055 Index-Linked Gilt Fund.

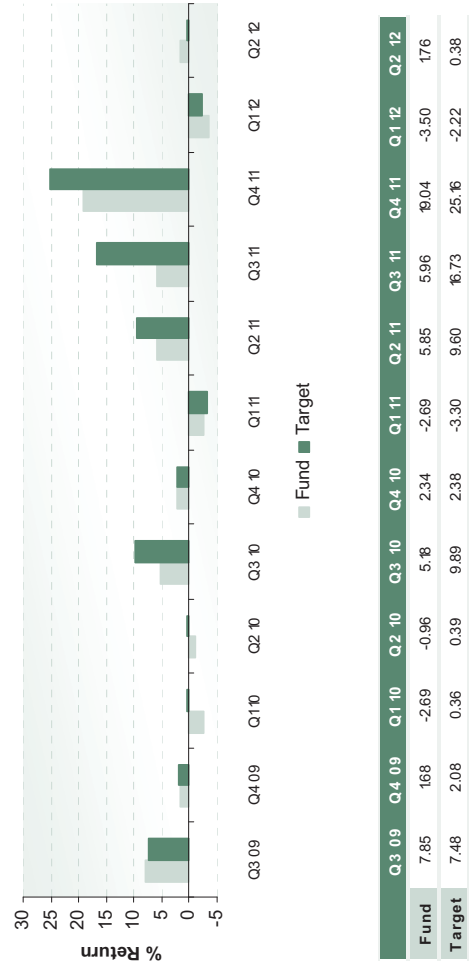
Historical Plan Performance



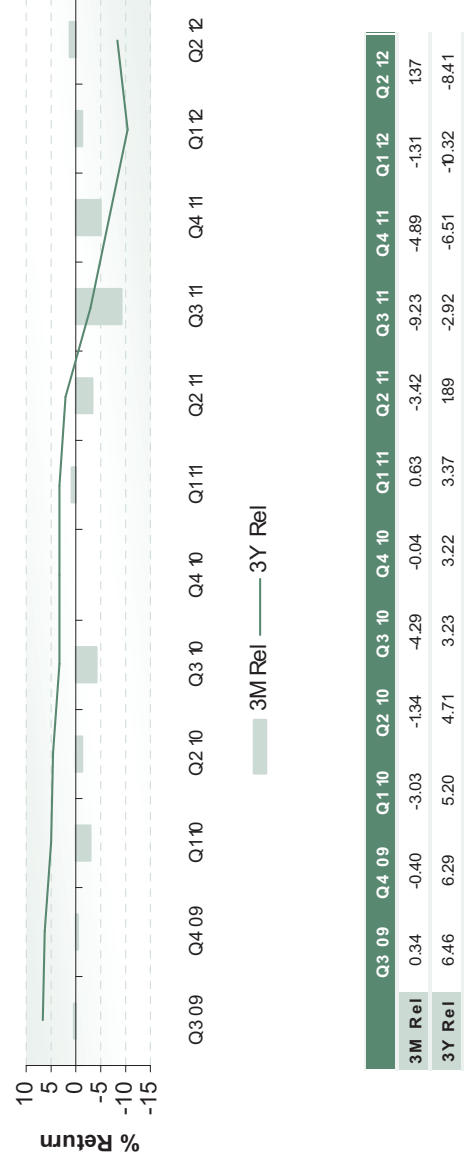
Quarterly Manager update

Organisation	Legal & General has appointed Nigel Wilson as its next group chief executive. Wilson joined as group chief financial officer in 2009, and will work in an interim basis immediately until he takes over from Tim Breedon in June. Breedon will step down as a board member, but will remain in an advisory role until 31 December 2012.
Product	No significant changes over the quarter.
Performance	The fund performance was 1.76% over the quarter, 1.38% ahead of its new bespoke target. Over 12 months, performance was 19.52% behind the new target.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



Following a positive start to the year, investor sentiment deteriorated over the second quarter of 2012. As the effects of the European Central Bank's (ECB) Long Term Refinancing Operation (LTRO) waned, appetite for risk fell and consequently, equity markets also suffered.

There were further woes in the Eurozone, with the spotlight on Spain, and to a lesser extent Italy, whilst the possibility of a Greek exit raised concerns. The newly elected pro-bailout party in Greece made an imminent exit unlikely. However, they announced that they were seeking concessions over the austerity measures demanded by the European Union (EU) and the International Monetary Fund (IMF), which may jeopardise future loan tranches.

Late in the quarter, the EU summit concluded with a deal whereby the Eurozone's rescue funds were allowed to recapitalise Spanish banks and to buy sovereign bonds in the market and was the catalyst for the Euro's largest daily gain in 8 months, and a subsequent fall in Spanish and Italian Government Bond yields.

The much feared UK double dip recession was confirmed in April, and much of the media focus towards the end of quarter in the UK was dominated by the Barclays interest rate manipulation story. Meanwhile, there was some encouraging news however, with the ONS announcing the number of people out of work fell by 65,000 to 2.58 million in the three months to May; this translated to an unemployment rate of 8.1%, down from 8.3% in the previous quarter.

The progress of equities was largely event driven, with the newly elected Greek government, Spanish banking bailout and Chinese slowdown being the focal points of investor contention. The first two months of the quarter proved to be the most costly for risk assets and investors sought the relative safety of gilts; consequently UK gilt yields were comparable to all time lows.

Looking at the annual returns, all UK debt sectors posted positive returns, the UK Gilts All Stocks Index returned 15.9%. The FTSE 100 had a difficult quarter, losing 2.3% and was in negative territory over the year, returning -2.7%. The Bank of England (BoE) decided against a further round of quantitative easing (QE).

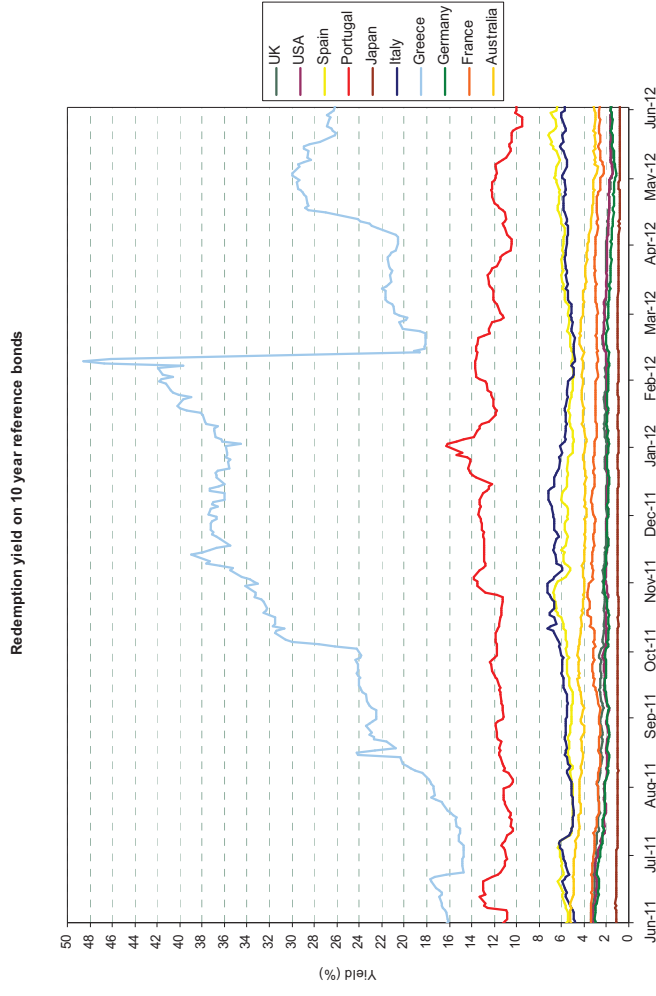


Figure 1 – Redemption Yields on 10 year Government bonds

Economic data from the US was mixed, with growth continuing but at a slower pace. The US economy continued to shield itself from the continued problems in the Eurozone with the Federal Open Market Committee (FOMC) voting to extend its programme known as Operation Twist, under which the US central bank sells short term securities (specifically those with durations of less than 3 years) and uses the proceeds to buy long-term securities (those with maturities of 6 to 30 years), thereby putting downward pressure on longer term-interest rates.

Looking at individual US sector performance, government and agency debt sectors posted positive returns making up at least some of the losses from the first 3 months of the year. The stock markets struggled however, the S&P 500 lost 2.8% over the quarter as the US government also announced a downgrade of their GDP estimate.

The Eurozone problems showed no sign of abating, with activity at European businesses hit a near three-year low in May according to a survey by Markit. Its index, based on a survey of purchasing managers in the manufacturing and service sector, fell to a 35 month low in May. In response, the euro fell to a 22 month low.

There didn't appear to be any more clarity regarding the political response either. A change in leadership in France with the presidency going to Francois Hollande and talk of a possible Greek exit from the Eurozone added to the uncertainty.

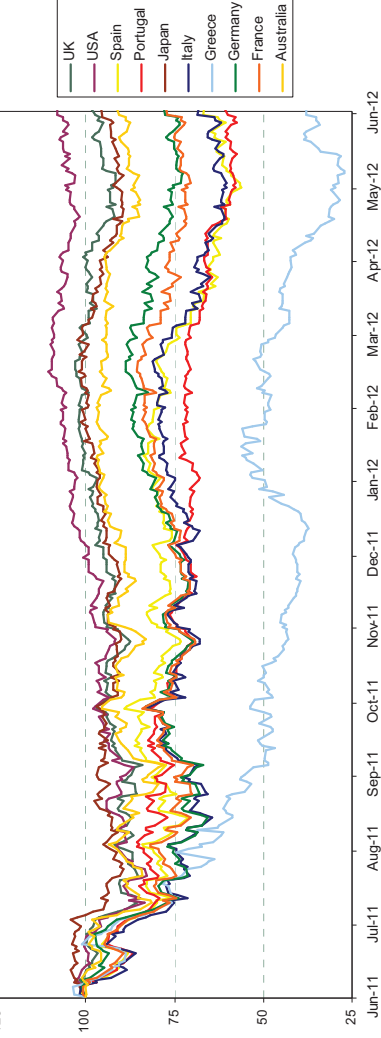
Towards the end of the quarter, the ECB was able to somewhat ease near-term pressures on sovereign bond markets with authorities agreeing in principle to allow the Eurozone rescue funds to recapitalise banks directly. This eased the pressure on peripheral governments.

economic indicator of China's industrial activity, fell to a seven-month low of 48.1 in June.

The Japanese equity market fell over the quarter. The Policy Board of the Bank of Japan voted to leave interest rates at near zero levels, and commented that whilst the economy had shown signs of picking up it had remained stagnant over the quarter. The FTSE World Japan Equity Index posted a return of -5.5% and -4.8% over the quarter and year respectively.

The FTSE All-World Emerging Market Index returned -5.9% and -14.3% over the quarter and year respectively and underperformed the FTSE All-World Index as emerging market countries were affected by a "risk-off" trade early in the quarter and local currency weakness.

Elsewhere, Latin American emerging market countries underperformed relative to other emerging market countries.



Source: Datastream.

Figure 2 – Cumulative GBP return of FTSE World Indices

Along with the continuing Eurozone debt crisis, uncertainty surrounding the US macroeconomic data and perceived potential slowdown in US recovery caused Asian equity markets to fall over the quarter.

There was also a suggestion that there has been a slowdown in the Chinese economy. The HSBC Purchasing Managers Index, the earliest monthly

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

IMPORTANT INFORMATION

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AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 SEPTEMBER 2012

CONTRIBUTORS

DCFG

TREASURY MANAGEMENT OUTTURN 2011-12

This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31st March 2012

Wards

All

RECOMMENDATIONS:

- 1) To note that the Council has not undertaken any borrowing for the period 1st April 2011 to 31st March 2012.
- 2) To note the investment activity for the period 1st April 2011 to 31st March 2012.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report presents the Council's Annual Treasury Report for 2011/12 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to the Committee by 30th September each year.
- 1.2 There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Council's borrowing and cash investments to the investment of surplus cash balances. This report covers:
- The treasury position as at 31st March 2012
 - The UK economy and interest rates
 - Investment strategy and outturn for 2011/12
 - The borrowing strategy and outturn for 2011/12
 - Compliance with treasury limits and prudential indicators
- 1.3 The borrowing amounts outstanding and cash investment for the relevant periods are as follows:

Table 1 – Balances

	31/03/12	31/03/11	31/03/10
	£'000	£'000	£'000
Total borrowing	262,166	475,520	475,520
Total cash balances	109,300	70,000	137,000

2. TREASURY POSITION AS AT 31st MARCH 2012

2.1 Investments

The table below provides a breakdown of the cash deposits, together with comparisons from the previous year.

Table 2 – Investments

Investment Type	31 March 2012	31 March 2011
	£000's	£000's
Call Account	18,800	30,000
Term Deposits	69,500	10,400
Money Market Funds	21,000	30,000
Total	109,300	70,400

- 2.2 The Council had invested in four money markets funds during 2011-12 Prime Rate, Goldman Sachs, Insight and Blackrock producing returns ranging from 0.55 to 0.96%, all are AAA rated.
- 2.3 The term deposits ranged from overnight to 1 year. The weighted average interest rate of return on the investments over the year was 1.18%.

3. BORROWING

3.1 Treasury Borrowing

No new borrowing was undertaken during the year. PWLB debt maturing during the year, which was not refinanced, totalled £16 million, with an average nominal interest rate of 9.84%. This resulted in a reduction in the average PWLB borrowing rate from 5.70% to 5.61%.

3.2 An analysis of movements on loans during the period is shown below:

Table 3 – Movement on loans

	Balance 31.03.11 £000s	Loans/Invs Raised £000s	Loans/Invs Repaid £000s	Balance 31.03.12 £000s
PWLB	475,520	0	(16,000)	
PWLB HRA settlement			(197,354)	
Total debt	<u>475,520</u>	<u>0</u>	<u>(213,354)</u>	<u>262,166</u>

Table 4 – Outstanding Debt

	31 March 2011		31 March 2012	
	Principal	Average Rate	Principal	Average Rate
	£000's		£000's	
PWLB General Fund	60,993		44,785	
PWLB HRA	414,527		217,381	
Total	475,520	5.70%	262,166	5.61%

3.3 The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and consequently all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council received, at the end of the year, a repayment of debt by the Department of Communities and Local Government of £197.35 million (which resulted in a corresponding decrease in its HRA CFR). The CLG has also paid the premium (breakage costs) of £53.99 million.

Table 5 – Capital Financing Requirement (CFR)

	31 March 2011 Actual £'000	31 March 2012 Budget £'000	31 March 2012 Actual £'000
CFR General Fund	121,768	111,679	99,684
CFR HRA	414,527	217,427	217,381
Total CFR	536,295	329,106	317,065

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

4. THE ECONOMY AND INTEREST RATES

- 4.1 **Sovereign debt crisis.** 2011-12 was the year when financial markets were apprehensive, fearful of the potential of another Lehman's type financial crisis, prompted by a precipitous Greek Government debt default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.
- 4.2 A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below unsustainable levels. The final aspects in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a "haircut" (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.
- 4.3 Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece but also in other EU countries with major debt imbalances. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the new Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

- 4.4 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.
- 4.5 **UK growth** proved mixed over the year. In quarter 2, GDP growth was zero, from the major western central banks: the US economy was flat but then quarter 3 surprised with a return to robust growth of 0.6% q/q before moving back into negative territory (-0.3%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and a third dose of quantitative easing to boost growth.
- 4.6 **UK CPI inflation** started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT increase from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, finishing at 3.5% in March. Inflation is forecast to be on a downward trend to below 2% over the next year.
- 4.7 The Monetary Policy Committee agreed an increase in quantitative easing (QE) of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.
- 4.8 **Gilt yields** fell with the **Bank Rate** unchanged at 0.5% throughout the year. Expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. Deposit rates picked up in the second half of the year as competition for cash increased among banks.
- 4.9 **Risk premiums** were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

5. INVESTMENT STRATEGY AND OUTTURN FOR 2011/12

- 5.1 The investment strategy for 2011/12 was to place cash investments with certain institutions as set out in the Treasury Management Strategy, to

focus on the security and liquidity of the investments rather than to seek yield. Where security and liquidity criteria could be satisfied, investments would then be placed taking yield into account.

- 5.2 The investments outstanding at 31st March 2012 amounted to £109.3 million: £18.8 million was invested in NatWest Call Account, £21 million invested in 3 money Market Funds, £10 million with a Local Authority and £59.5 million invested in short term deposits.

Table 3 – Investment Portfolio as at 31st March 2012

Deposit	Counterparty	£'000
Call Account	NatWest	18,800
Money Market Funds	Goldman Sachs	1,000
	Insight	10,000
	Primerate	10,000
Term Deposits	DMADF	4,500
	LloydsTSB	35,000
	NatWest	15,000
	Birmingham City Council	10,000
	Barclays Bank	5,000

- 5.3 Interest earnings for 2011/12 were £1.20 million compared to £1.19 million for 2010/11.

- 5.4 An analysis of movements on investments during 2011/12 is shown below.

Table 6 – Movement on Investments

	Balance 31.03.11 £000s	Loans/Invs Raised £000s	Loans/Invs Repaid £000s	Balance 31.03.12 £000s
Investments	70,400	1,021,600	(982,700)	109,300

6. BORROWING STRATEGY AND OUTTURN 2011/12

- 6.1 The treasury strategy for 2011-12, approved by the Council on 28th February 2011, was based on the expectation that base rate, whilst remaining low, would rise gradually from the fourth quarter of 2011 with

similar gradual rises in medium and longer term fixed interest rates over 2011-12. Continued uncertainty in the aftermath of the 2008 financial crisis led to a continuation of a cautious approach for investments with low counterparty risk the main consideration, resulting in relatively low returns compared to borrowing rates.

- 6.2 Due to the level of cash balances held by the Council of £70.4 million at 31st March 2011, it was anticipated that there would not be any need to borrow during 2011/12.
- 6.3 An analysis of the Council's long term (PWLB) borrowings by maturity (i.e. date of repayment) is as follows:

Table 7 – PWLB Debt by maturity

PWLB	31 March 2011 £000s	31 March 2012 £000s
Up to One year	16,000	100
One to two years	175	11,556
Between two and five years	52,881	18,614
Between five and ten years	70,400	40,164
More than ten years	<u>336,064</u>	<u>191,732</u>
Total	<u>475,520</u>	<u>262,166</u>

7. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

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

Table 8 – Authorised Limit and Operational Boundary 11/12

External debt indicator	Approved limit (£m)	Actual borrowing	Days exceeded
Authorised limit ¹	364		
Operational boundary ²	303	262	None

¹ Authorised limit for external debt is the limit above which external debt must not go without changing Council Policy

² Operational boundary for external debt is the limit against which external debt will be constantly monitored.

Table 9 – Maturity Structure of Borrowing

Maturity structure of borrowing	Lower Limits (%)	Upper Limits (%)	Actual at 31st March 2012 (%)
Under 12 months	0	15	0.04
1-2 years	0	15	4.41
2-5 years	0	60	9.80
5-10 years	0	75	12.62
10 years and over	0	100	73.13

Table 10 – Limits on interest rate exposure

Upper limits on interest rate exposure	Approved maximum limit	Actuals as at 31st March 2012
Debt		
Fixed interest rate exposures	330,000	262,166
Variable interest rate exposures	66,000	0

8. Comments of the Executive Director of Finance and Corporate Governance

The comments of the Executive Director of Finance and Corporate Governance are contained within this report.

9. Comments of the Director of Legal and Democratic Services

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

10. Recommendations

To note the borrowing and investment activity for the period 1st April 2011 to 31st March 2012.

LOCAL GOVERNMENT ACT 2000 - BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Loans and Investments Ledger	Rosie Watson Ext: 2563	Westminster City Hall, Treasury and Pensions Team 16 th Floor
2.	CIPFA Treasury Management Code of Practice	Rosie Watson Ext: 2563	Westminster City Hall, Treasury and Pensions Team, 16 th Floor



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

FCS
All Departments

**London Borough of Hammersmith and Fulham
Statement of Accounts, including Pension
Fund for 2011/12**

**WARDS
All**

Summary

This report gives a brief review of the Council's annual Statement of Accounts and the Council's Pension Fund Accounts for 2011/12. It also provides an overview of the recommendations arising from the audit of the accounts prior to the publication of the Audit Commission's formal opinion on those accounts. The Audit Commission's Annual Governance Reports 2011/12 are attached as appendices, along with the Statement of Accounts for approval.

Recommendations

The Committee is asked to;

1. To note the content of the Auditor's Annual Governance Reports stating that the accounts will receive an unqualified opinion, are free from material misstatements, that the Council has an adequate internal control environment and has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
2. To note the Council's response to the Annual Governance Reports (AGR),
3. To approve the management representation letter (as included with the AGR).
4. To approve the Statement of Accounts for 2011/12.

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1. Introduction

- 1.1 In accordance with the Accounts and Audit Regulations 2011, the Council's audited year end Statement of Accounts must be approved by the Audit, Pensions and Standards Committee and published before the end of September.
- 1.2 The Audit Commission is required to report the findings from their audit in an Annual Governance Report to the Audit, Pensions and Standards Committee before their opinion on the accounts is issued.
- 1.3 The Audit Commission's Annual Governance Report (AGR) for Hammersmith and Fulham 2011/12 Audit is attached to this report (Appendix 2). It sets out the Audit Commission's findings from this year's audit relating to two main areas:
 - Financial Statements
 - Value for Money
- 1.4 This report gives a brief overview of the key points arising from the Statement of Accounts and summarises the issues included in the Annual Governance Report, and sets out the Council's response to the recommendations made therein. Attached as Appendix 1 is the Statement of Accounts for approval by the Audit, Pensions and Standards Committee.
- 1.5 The Audit Commission produce a separate Annual Governance Report for the Pension Fund (Appendix 3). This is discussed in paragraph 5 of this report.

2. Statement of Accounts 2011/12

- 2.1 2011/12 is the second year that the Statement of Accounts have been produced in accordance with International Financial Reporting Standards (IFRS).
- 2.2 The Explanatory Foreword which starts on Page 8 of the Statement of Accounts gives an outline of the Council's financial activity during 2011/12. In summary the key points are:
 - A General Fund revenue account under-spend of £6.9m reflecting 1% net under-spending by departments after agreed carry forwards of budgets to 2012/13 of £3.4m.
 - A General Fund balance of £17.4m. Please note that the latest assessment of financial risks facing the Council is over £20m in 2013/14.
 - A Housing Revenue Account (HRA) surplus of £1.9m for the year, increasing its working balance by the same amount to £5.0m.
 - Earmarked reserves at 31 March 2012 of £52.4m (compared to £42.4m at 31 March 2011).
 - On 28 March 2012, as part of the national transition to HRA self-financing, the Government cancelled £197.4m of the Council's loans within the HRA.

- A stable balance sheet. Total net assets have increased, but this is substantially due to the cancellation of £197.5m of debt within the HRA under HRA reform, partially offset by an increased 'actuarial' pension liability of £95m (a figure which has, historically, been markedly volatile).
- Actual Capital expenditure of £64.3m.

Further details on the financial performance of all these elements can be found within the Statement of Accounts.

3. Annual Governance Report

- 3.1 The Annual Governance Report (Appendix 2) summarises the findings from the Audit Commission's 2011/12 audit. The District Auditor states that he plans to issue an unqualified opinion on the audit statement. The auditor is required to identify specific risks and areas of judgment that he considered as part of the audit. The risks and the auditor's findings are listed on pages 6 and 7 of the AGR. The areas for improvements that the audit has found are identified on pages 8 and 9 together with the auditor's recommendations. All the recommendations together with the Council's comments are brought together in Appendix 4 of the AGR.
- 3.2 There were some amendments required to the original draft statement of accounts and these have been agreed with the auditor and incorporated in the Statement of Accounts attached as Appendix 1 to this report.
- 3.3 The District Auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end Members are asked to consider and approve the draft letter of representation included as Appendix 2 within the AGR.

4. Value for Money

- 4.1 The District Auditor intends to issue an unqualified conclusion stating that the Council has proper arrangements to secure value for money. The auditor's conclusion criteria and findings are listed on pages 10 and 11 of the AGR. There is one recommended area of improvement, which is included, together with the Council's comments, in Appendix 4 of the AGR.

5. Pension Fund Annual Governance Report

- 5.1 The Audit Commission is obliged to submit a separate Annual Governance Report for the Pension Fund. This is attached as Appendix 3. The District Auditor states he intends to issue an unqualified opinion. All non-trivial errors identified during the audit have been corrected, and there are no adjusted errors of significance to report. The auditor has made no recommendations in relation to the Pension Fund accounts. The Pension Fund accounts are included in the overall Statement of Accounts from Page 89 onwards.

6 List of Appendices

Appendix 1 – Annual Statement of Accounts (including Pension Fund)

Appendix 2 – Audit Commission Annual Governance Report (Main Financial Statements)

Appendix 3 – Audit Commission Annual Governance Report (Pension Fund)

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of Holder of File/Copy	Department/Location
1.	LBHF Statement of Accounts 2011/12 Code of Practice on Local Authority Accounting 2011	Christopher Harris Ext 6440	Corporate Finance Floor 2, Hammersmith Town Hall Extension

STATEMENT OF ACCOUNTS

2011/12

Hammersmith & Fulham Council

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAMMERSMITH & FULHAM

Opinion on the Authority financial statements

I have audited the financial statements of London Borough of Hammersmith & Fulham for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board'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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 financial position of London Borough of Hammersmith & Fulham as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board'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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Jon Hayes
District Auditor

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

28 September 2012

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

I confirm that these accounts were approved by the
Audit and Pensions Committee on 27 September 2012

Councillor Michael Adam
27nd September 2012

STATEMENT OF ACCOUNTS CONTENTS

The Council's Statement of Accounts for the Year Ended 31 March 2012 is set out on the following pages.

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FOREWORD

INTRODUCTION

- 1 The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2011-12 and its Balance Sheet at 31 March 2012. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund.
- 2 The Statement of Accounts comprises 'key' financial statements, explanatory notes and supplementary financial statements:

The **Movement in Reserves Statement (MiRS)** is a summary of the changes to the Council's reserves during the course of the financial year. The reserves represent the Council's net worth and are analogous to the equity of a private company. Reserves are divided into 'usable' and 'unusable' reserves. Usable reserves can be used to fund expenditure or reduce the council tax; unusable reserves cannot.

The **Comprehensive Income and Expenditure Statement (CIES)** reports all of the Council's gains and losses during the financial year. The CIES is prepared in accordance with International Financial Reporting Standards and the detail will therefore differ from the Council's management accounts and revenue budgets. However, the Council's financial position i.e. the working balance and usable reserves, will be the same.

The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2012. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

The **Cash Flow Statement** shows the changes to the Council's cash and 'cash equivalents' during the financial year. Cash equivalents are assets that can be readily converted into cash and have a low likelihood of a change in value. The statement shows cash flows from: 'operating' activities, which are the cash flows from the Council's services; 'investing' activities, which are the cash flows from the Council's capital investment, investments and asset sales; and 'financing' activities, which are primarily the cash flows relating to the Council's borrowings.

The **Notes** provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that helps interpretation and understanding of the key financial statements and accounts.

The **Supplementary Financial Statements** include:

The **Housing Revenue Account** shows the income and expenditure relating to the provision of housing and associated services to the council tenants and leaseholders and includes the Statement of Movement on the HRA Fund Balance. This reflects the statutory obligation of the council to account separately for the cost of its activities as a landlord in the provision of council housing.

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

The **Pension Fund Account** sets out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31st March 2012 (Net Assets Statement).

3 The Annual Governance Statement is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the council and the governance arrangements of the Council.

4 The outturn for 2011-12 includes

- a General Fund under-spend of £6.9 million after departmental carry forwards of £3.4 million;
- General Fund and earmarked reserves at 31 March 2012 of £69 million (compared to £58 million at 31 March 2011); and
- a stable balance sheet. Total net assets have increased, but this is substantially due to the cancellation of £197.5m of debt within the HRA under HRA reform, partially offset by an increased 'actuarial' pension liability of £95m (a figure which has, historically, been markedly volatility).

2011-12 BUDGET

5 Annually, the Council sets the budget. In brief the 2011-12 budgets included:

- a Council Tax freeze;
- savings of over £26 million offsetting cost pressures and grant losses; which produced
- a revenue budget requirement of £189 million funded from Council Tax and Formula Grant from government within a gross budget of £703 million.

REVENUE SPENDING

6 The draft Statement of Accounts sets out the Council's spending and funding in line with accounting requirements. The position below explains the same information in the form of the Council's management accounts. The Council's financial position (for example, total usable reserves and final working balance) is the same in both formats.

7 The net under-spend on the General Fund was £6.9m, reflecting 1 per cent under-spending by departments after agreed carry forwards of budgets to 2012-13 of £3.4 million. The balance of the under-spend has been transferred to the efficiency reserve, IT reserve and a small amount to capital reserve.

8 The summary outturn position is as set out below:

Department	Budget	Actual	Over/ (Under) Spend
	£'000	£'000	£'000
Children's Services	67,161	67,047	(114)
Unaccompanied Asylum Seeking Children	1,300	1,309	9
Adult Social Care	79,176	78,447	(729)
Housing & Regeneration	8,672	7,352	(1,320)
Transport and Technical Services	19,814	20,006	192
Controlled Parking Account	(16,961)	(19,489)	(2,528)
Environment, Leisure and Residents Services	38,302	38,301	(1)
Finance and Corporate Services	18,609	18,309	(300)
Centrally Managed Budgets	(13,868)	(15,995)	(2,127)
Net Operating Expenditure	202,205	195,287	(6,918)
Net Contribution to Earmarked Reserves	7,678	13,178	5,500
Net Contribution to General Reserves	-	1,418	1,418
Total Net Expenditure	209,883	209,883	-
Funded by:			
Formula Grant	124,719	124,719	-
Core Grants	20,047	20,047	-
Council Tax	65,117	65,117	-
Total Funding	209,883	209,883	-
Final Position	-	-	-

Housing Revenue Account (HRA)

- 9 The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account showed a surplus of £1.9 million and increased its working balance by the same amount. Full details are set out in the draft Statement of Accounts.

31 MARCH 2012 BALANCE SHEET

- 10 The balance sheet as at 31 March is summarised below. Aside from pension liabilities that are re-estimated each year and thus volatile, the overall position is substantially stable.

	31 March 2012	31 March 2011 (Restated)
	£m	£m
Long Term Assets	1,482	1,470
Current Assets	211	152
Current Liabilities	(115)	(127)
Net Pension Liabilities	(420)	(324)
Other Long Term Liabilities	(318)	(500)
Net Assets	840	671
Represented by:		
Usable Reserves	(97)	(85)
Unusable reserves	(743)	(586)
Total Reserves	(840)	(671)

- 11 The breakdown of the usable reserves is set out below:

	2011/12 £m
General Fund	(80)
Schools Reserves	(12)
Housing Revenue Account	(5)
Total	(97)

CAPITAL SPENDING AND FUNDING

- 12 In 2011/12, the actual capital expenditure (outturn) totalled £64.341 million. The table below summarises capital expenditure by service area:

Department	2011/12 £'000
Adult Social Care	1,375
Children's Services	9,142
Environment, Leisure & Resident's Services	5,021
Finance & Corporate Services	127
Housing Revenue Account	37,822
Housing & Regeneration	1,535
Transport & Technical Services	9,319
Total	64,341

13 The financing of the capital expenditure incurred in 2011/12 is summarised in the table below:

Capital Financing

	£'000
Capital Receipts	25,179
HRA Supported Capital Expenditure	208
Grants	17,521
Major Repairs Allowance (MRA)	12,723
Section 106 - Private Sector contributions	3,440
Revenue Contribution to Capital Outlay	188
Capital Reserves	749
Others	4,333
Total	64,341

ACCOUNTING POLICIES

- 14 The 2011-12 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2011 (the Code) which is based on IFRS.
- 15 The accounting policies adopted by the Council comply with the Code and are set out on pages 16 to 29. These are substantially unchanged from 2010-11 with the addition, as required under the Code, of the Council's new accounting policy relating to heritage assets.

GROUP ACCOUNTS

- 16 As with the 2010/11 Statement of Accounts, Group Accounts have not been included in the 2011/12 Statement of Accounts on the grounds that they do not have a material effect on the overall statements and therefore their inclusion does not provide any more usefulness to readers. It should be noted that the Council considers the Hammersmith and Fulham Bridge Partnership (HFBP) as a Subsidiary. Details on the total 2011/12 net assets and profit and loss for HFBP (with 2010/11 comparators) can be found in Note 39 (Interest in Companies) to the key financial statements, along with contact details for the procurement of the full accounts for both companies.
- 17 It should be noted that the Council's Management Agreement with H&F Homes ended on 31st March 2011 and the business transferred back to the Council.

FUTURE OUTLOOK

- 18 For 2012-13 the Council reduced its Council Tax by 3.75%. Funding reductions and cost pressures were matched by £23 million in budget reductions - bringing total budget reductions to £49 million over two years.
- 19 The national economic outlook remains grim. The Government is holding to previously announced and substantial cuts to local government funding for 2013-14 and beyond. Major changes to the system of local government financing are due to be introduced from 1 April 2013 (localisation of business rates and Council Tax benefit). These present financial challenges in themselves. Despite these challenges, the Council remains well positioned to weather economic storms.

-
- 20 The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. The MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3-year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks. The scale of the funding reductions requires the Council to deliver £49 million in savings over the period 2012/13 to 2014/15, beginning with £23 million in savings for 2012/13. This continues to be more challenging than the savings plans the Council has faced in the recent past. The route for delivering this scale of savings is both as an individual authority and the Tri-borough Programme for combining services with the Royal Borough of Kensington and Chelsea and the City of Westminster.
- 21 The Council's 2012/13 Budget Strategy recognised the challenge in delivering this scale of budget reduction and recommended that the range for the optimal level of general balances be maintained at £10m - £17m. The actual balances carried forward at the close of 2011/12 are £17.4m



Jane West

Executive Director of Finance and Corporate Governance
27 September 2012

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director of Finance and Corporate Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Executive Director of Finance and Corporate Governance

The Executive Director of Finance and Corporate Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Executive Director of Finance and Corporate Governance has:

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

The Executive Director of Finance and Corporate Governance has also:

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

CERTIFICATE OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2012 and income and expenditure for the year for the financial year 2011/12.



Jane West
Executive Director of Finance and Corporate Governance
27 September 2012

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

Comprehensive Income and Expenditure Statement

Balance Sheet

Cash Flow Statement

Notes to the Accounts

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Notes	General Fund (GF) Balance £000	Schools Balance £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account (HRA) £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
	(15,000)	(12,552)	(34,491)	(5,187)	(3,241)	(19,633)	(3,526)	(648)	(94,278)	(873,836)	(968,114)
	(77,215)	-	-	-	508,421	-	-	-	431,206	-	431,206
	(77,215)	-	-	-	508,421	-	-	-	431,206	(133,839)	(133,839)
	67,060	-	-	(324)	(508,287)	19,633	70	(349)	(422,197)	422,197	-
7	(10,155)	-	-	(324)	134	19,633	70	(349)	9,009	288,358	297,367
	9,085	(1,123)	(7,932)	-	-	-	-	-	30	(30)	-
8	(1,070)	(1,123)	(7,932)	(324)	134	19,633	70	(349)	9,039	288,328	297,367
	-	-	-	-	-	-	-	-	-	-	-
	(16,070)	(13,675)	(42,423)	(5,511)	(3,107)	-	(3,456)	(997)	(85,239)	(585,508)	(670,747)
	(12,566)	-	-	-	(229,678)	-	-	-	(242,244)	-	(242,244)
	-	2,628	-	-	-	-	-	-	2,628	70,166	72,794
	(12,566)	2,628	-	-	(229,678)	-	-	-	(239,616)	70,166	(169,450)
7	(8)	-	-	1,698	227,661	-	(1,705)	-	227,646	(227,647)	(1)
	(12,574)	2,628	-	1,698	(2,017)	-	(1,705)	-	(11,970)	(157,481)	(169,451)
	11,206	(1,436)	(10,000)	30	94	-	-	117	11	(11)	-
8	(1,368)	1,192	(10,000)	1,728	(1,923)	-	(1,705)	117	(11,959)	(157,492)	(169,451)
	(17,438)	(12,483)	(52,423)	(3,783)	(5,030)	-	(5,161)	(880)	(97,198)	(743,000)	(840,198)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		Year Ended 31 March 2012		Year Ended 31 March 2011		
	Notes	Gross Expenditure	Gross Income	Gross Expenditure	Gross Income	
		£000	£000	£000	£000	
				(Restated)	(Restated)	
				Income	Expenditure	
					Net	
					Expenditure	
					£000	
Central services to the public		27,770	(25,500)	31,787	(32,257)	(470)
Cultural and Related Services		14,398	(3,255)	17,031	(4,639)	12,392
Environment and Regulatory Services		32,375	(5,111)	32,862	(5,379)	27,483
Planning Services		12,115	(6,170)	13,411	(7,986)	5,425
Education and children's services		212,266	(145,477)	237,069	(176,351)	60,718
Highways and transport services		37,042	(35,081)	34,207	(32,725)	1,482
Local authority housing (HRA)	10	70,823	(83,905)	572,208	(85,466)	486,742
Other housing services		181,909	(167,333)	170,496	(159,092)	11,404
Adult social care		105,591	(27,170)	105,632	(33,371)	72,261
Corporate and democratic core		5,770	(131)	8,171	(124)	8,047
Non distributed costs - General	10	4,877	(1,834)	11,007	(90,116)	(79,109)
Cost of Services		704,936	(500,967)	1,233,881	(627,506)	606,375
Other Operating Expenditure	11	4,327	(36,877)	24,789	(517)	24,272
Financing and Investment Income and Expenditure:	12	77,132	(62,753)	80,209	(49,610)	30,599
Other						
Financing and Investment Income and Expenditure: HRA	10/12	53,989	-	-	-	-
Self-Financing Settlement (Premium)						
Taxation and non-specific grant income: Other	13	-	(230,688)	-	(230,041)	(230,041)
Taxation and non-specific grant income: HRA Self-Financing Settlement (Principal and Premium Credit)	10/13	-	(251,343)	-	-	-
(Surplus) or Deficit on Provision of Services						431,205
Surplus or deficit on revaluation of Property, Plant and Equipment assets						15,215
Surplus or deficit on revaluation of available for sale financial assets						-
Actuarial gains/losses on pension assets / liabilities	34					(149,054)
Schools converted to Academy Status						-
Other Comprehensive Income and Expenditure						(133,839)
Total Comprehensive Income and Expenditure						297,366

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, unusable reserves, is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2012 £000	31 March 2011 (Restated) £000	1 April 2010 (Restated) £000
Property, Plant and Equipment	14	1,393,132	1,391,526	1,923,354
Heritage Assets	17	8,023	8,023	8,023
Investment Property	15	77,520	62,448	44,129
Intangible Assets	16	1,194	1,398	830
Assets Held for Sale	23	-	-	-
Long Term Investments	27	100	2,816	2,654
Long Term Debtors	27	2,373	3,312	3,544
Long Term Assets		1,482,342	1,469,523	1,982,534
Assets Held for Sale	23	19,313	234	740
Short Term Investments	27	25,503	30,413	70,398
Short Term Debtors	21	65,371	62,055	57,005
Inventories		190	209	207
Cash and Cash Equivalents	22	101,016	58,600	81,958
Current Assets		211,393	151,511	210,308
Bank Overdraft	22	(849)	(4,329)	(14,230)
Short Term Borrowing	27	(3,891)	(21,855)	(5,855)
Short Term Creditors	24	(107,803)	(95,500)	(128,999)
Provisions	26	(865)	(590)	-
Grants and Contributions Receipts in Advance	37	(2,020)	(4,756)	(5,983)
Current Liabilities		(115,428)	(127,030)	(155,067)
Long Term Borrowing	27	(262,303)	(459,670)	(475,289)
Long Term Creditors	27	(100)	(100)	(100)
Provisions	26	(3,038)	(2,644)	(4,565)
Other Long Term Liabilities	25	(431,460)	(337,580)	(560,639)
Grants and Contributions Receipts in Advance	37	(41,208)	(23,263)	(29,068)
Long Term Liabilities		(738,109)	(823,257)	(1,069,661)
NET ASSETS		840,198	670,747	968,114
Usable Reserves	7	(97,198)	(85,239)	(94,278)
Unusable Reserves	7	(743,000)	(585,508)	(873,836)
TOTAL RESERVES		(840,198)	(670,747)	(968,114)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

	Notes	31 March 2012 £000	31 March 2011 £000
Net surplus or (deficit) on the provision of services		242,244	(423,335)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	29	(172,609)	476,681
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(47,691)	(27,992)
Net cash flows from Operating Activities	29	21,944	25,354
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(55,130)	(87,760)
Purchase of short-term and long-term investments		-	(422)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		47,691	27,991
Proceeds from short-term and long-term investments		7,626	260
Other receipts from investing activities		32,046	14,973
Net cash flows from Investing Activities		32,233	(44,958)
Financing Activities			
Cash receipts of short and long term borrowing		-	40,000
Other receipts from financing activities		10,089	497
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(885)	(819)
Repayments of short and long term borrowing		(17,485)	-
Other payments for financing activities		-	(33,531)
Net cash flows from Financing Activities		(8,281)	6,147
Net increase or (decrease) in cash and cash equivalents		45,896	(13,457)
Cash and cash equivalents at the beginning of the reporting period		54,271	67,728
Cash and cash equivalents at the end of the reporting period	22	100,167	54,271

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

i. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) and the Service Reporting Code of Practice 2011/12 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Regulation 7 of the 2011 Regulations.

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

iii. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used.

Any known uncollectable debts are written off and where there is uncertainty over debt recovery a provision for doubtful debt is made. In both instances a charge is made to revenue for the income that might not be collected.

1. Statement of Accounting Policies (cont'd)

iv. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

vi. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1. Statement of Accounting Policies (cont'd)

vii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

viii. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The threshold for capital expenditure has been set at £10,000.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost.
- dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH).
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Depreciated Replacement Cost is used as an estimate of fair value where there is no market-based evidence of fair value because of the specialist nature of an asset, for example schools.

Depreciated Historical Cost basis is used as a proxy for fair value where non-property assets have short useful lives or low values (or both).

1. Statement of Accounting Policies (cont'd)

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

All items of property, plant and equipment, except Council Dwellings, are revalued on a five year rolling programme by each department. Council Dwellings are revalued annually.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for Surplus Assets, assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The estimated life is determined at the time of acquisition or when the asset has been revalued. Assets are depreciated from the year after their acquisition or completion, and are depreciated in the year of disposal. Depreciation is calculated on a straight line basis with no residual value.

1. Statement of Accounting Policies (cont'd)

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

- All Buildings (including Council dwellings) are depreciated over periods ranging from 35 to 100 years. Further enhancement expenditure is depreciated over a shorter period (from 4 to 10 years).
- Infrastructure is depreciated over periods ranging from 3 to 40 years.
- Vehicles, Plant and Equipment are depreciated over periods ranging from 4 to 48 years.
- Community Assets are generally depreciated over a 4 to 73 year period.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government.

The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1. Statement of Accounting Policies (cont'd)

ix. HERITAGE ASSETS

A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Valuation Policy

The Council has decided to disclose Heritage Assets on a market valuation basis on the balance sheet. Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except "where it is not practical to obtain a valuation at cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses)." (refer to 4.10.2.8 of the CIPFA Accounting Code of Practice). "Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations." (refer to 4.10.2.9 of the CIPFA Code). The 2011/12 IFRS Code adopts the requirements of FRS30 Heritage Assets for the first time.

Depreciation, amortisation and impairment policy

The Council has a policy of not charging depreciation or amortisation on heritage assets which have indefinite lives. The carrying amount of a heritage asset shall be reviewed where there is evidence of impairment; for example, where an asset has suffered physical deterioration or breakage or new doubts arise as to its authenticity.

The Council has reported four categories of heritage assets:

(i) Art Collections

This category consists of pictures and works of art including historical paintings, sketches and other artwork including the Cecil French Bequest and is reported in the balance sheet at market valuation. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(ii) Books & Printed Materials

This category consists of books, and other printed material such as press, pictures, drawings and prints. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(iii) Ceramics & Glass

This category consists of ceramics and glass. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(iv) Other Heritage Assets

This category consists of clocks, watches, coins, general items, jewellery, silver items, vertu, other decorative arts and the Mylne Bequest. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

x. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

1. Statement of Accounting Policies (cont'd)

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xi. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1. Statement of Accounting Policies (cont'd)

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Sale and Leaseback Assets

Where the Council has sold a property but is leasing it back, the substance of the lease is reviewed to determine if it falls under this policy.

Where the leaseback is a finance lease the lease is accounted for as any other finance lease with any apparent initial gain on the disposal deferred and amortised over the lease term.

Where the leaseback is an operating lease the lease is accounted for as any other operating lease and the asset disposed of is treated as an Asset Held for Sale and accounted for accordingly.

1. Statement of Accounting Policies (cont'd)

xii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor.

As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For this scheme the liability was written down by an initial capital contribution of £2.9m.

Long term assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into the following elements:

- fair value of the services received during the year - debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
- finance cost - an interest charge between 8-16% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xiii. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The depreciable amount of an intangible asset is amortised over its useful life, usually 4 years but range between 3 to 10 years, to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1. Statement of Accounting Policies (cont'd)

xiv. INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula.

xv. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours, having originally been invested for a period no longer than three months.

Cash equivalents are investments that, having originally been invested for no longer than three months, are repayable on demand or readily convertible to known amounts of cash with an insignificant risk of change in value. Fixed Deposits are not considered to be readily convertible since they are only repayable at the point of maturity and cannot be traded or redeemed without penalty.

Cash and Cash Equivalents are held to meet the daily cash flow needs of the Council. These are distinct from investments that are held for the purposes of capital protection or appreciation and/or earning a return.

Cash and cash equivalents are shown separately to bank overdrafts.

xvi. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

The Council only has one type of financial asset - investments and receivables - which are assets that have fixed or determinable payments but are not quoted in an active market.

1. Statement of Accounting Policies (cont'd)

Investments and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For all of the investments that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xvii. EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

1. Statement of Accounting Policies (cont'd)

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Pension Schemes

Employees of the Council are members of the following pension schemes:

- Under the provisions of the Local Government Pension Scheme: the London Borough of Hammersmith and Fulham Pension Fund, administered by London Borough of Hammersmith and Fulham.
- Also under the Local Government Pension Scheme: the London Pensions Fund Authority (LPFA) Pension Fund, administered by the LPFA.
- Also under the Local Government Pension Scheme: the Hammersmith & Fulham Homes (HFH) Pension Fund, administered by the LGPS.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

Pension funds under the Local Government Scheme are accounted for as defined benefits schemes:

- The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **5.5% (5.5% in 2010/11)** based on the indicative rate of return on high quality corporate bond iBoxx AA rated over 15 year corporate bond index.
- The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities - current bid price
 - unquoted securities - professional estimate
 - unitised securities - current bid price
 - property - market value.
- The change in the net pensions liability is analysed into **seven components**:
 - **current service cost** (the increase in liabilities as a result of years of service earned this year) allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - **past service cost** (the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year) debited to the Surplus or Deficit on the Provision of services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

1. Statement of Accounting Policies (cont'd)

- **interest cost** (the expected increase in the present value of liabilities during the year as they move one year closer to being paid) debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **expected return on assets** (the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return) credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **gains or losses on settlements and curtailments** (the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees) debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **actuarial gains and losses** (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve.
- **contributions paid to the Funds** - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

xvii. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1. Statement of Accounting Policies (cont'd)

Contingent Liabilities

A contingent liability arises where:

- (a) an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council, or
- (b) in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts if the sums involved are likely to be material.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if the sums involved are likely to be material.

xix. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets (e.g. Revaluation Reserve), financial instruments, retirement (e.g. Pensions Reserve) and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

xx. INTERESTS IN COMPANIES AND OTHER ENTITIES

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities it is required to prepare group accounts.

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2011/12. Companies in which the Council has an interest are detailed in Note 39 to the Core Financial Statements. Group Accounts were not prepared since 2008/09.

xxi. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1. Statement of Accounting Policies (cont'd)

xxii. FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in a foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxiii. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The International Accounting Standards Board (IASB) has amended *IFRS 7 Financial Instruments: Disclosures* to help users of financial statements:

- evaluate the risk and exposures relating to the transfer of financial assets by an entity to another entity when either those assets are not derecognised or an entity has continued involvement in financial assets transferred to another entity;
- consider the effect of those risks on an entity's financial position; and
- promote transparency in the reporting of such transfers, particularly those that involve the securitisation of financial assets.

The transfer of financial assets to or from local authorities is extremely rare. Therefore, the changes to IFRS 7 have no impact on the accounting policies of the Council, the financial position of the Council and the disclosures required in this Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired.
- The Council is entering into combining service arrangements with neighbouring local authorities, the City of Westminster and the Royal Borough of Kensington and Chelsea. These arrangements are currently referred to as "tri-borough working". Current proposals will not reduce the level of service provided by the Council and plans to align systems are not yet fully developed. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of tri-borough working.
- The Council has been required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools and Voluntary Controlled schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets / Investment Properties	Asset valuations are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. During the past financial year, the property market in the Borough appeared to grow slowly, but the number and relevance of asset sales against which the Council could judge the fair value of its property assets was low. Therefore, the Council judged that no alteration to the estimates that underpin the valuation of its properties and dwellings was required at year end. Should evidence emerge in 2012-13 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). For example, a 10 per cent reduction in the value of Council Dwellings (£89.7 million) would result in a reduction of the Revaluation Reserve of £3.3 million and a £86.4 million charge to the CIES. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the CIES. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is £1.247 billion.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings (including council dwellings) would increase by £532k for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £17.2m and £0.6m for the respective pensions funds (LBHF and LPFA). However, the assumptions interact in complex ways and the impact of minor changes in assumptions cannot be easily measured.

5. Events after the Balance Sheet Date

The Statement of Accounts have been prepared up to 31 March 2012 were authorised for issue by the Executive Director of Finance & Corporate Governance on 27 September 2012. There are no material events after the balance sheet date to report.

6. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive Management Team on the basis of budget reports analysed across Departments.

These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- expenditure on some support services is budgeted for centrally and not charged to Departments.

(a) The income and expenditure of the Council's Departments recorded in the budget reports for the year is as follows.

Department Income and Expenditure 2011/12	Children's Services £000	Adult Social Care £000	Housing and Regeneration £000	Finance and Corporate Services £000	Centrally Managed Budgets £000	Environmental Services (Including Controlled Parking Services) £000	Residents' Services £000	Housing Revenue Account £000	Total £000
Customer & Client Receipts	(3,952)	(1,252)	(10,512)	(3,431)	1,107	(41,949)	(8,170)	(72,790)	(140,949)
Government Grants	(126,380)	(1,440)	(3,040)	(3,710)	(162,332)	-	(27)	(208,323)	(505,252)
Internal Recharge Income	(94)	(1,017)	-	(5,344)	-	(9,412)	(3,450)	(100)	(19,417)
Other Reimbursements & Contributions	(14,918)	(24,968)	(837)	(2,868)	(18,665)	(4,825)	(1,741)	(1,373)	(70,195)
Total Income	(145,344)	(28,677)	(14,389)	(15,353)	(179,890)	(56,186)	(13,388)	(282,586)	(735,813)
Capital Charges	10,562	7,755	233	587	(111)	12,300	2,442	22,897	56,665
Employee Expenses	117,785	15,978	8,644	24,935	3,477	21,096	10,417	17,481	219,813
Other	(1)	1,416	-	(127)	(25,752)	9	844	(10,140)	(33,751)
Premises Related Expenditure	13,134	976	6,240	1,033	51	7,141	2,030	22,487	53,092
Supplies and Services	32,816	20,034	1,653	3,420	3,881	8,214	3,373	4,713	78,104
Support Services	10,549	5,115	2,398	(30,992)	4,130	(2,397)	5,069	5,571	(557)
Third Party Payments	28,486	46,705	1,396	26,396	-	9,928	25,240	559	138,710
Transfer Payments	2,843	8,150	1,153	8,370	178,335	1	2	372	199,226
Transport Related Expenditure	2,861	995	24	40	1	430	2,272	243	6,866
Use of Balances & Reserves	(5,335)	-	-	-	14,479	(19)	-	218,403	227,528
Total Expenditure	213,700	107,124	21,741	33,662	178,491	56,703	51,689	282,586	945,696
Net Expenditure	68,356	78,447	7,352	18,309	(1,399)	517	38,301	-	209,883

6. Amounts Reported for Resource Allocation Decisions (cont'd)

Department Income and Expenditure 2010/11 Comparative Figures	Children's Services £000	Adult Social Care £000	Housing and Regeneration £000	Finance and Corporate Services £000	Centrally Managed Budgets £000	Environmental Services (Including Controlled Parking Services) £000	Residents' Services £000	Housing Revenue Account £000	Total £000
Customer & Client Receipts	(4,629)	(1,503)	(9,405)	(6,368)	807	(37,621)	(8,815)	(68,928)	(136,462)
Government Grants	(149,896)	(4,348)	(5,760)	(11,876)	(162,842)	-	(508)	(14,465)	(349,695)
Internal Recharge Income	(1,368)	(507)	-	(4,323)	-	(9,537)	(4,284)	(31)	(20,050)
Other Reimbursements & Contributions	(21,757)	(25,995)	(1,929)	(5,689)	(13,246)	(4,551)	(1,800)	(2,902)	(77,869)
Total Income	(177,650)	(32,353)	(17,094)	(28,256)	(175,281)	(51,709)	(15,407)	(86,326)	(584,076)
Capital Charges	3,910	1,289	152	623	7,151	11,692	1,250	519,831	545,898
Employee Expenses	131,435	19,856	9,447	23,044	(87,719)	22,595	13,808	2,561	135,027
Other	-	1,340	(43)	(57)	668	(63)	972	(483,976)	(481,159)
Premises Related Expenditure	13,192	2,072	6,096	1,691	523	967	3,908	21,375	49,824
Supplies and Services	53,348	24,656	3,281	(7,202)	(71)	9,281	4,122	2,771	90,186
Support Services	6,599	1,607	2,635	(18,804)	4,819	1,375	3,115	812	2,158
Third Party Payments	27,893	50,096	926	35,833	-	9,078	24,417	23,211	171,454
Transfer Payments	3,185	6,487	686	6,104	170,413	2	2	79	186,958
Transport Related Expenditure	5,019	1,070	18	44	1	566	2,871	46	9,635
Use of Balances & Reserves	(3,500)	-	-	-	83,651	-	(8)	(384)	79,759
Total Expenditure	241,081	108,473	23,198	41,276	179,436	55,493	54,457	86,326	789,740
Net Expenditure	63,431	76,120	6,104	13,020	4,155	3,784	39,050	-	205,664

(b) Reconciliation of Department Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Department income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/12 £000	2010/11 £000 (Restated)
209,883	205,664
-	-
-	-
(5,914)	400,711
203,969	606,375

Net expenditure in the Department Analysis
Net expenditure of services and support services not included in the Analysis
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement
Cost of Services in Comprehensive Income and Expenditure Statement

6. Amounts Reported for Resource Allocation Decisions (cont'd)

(c) Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Department income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Department Analysis £000	Support Services and Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES Services £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
2011/12								
Customer & Client Receipts	(140,949)	-	-	3,658	-	(137,291)	(1,680)	(138,971)
Government Grants	(505,252)	-	-	197,354	-	(307,898)	(321,803)	(629,701)
Internal Recharge Income	(19,417)	-	-	4,092	-	(15,325)	-	(15,325)
Other Reimbursements & Contributions	(70,195)	-	-	1,169	-	(69,026)	-	(69,026)
Interest and Investment Income	-	-	-	-	-	-	(1,705)	(1,705)
Pension Expected Return on Assets	-	-	-	-	-	-	(37,967)	(37,967)
Other Operating Income	-	-	-	-	-	-	(2,789)	(2,789)
Income from Council Tax	-	-	-	-	-	-	(65,117)	(65,117)
Income from NNDR	-	-	-	-	-	-	(95,111)	(95,111)
Total Income	(735,813)	-	-	206,273	-	(529,540)	(526,172)	(1,055,712)
Capital Charges	56,665	-	-	(51)	-	56,614	-	56,614
Employee Expenses	219,813	-	-	(4,063)	-	215,750	-	215,750
Other	(33,751)	-	-	33,810	-	59	-	59
Premises Related Expenditure	53,092	-	-	(1,335)	-	51,757	166	51,923
Supplies and Services	78,104	-	-	(1,155)	-	76,949	-	76,949
Support Services	(557)	-	-	(1,448)	-	(2,005)	-	(2,005)
Third Party Payments	138,710	-	-	(1,652)	-	137,058	-	137,058
Transfer Payments	199,226	-	-	-	-	199,226	-	199,226
Transport Related Expenditure	6,866	-	-	(173)	-	6,693	-	6,693
Use of Balances & Reserves	227,528	-	-	(236,120)	-	(8,592)	-	(8,592)
Interest Payments	-	-	-	-	-	-	82,744	82,744
Precepts and Levies	-	-	-	-	-	-	2,412	2,412
Pension Interest Cost	-	-	-	-	-	-	48,377	48,377
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	1,915	1,915
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	(32,574)	(32,574)
Income and expenditure in relation to investment properties and changes in their fair value	-	-	-	-	-	-	(23,081)	(23,081)
Total Expenditure	945,696	-	-	(212,187)	-	733,509	79,959	813,468
Surplus or deficit on the provision of services	209,883	-	-	(5,914)	-	203,969	(446,213)	(242,244)

6. Amounts Reported for Resource Allocation Decisions (cont'd)

	Department Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported for management for decision making £000	Amounts not included in CIES Services £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
2010/11 Comparative Figures								
Customer & Client Receipts	(136,462)	-	-	3,422	-	(133,040)	(3,422)	(136,462)
Government Grants	(349,695)	-	-	-	-	(349,695)	(59,291)	(408,986)
Internal Recharge Income	(20,050)	-	-	4,816	-	(15,234)	(4,816)	(20,050)
Other Reimbursements & Contributions	(77,869)	-	-	(2,840)	-	(80,709)	2,840	(77,869)
Interest and Investment Income	-	-	-	-	-	-	(1,902)	(1,902)
Pension Expected Return on Assets	-	-	-	-	-	-	(32,819)	(32,819)
Other Operating Income	-	-	-	-	-	-	(517)	(517)
Income from Council Tax	-	-	-	-	-	-	(64,300)	(64,300)
Income from NDR	-	-	-	-	-	-	(105,590)	(105,590)
Total Income	(584,076)	-	-	5,398	-	(578,678)	(269,817)	(848,495)
Capital Charges (Restated)	545,898	-	-	(929)	-	544,969	107	545,076
Employee Expenses	135,027	-	-	(2,700)	-	132,327	2,700	135,027
Other (Restated)	(481,159)	-	-	405,359	-	(75,800)	(19,251)	(95,051)
Premises Related Expenditure	49,824	-	-	(987)	-	48,837	987	49,824
Supplies and Services	90,186	-	-	(1,772)	-	88,414	1,772	90,186
Support Services	2,158	-	-	(2,064)	-	94	2,064	2,158
Third Party Payments	171,454	-	-	(1,378)	-	170,076	1,378	171,454
Transfer Payments	186,958	-	-	(1)	-	186,957	1	186,958
Transport Related Expenditure	9,635	-	-	(215)	-	9,420	215	9,635
Use of Balances & Reserves	79,759	-	-	-	-	79,759	-	79,759
Interest Payments	-	-	-	-	-	-	29,748	29,748
Precepts and Levies	-	-	-	-	-	-	2,653	2,653
Pension Interest Cost	-	-	-	-	-	-	50,461	50,461
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	1,366	1,366
Gain or Loss on Disposal of Fixed Assets (Restated)	-	-	-	-	-	-	20,446	20,446
Total Expenditure	789,740	-	-	395,313	-	1,185,053	94,647	1,279,700
Surplus or deficit on the provision of services	205,664	-	-	400,711	-	606,375	(175,170)	431,205

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

Movement on Usable Reserves 2010/11

	General Fund Balance £000 (Restated)	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000 (Restated)	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Balance at 1 April 2010	(15,000)	(12,552)	(34,491)	(5,187)	(3,241)	(19,633)	(3,526)	(648)	(94,278)
Surplus or (deficit) on the provision of services	(77,215)	-	-	-	508,421	-	-	-	431,206
Schools converted to Academy Status	-	-	-	-	-	-	-	-	-
Total Comprehensive Income and Expenditure	(77,215)	-	-	-	508,421	-	-	-	431,206
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(19,568)	-	-	-	(455)	-	-	-	(20,023)
Amortisation of Intangible Assets	(174)	-	-	-	(49)	-	-	-	(223)
Dwelling Depreciation	-	-	-	-	-	-	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(1,099)	(12,169)	-	-	(13,268)
Impairment/Revaluation losses (Charged to the I&E)	(7,393)	-	-	-	(508,656)	-	-	-	(516,049)
Revenue expenditure funded from capital under statute	(538)	-	-	-	1,667	-	538	-	(138)
Movements in the market value of investment properties	13,222	-	-	-	-	-	-	-	14,889
Difference between fair value depreciation and historical cost depreciation	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	22,541	-	-	392	-	-	-	-	22,933
Capital grants and contributions applied (REFCUS)	-	-	-	-	-	-	-	-	-
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	26,732	-	26,732
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	1,050	-	-	-	-	-	-	-	1,050
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	31,802	-	-	31,802
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	716	-	-	(716)	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(20,254)	-	-	-	(1,397)	-	-	-	(21,651)
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	236	-	-	-	1,604	-	(28,514)	(349)	(27,023)
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	-	-	-	-	-	-	28	-	28
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in prior year	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(80)	-	(80)
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (Deferred Costs)	(1,366)	-	-	-	-	-	1,366	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	-	-	-	-	-	-	-	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	4,309	-	-	-	-	-	-	-	4,309
Voluntary repayment of debt (above Minimum Revenue Provision)	232	-	-	-	-	-	-	-	232
HRA Self-Financing Resettlement	(2)	-	-	-	-	-	-	-	(2)
Statutory provision for finance lease liabilities	49,829	-	-	-	(270)	-	-	-	49,559
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	-	-	-	-	-	-	-	-	-
Employer's pensions contributions and direct payments to pensioners	23,627	-	-	-	-	-	-	-	23,627
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(13)	-	-	-	519	-	-	-	506
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	877	-	-	-	-	-	-	-	877
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(271)	-	-	-	(13)	-	-	-	(284)
Total Adjustments between accounting basis & funding basis under regulations	67,060	-	-	(324)	(508,287)	19,633	70	(349)	(422,197)
Net (Increase)/Decrease before Transfer to Earmarked Reserves	(10,155)	-	-	(324)	134	19,633	70	(349)	9,009
Transfers (to)/from Earmarked Reserves (Note 8)	9,083	(1,123)	(7,832)	-	-	-	-	-	30
(Increase)/Decrease in year	(1,070)	(1,123)	(7,932)	(324)	134	19,633	70	(349)	9,039
Balance at 31 March 2011 carried forward	(16,070)	(13,675)	(42,423)	(5,511)	(3,107)	(3,456)	(997)	(85,239)	

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)

	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Total Usable Reserves £000
Balance at 1 April 2011	(16,070)	(13,675)	(42,423)	(5,511)	(3,107)	-	(3,456)	(997)
Surplus or (deficit) on the provision of services	(12,566)	-	-	-	(229,678)	-	-	(242,244)
Upward revaluation of assets	-	-	-	-	-	-	-	-
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit	-	-	-	-	-	-	-	-
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-
Actuarial gains or losses on pensions assets and liabilities	-	-	-	-	-	-	-	-
Schools converted to Academy Status	-	2,628	-	-	-	-	-	-
Total Comprehensive Income and Expenditure	(12,566)	2,628	-	-	(229,678)	-	-	(239,616)
Adjustments between accounting basis & funding basis under regulations								
Depreciation of Property, Plant and Equipment	(19,139)	-	-	-	(460)	-	-	(19,599)
Amortisation of Intangible Assets	(221)	-	-	-	(48)	-	-	(269)
Dwelling Depreciation	-	-	-	-	-	(12,723)	-	(12,723)
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(2,094)	-	-	(2,094)
Impairment/Revaluation losses (charged to the I&E)	(12,602)	-	-	-	(7,364)	-	-	(19,966)
Revenue expenditure funded from capital under statute	(5,347)	-	-	-	(208)	-	-	(5,555)
Movements in the market value of investment properties	4,036	-	-	-	19,045	-	-	23,081
Difference between fair value depreciation and historical cost depreciation	-	-	-	-	-	-	-	-
Capital grants and contributions applied	20,211	-	-	1,258	-	-	-	21,469
Capital grants and contributions applied (REFCUS)	3,572	-	-	279	-	-	-	3,851
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	25,179	-	25,179
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	901	-	-	-	-	-	-	901
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	12,723	-	12,723
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	(161)	-	-	161	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(4,725)	-	-	-	(7,052)	-	-	(11,777)
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	18,173	-	-	-	28,733	-	-	(847)
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(109)	-	-	-	(203)	-	-	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in prior year	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (Deferred Costs)	(672)	-	-	-	(1,572)	-	-	(1,277)
Contribution from the Capital Receipts Reserve to the Govt	(1,915)	-	-	-	-	1,915	-	-
Capital Receipts Pool (Housing Pooled Capital Receipts)	3,066	-	-	-	-	-	-	3,066
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	249	-	-	-	-	-	-	249
Voluntary repayment of debt (above Minimum Revenue Provision)	-	-	-	-	197,354	-	-	197,354
HRA Self-Financing Resettlement	888	-	-	-	-	-	-	888
Statutory provision for finance lease liabilities (including PFI)	-	-	-	-	-	-	-	-
Voluntary application of capital receipts	(27,894)	-	-	-	(1,055)	-	-	(28,949)
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	20,999	-	-	-	1,646	-	-	22,645
Employer's pensions contributions and direct payments to pensioners	-	-	-	-	833	-	-	833
Pension reserve adjustment relating to the transfer of H&R Homes	208	-	-	-	198	-	-	406
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	338	-	-	-	-	-	-	338
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	136	-	-	-	(92)	-	-	44
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	-
Total Adjustments between accounting basis & funding basis under regulations	(8)	-	-	1,698	227,661	-	(1,705)	227,646
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(12,574)	2,628	-	1,698	(2,017)	-	(1,705)	(11,970)
Transfers (to)/from Earmarked Reserves (Note 8)	11,206	(1,436)	(10,000)	30	94	-	-	117
(Increase)/Decrease in year	(1,368)	1,192	(10,000)	1,728	(1,923)	-	(1,705)	(11,959)
Balance at 31 March 2012 carried forward	(17,438)	(12,483)	(52,423)	(3,783)	(5,030)	-	(5,161)	(880)

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)

	Revaluation Reserve £000 (Restated)	Capital Adjustment Account £000 (Restated)	Deferred Capital Receipts Reserve £000	Pensions Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable Reserves £000	Total Usable Reserves £000	Total Reserves £000
Balance at 1 April 2010	(91,776)	(1,332,322)	(3,266)	546,735	2,301	1,078	3,419	(873,836)	(94,278)	(968,114)
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	431,206	431,206
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	15,215	-	-	-	-	-	-	15,215	-	15,215
Accumulated gains on assets sold or scrapped	-	-	-	(149,054)	-	-	-	(149,054)	-	(149,054)
Actuarial gains or losses on pensions assets and liabilities	-	-	-	(149,054)	-	-	-	(149,054)	-	(149,054)
Other Comprehensive Income and Expenditure	15,215	-	-	(149,054)	-	-	-	(133,839)	-	(133,839)
Adjustments between accounting basis & funding basis under regulations										
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement										
Depreciation of Property, Plant and Equipment	-	20,023	-	-	-	-	-	20,023	(20,023)	-
Amortisation of Intangible Assets	-	223	-	-	-	-	-	223	(223)	-
Dwelling Depreciation	-	-	-	-	-	-	-	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	13,268	-	-	-	-	-	13,268	(13,268)	-
Impairment/Revaluation losses (Charged to the I&E)	-	516,049	-	-	-	-	-	516,049	(516,049)	-
Revenue expenditure funded from capital under statute	-	138	-	-	-	-	-	138	(138)	-
Movements in the market value of investment properties	-	(14,889)	-	-	-	-	-	(14,889)	14,889	-
Difference between fair value depreciation and historical cost depreciation	1,065	(1,065)	-	-	-	-	-	-	-	-
Capital grants and contributions applied	-	(22,933)	-	-	-	-	-	(22,933)	22,933	-
Use of capital receipts reserve to finance capital expenditure	-	(26,732)	-	-	-	-	-	(26,732)	26,732	-
Use of capital reserve to finance capital expenditure	-	(1,050)	-	-	-	-	-	(1,050)	1,050	-
Capital expenditure charged against the General Fund and HRA balances	-	(31,802)	-	-	-	-	-	(31,802)	31,802	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	-	-	-	-	-	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	16,822	4,829	-	-	-	-	-	21,651	(21,651)	-
Transfer of sale proceeds credited as part of the gain/loss on disposal to the current asset disposals (In-Year)	-	(28)	-	-	-	-	-	(28)	28	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in Prior Year	460	(460)	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	80	-	-	-	-	80	(80)	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (Deferred Costs)	-	-	-	-	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	-	-	-	-	-	-	-	-	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	-	(4,309)	-	-	-	-	-	(4,309)	4,309	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(232)	-	-	-	-	-	(232)	232	-
HRA Self-Financing Resettlement	-	-	2	-	-	-	-	2	(2)	-
Statutory provision for finance lease liabilities	-	-	-	(49,559)	-	-	-	(49,559)	49,559	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	-	-	-	(23,627)	(506)	-	-	(23,627)	23,627	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	-	-	-	-	-	506	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	(877)	-	(877)	877	-
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	-	-	-	-	-	-	284	284	(284)	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	-	-	-
Total Adjustments between accounting basis & funding basis under regulations	18,347	478,053	82	(73,186)	(506)	(877)	284	422,197	(422,197)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	33,562	478,053	82	(222,240)	(506)	(877)	284	288,358	9,009	297,367
Transfers (to)/from Earmarked Reserves (Note 6)	-	(30)	-	-	-	-	-	(30)	30	-
(Increase)/Decrease in Year	33,562	478,023	82	(222,240)	(506)	(877)	284	288,328	9,039	297,367
Balance at 31 March 2011 carried forward (Restated)	(58,214)	(854,304)	(3,184)	324,495	1,795	201	3,703	(585,506)	(85,239)	(670,747)

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)

	Revaluation Reserve £000	Capital Adjustment Account £000	Deferred Capital Receipts Reserve £000	Pensions Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable Reserves £000	Total Usable Reserves £000	Total Reserves £000
Balance at 1 April 2011	(58,214)	(854,304)	(3,184)	324,495	1,795	201	3,703	(585,503)	(85,239)	(670,747)
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	(242,244)	(242,244)
Revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(23,854)	-	-	-	-	-	-	(23,854)	-	(23,854)
Surplus/Deficit on Provision of Services	3,741	-	-	-	-	-	-	3,741	-	3,741
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	-	-
Accumulated gains or losses on pensions assets and liabilities	-	-	-	90,279	-	-	-	90,279	-	90,279
Schools converted to Academy Status	-	-	-	-	-	-	-	-	2,628	2,628
Other Comprehensive Income and Expenditure	(20,113)	-	-	90,279	-	-	-	70,166	2,628	72,794
Adjustments between accounting basis & funding basis under regulations	-	-	-	-	-	-	-	-	-	-
Depreciation of Property, Plant and Equipment	-	19,599	-	-	-	-	-	19,599	(19,599)	-
Amortisation of Intangible Assets	-	269	-	-	-	-	-	269	(269)	-
Dwelling Depreciation	-	12,723	-	-	-	-	-	12,723	(12,723)	-
Reversal of Major Repairs Allowance credited to the HRA	-	2,094	-	-	-	-	-	2,094	(2,094)	-
Impairment/Revaluation losses (Charged to the I&E)	-	19,966	-	-	-	-	-	19,966	(19,966)	-
Revenue expenditure funded from capital under statute	-	5,555	-	-	-	-	-	5,555	(5,555)	-
Movements in the market value of investment properties	-	(23,081)	-	-	-	-	-	(23,081)	23,081	-
Difference between fair value depreciation and historical cost depreciation	749	(749)	-	-	-	-	-	-	-	-
Capital grants and contributions applied (REFCUS)	-	(21,469)	-	-	-	-	-	(21,469)	21,469	-
Capital grants and contributions applied (REFCUS)	-	(3,851)	-	-	-	-	-	(3,851)	3,851	-
Use of capital receipts reserve to finance capital expenditure (including Income and Expenditure Statement (CIES))	-	(25,179)	-	-	-	-	-	(25,179)	25,179	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(901)	-	-	-	-	-	(901)	901	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(12,723)	-	-	-	-	-	(12,723)	12,723	-
Income and Expenditure Statement (CIES)	-	-	-	-	-	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	11,777	-	-	-	-	-	11,777	(11,777)	-
Transfer of sale proceeds credited as part of the gain/loss on disposal to the current asset disposals (In-Year)	-	-	847	-	-	-	-	847	(847)	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in prior year	798	(798)	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	127	-	-	-	-	127	(127)	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (Deferred Costs)	-	2,244	-	-	-	-	-	2,244	(2,244)	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts Provision)	-	(3,066)	-	-	-	-	-	(3,066)	3,066	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(249)	-	-	-	-	-	(249)	249	-
HRA Self-Financing Resettlement	-	(197,354)	-	-	-	-	-	(197,354)	197,354	-
Statutory provision for finance lease liabilities (including PFI)	-	(885)	(3)	-	-	-	-	(888)	888	-
Voluntary application of capital receipts	-	(18,769)	-	-	-	-	-	(18,769)	18,769	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	-	-	-	28,948	-	-	-	28,948	(28,949)	(1)
Employer's pensions contributions and direct payments to pensioners	-	-	-	(22,645)	-	-	-	(22,645)	22,645	-
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	(833)	(406)	-	-	(833)	833	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	(406)	406	-
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	-	-	-	-	-	(338)	-	(338)	338	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	(44)	(44)	44	-
Total Adjustments between accounting basis & funding basis under regulations	1,547	(234,847)	971	5,470	(406)	(338)	(44)	(227,647)	227,646	(1)
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(18,566)	(234,847)	971	95,749	(406)	(338)	(44)	(157,481)	(11,970)	(169,451)
Transfers (to)/from Earmarked Reserves (Note 6)	-	(11)	-	-	-	-	-	(11)	11	-
(Increase)/Decrease in year	(18,566)	(234,858)	971	95,749	(406)	(338)	(44)	(157,492)	(11,959)	(169,451)
Balance at 31 March 2012 carried forward	(76,780)	(1,089,162)	(2,213)	420,244	1,389	(137)	3,659	(743,000)	(97,198)	(840,198)

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12.

	Balance at 31 March 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Movement Between Reserves 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Movement Between Reserves 2011/12 £000	Balance at 31 March 2012 £000
General Fund									
1. Insurance Fund	(3,443)	101	(4,273)	-	(7,615)	284	(388)	-	(7,719)
2. Controlled Parking Fund	(223)	120	(450)	-	(553)	-	(802)	-	(1,355)
3. Computer Replacement Fund	(798)	-	(118)	-	(916)	254	(89)	(445)	(1,196)
4. IT Infrastructure	-	-	(490)	-	(490)	-	(2,323)	-	(2,813)
5. Price Pressures	-	-	(152)	-	(152)	-	(20)	-	(172)
6. Efficiency Projects Reserve	(5,060)	2,606	(1,840)	-	(4,294)	2,363	(3,536)	(213)	(5,680)
7. Planned Maintenance	-	-	(192)	-	(192)	-	(44)	-	(236)
8. Environment Services Redundancy	-	-	(211)	-	(211)	34	-	-	(177)
9. Economic Downturn Reserve	(788)	170	(124)	-	(742)	-	(676)	-	(1,418)
10. Debtors/Creditors Review	(182)	104	(2)	-	(80)	-	-	(122)	(202)
11. PCT Integration Reserve	(150)	-	(621)	-	(771)	-	(3,943)	-	(4,714)
12. Dilapidations/Office Moves	(2,001)	416	(612)	-	(2,197)	20	-	-	(2,177)
13. Housing Benefit	(1,209)	257	(450)	-	(1,402)	188	-	(15)	(1,229)
14. DWP Grant for Housing Benefit Changes	-	-	(52)	-	(52)	52	-	-	-
15. Income System Enhancement	(491)	211	-	-	(280)	-	-	280	-
16. Planning Inquiries	(118)	159	(80)	-	(39)	-	(1)	-	(40)
17. LPFA Sub Fund	(379)	-	(690)	-	(1,069)	-	-	-	(1,069)
18. Single Status	(1,778)	32	-	-	(1,746)	-	(128)	1,874	-
19. Bishops Park	(1,200)	-	-	-	(1,200)	355	-	-	(845)
20. Performance Reward Grant	(950)	2	-	-	(948)	948	-	-	-
21. Imperial Wharf	(800)	-	-	-	(800)	-	-	-	(800)
22. No Recourse to Public Funds	(100)	-	-	-	(100)	-	-	-	(100)
23. 24/7 Policing	(2,064)	2,184	(121)	-	(1)	1	-	-	-
24. Civic Accommodation Reserve	(941)	34	-	-	(907)	102	-	-	(805)
25. PFI Reserve	(565)	565	(133)	-	(133)	-	-	-	(133)
26. Online Housing Application	(300)	-	-	96	(204)	145	-	-	(59)
27. Enhanced Housing Options	-	44	-	(96)	(52)	52	-	-	-
28. Temporary Accommodation	(541)	-	-	-	(541)	-	-	-	(541)
29. S117 Reserve	(122)	-	-	-	(122)	65	-	-	(57)
30. Participate Projects	-	-	(256)	-	(256)	185	-	-	(71)
31. Strokes Association Payments	-	-	(100)	-	(100)	-	-	(11)	(111)
32. Preventative Services & Early Intervention	-	-	(350)	-	(350)	58	-	-	(292)
33. Pressures & Demands	-	-	(2,729)	-	(2,729)	1,794	(2,396)	-	(3,331)
34. Parks Reserve	-	-	-	-	-	-	(30)	-	(30)
35. Archives Reserve	-	-	-	-	-	-	(50)	-	(50)
36. Marketing Reserve	-	-	-	-	-	-	(50)	-	(50)
37. Cemeteries Reserve	-	-	-	-	-	-	(60)	-	(60)
38. Community Safety Reserve	-	-	-	-	-	-	(22)	-	(22)
39. Local Lead Flood Authority	-	-	-	-	-	-	(123)	-	(123)
40. Business Incubator Units	-	-	-	-	-	-	(37)	-	(37)
41. Contribution to Local Election	-	-	-	-	-	-	(75)	-	(75)
42. Radios Reserve	-	-	-	-	-	-	(28)	-	(28)
43. Finance Development Initiative	-	-	-	-	-	-	(165)	165	-
44. Electronic Data Mgt System	-	-	-	-	-	-	(100)	-	(100)
45. Housing Options Re-org Implementation	-	-	-	-	-	-	(75)	-	(75)
46. Temp Accom Health & Safety Implementation	-	-	-	-	-	-	(196)	-	(196)
47. Review of Housing Register	-	-	-	-	-	-	(100)	-	(100)
48. Tenants Incentive Scheme	-	-	-	-	-	-	(27)	-	(27)
49. Human Resources Reserve	-	-	-	-	-	-	-	(1,874)	(1,874)
50. Capital Reserves	-	-	-	-	-	-	(400)	-	(400)
51. White City Neighbourhood	-	-	-	-	-	-	(730)	-	(730)
52. Continuing Care Pressures	(897)	624	-	-	(273)	273	-	-	-
53. Corporate Redundancy	-	-	(1,000)	-	(1,000)	-	(964)	-	(1,964)
54. Other Funds	(6,830)	4,066	(2,224)	-	(4,988)	1,366	(204)	300	(3,526)
General Fund Sub-Total	(31,930)	11,695	(17,270)	-	(37,505)	8,539	(17,782)	(61)	(46,809)
55. HRA - Regeneration Projects	-	-	-	-	-	-	(46)	-	(46)
56. HRA IT Recharges Reserve	-	-	-	-	-	-	(115)	-	(115)
HRA Sub-Total	-	-	-	-	-	-	(161)	-	(161)

(Cont'd Overleaf)

8. Transfers to/from Earmarked Reserves (cont'd)

	Balance at 31 March 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Movement Between Reserves 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Movement Between Reserves 2011/12 £000	Balance at 31 March 2012 £000
Revenue Grants									
57. ESA Implementation	(35)	-	-	-	(35)	-	-	35	-
58. Temp Accommodation Set-Up Costs	(6)	-	-	-	(6)	-	-	6	-
59. Regen Grant - LDA	(37)	37	(37)	-	(37)	37	-	-	-
60. Regen Grant	(42)	-	-	-	(42)	42	-	-	-
61. Migrant Impact Fund	(172)	-	(99)	-	(271)	-	-	-	(271)
62. LABGI	(451)	745	(451)	-	(157)	102	-	-	(55)
63. Regeneration Job Centre	(73)	73	(73)	-	(73)	73	-	-	-
64. Contact Point	(82)	82	-	-	-	-	-	-	-
65. Assistive Technology	(69)	69	-	-	-	-	-	-	-
66. Carers	(271)	211	-	-	(60)	61	(1)	-	-
67. Emergency Respite	(20)	20	-	-	-	-	-	-	-
68. Training Support	(588)	552	(32)	-	(68)	-	-	-	(68)
69. HRA & Climate Change	-	-	(8)	-	(8)	-	-	8	-
70. Catalyst Housing Support	-	-	(2)	-	(2)	-	-	-	(2)
71. Stroke Care	-	-	(90)	-	(90)	79	-	11	-
72. Single Regen Budget	-	-	(70)	-	(70)	-	-	-	(70)
73. TFL Street Management	-	-	(129)	-	(129)	-	-	-	(129)
74. Supporting People	-	-	(1,833)	-	(1,833)	-	(1,059)	-	(2,892)
75. LAA Waste Grant	-	-	(55)	-	(55)	3	-	-	(52)
76. Homelessness Grant	(294)	1,350	(1,633)	-	(577)	360	(129)	1	(345)
77. Overcrowding Grant	-	-	-	-	-	30	(39)	-	(9)
78. Probation Service Grant	-	-	-	-	-	-	(27)	-	(27)
79. Crime & Disorder	-	-	-	-	-	-	(39)	-	(39)
80. S106 - Revenue Schemes	(421)	107	(1,091)	-	(1,405)	56	(102)	-	(1,451)
81. Sports Grant	-	-	-	-	-	-	(4)	-	(4)
82. Barclays Sports Grant	-	-	-	-	-	-	(39)	-	(39)
Sub-Total	(2,561)	3,246	(5,603)	-	(4,918)	843	(1,439)	61	(5,453)
Total	(34,491)	14,941	(22,873)	-	(42,423)	9,382	(19,382)	-	(52,423)

9. Earmarked Reserves Description

The main purpose of each earmarked reserve is explained below:

1. Insurance Fund	- this was established to underwrite a proportion of the Council's insurable risks.
2. Controlled Parking Fund	- the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities.
3. Computer Replacement Fund	- this is for the enhancement to the Council's IT systems required to meet existing commitments and future demands.
4. IT Infrastructure	- this reserve has been set up for future IT improvement programmes.
5. Price Pressures	- this reserve is to address inflationary pressures to the council.
6. Efficiency Projects Reserve	- this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
7. Planned Maintenance	- this reserve is an underspend on revenue planned maintenance.
8. Environment Services Redundancy	- this reserve is a carry forward for major reorganisations.
9. Economic Downturn Reserve	- this reserve has been set up to deal with any effects of the current worldwide economic downturn.
10. Debtors/Creditors Review	- this reserve is set aside to meet the cost of a review of all balance sheet debtors and creditors held by the Council and to meet any costs of adjusting those balances.
11. PCT Integration Reserve	- this reserve was set up to fund any potential costs of the integration of the Hammersmith & Fulham PCT.
12. Dilapidations/Office Moves	- this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
13. Housing Benefit	- the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve is used to meet the cost of any adjustments.
14. DWP Grant for Housing Benefit Changes	- Grants received from DWP to make changes to systems for Housing Benefit changes.
15. Income System Enhancement	- this reserve was originally set up to fund the replacement or upgrade of the Council's cash collection IT system.
16. Planning Inquiries	- this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
17. LPFA Sub Fund	- this reserve has been set aside to cover a potential pensions liability to the LPFA.
18. Single Status	- this reserve was created to meet the costs of the implementation of Single Status. Local Authorities were required to introduce harmonised pay and conditions for staff by 31 March 2007.
19. Bishops Park	- this reserve has been set aside as part of the Bishops Park lottery funded development scheme.
20. Performance Reward Grant	- this was a reserve set up to hold funds from the Reward Grant passed to the Council by the Department of Communities & Local Government.
21. Imperial Wharf	- this reserve has been set up to under write the construction of Imperial Wharf Overground station.
22. No Recourse to Public Funds	- this reserve was established to provide services to people who have no recourse to public funds.
23. 24/7 Policing	- this reserve has been set up to fund the extension of the Safer Neighbourhood Teams 24/7 policing scheme.
24. Civic Accommodation Reserve	- this reserve is set aside to meet the preliminary costs that are emerging in connection with the Council's Civic Accommodation project.
25. PFI Reserve	- this reserve has been set up to meet the future indexations costs of the Council's Private Finance Initiative.
26. Online Housing Application	- set up to fund the development of an on-line Housing applications register.
27. Enhanced Housing Options	- this reserve has been set up to help fund the Enhanced Housing Options programme.
28. Temporary Accommodation	- this reserve has been set up to deal with possible shortfalls arising out of the introduction of a cap on rental income received for temporary accommodation.
29. Section 117 Reserve	- this money was set aside to meet the costs of any new cases arising out of charging for care under Section 117 of the Mental Health Act, 1983, that come to light.

8. Transfers to/from Earmarked Reserves (cont'd)

30.	Participle Projects	- this reserve was set up to cover the Participle Projects scheme funded from non-recurrent funds from social care grants and the PCT.
31.	Strokes Association Payments	- this reserve was set up to cover the Strokes Association scheme funded from non-recurrent funds from social care grants and the PCT.
32.	Preventative Services & Early Intervention	- this reserve was set up to cover the Preventative & Early Intervention scheme funded from non-recurrent funds from social care grants and the PCT.
33.	Pressures & Demands	- this reserve is to address non-recurring new financial pressures.
34.	Parks Reserve	- this was set up for the parks lighting inspection programme and redevelopment of Hurlingham Park to enhance safety.
35.	Archives Reserve	- the reserve is to help fund the Archives Service in 2012/13.
36.	Marketing Reserve	- this reserve is to promote the Commercial Services in 2012/13.
37.	Cemeteries Reserve	- this is to fund the digitalisation of the cemeteries service.
38.	Community Safety Reserve	- this is for funding the Integrated Offender Management Support Programme.
39.	Local Lead Flood Authority	- DEFRA grant monies given under the Flood & Water Management Act 2010.
40.	Business Incubator Units	- the reserve was set up for the Townmead and Sullivan Business Incubator units.
41.	Contribution to Local Election	- Funds set aside to fund next local election in 2016.
42.	Radios Reserve	- reserve to fund any liabilities incurred with the suppliers.
43.	Finance Development Initiative	- To fund IT & improvement initiatives within Finance and Corporate Governance.
44.	Electronic Data Mgt System	- To fund improvements in electronic data systems.
45.	Housing Options Re-org	- this is to fund the advice and support of Housing Options reorganisation.
46.	Temp Accom Health & Safety	- this reserve is to help fund any budgetary requirements in Temporary Accommodation.
47.	Review of Housing Register	- this reserve has been set up to review the housing register system.
48.	Tenants Incentive Scheme	- reserve for incentive payments to HRA tenants.
49.	Human Resources Reserve	- this is a reserve to fund any requirements in relation to Human Resources.
50.	Capital Reserve	- this is to facilitate the revenue cost of capital disposals.
51.	White City Neighbourhood	- this reserve is to fund the White City Community Budgets.
52.	Continuing Care Pressures	- this reserve has been set up to meet the demands of a potential future increase of cost related to social care.
53.	Corporate Redundancy	- this reserve was set up to cover any redundancy costs.
54.	Other Funds	- these comprise a number of other reserves held by various departments of the Council.
55.	HRA - Regeneration Projects	- this is a reserve to fund any costs of disposals exceeding the national cap.
56.	HRA IT Recharges Reserve	- this reserve is to fund any budgetary pressures with IT charges.
57. - 82.	Revenue Grants	- these are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).

9(a) Usable Reserves

The Council's usable reserves are explained below:

1.	General Fund Balances	- The General Fund includes any surplus after meeting net expenditure on Council Services.
2.	School Balances	- This balance is comprised of unspent revenue balances of schools and other educational establishments at the year end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.
3.	Earmarked Reserves	- Note 8 describes each Earmarked Reserve in detail.
4.	Capital Grants Unapplied	- These are capital grants with no payback conditions and have had no associated expenditure in 2011/12.
5.	Housing Revenue Account	- This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.
6.	Major Repairs Reserve	- The Major Repairs Reserve is available for financing major repairs to the Council's housing stock.
7.	Capital Receipts Reserve	- This reserve relates to the capital receipts from the sale of assets, such as Right-To-Buy properties and other general
8.	Capital Reserves	- This is to hold retained capital receipts from the sale of assets.

9(b) Unusable Reserves

The Council's unusable reserves are explained below:

1.	Revaluation Reserve	<p>The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:</p> <ul style="list-style-type: none">• revalued downwards or impaired and the gains are lost• used in the provision of services and the gains are consumed through depreciation, or• disposed of and the gains are realised. <p>The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.</p>
2.	Capital Adjustment Account	<p>The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.</p> <p>The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.</p>

8. Transfers to/from Earmarked Reserves (cont'd)

- | | | |
|----|--|--|
| 3. | Deferred Capital Receipts Reserve | The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. |
| 4. | Pensions Reserve | The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. |
| 5. | Financial Instruments Adjustment Account | The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. |
| 6. | Collection Fund Adjustment Account | The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. |
| 7. | Accumulated Absences Account | The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. |

10. Material Items of Income and Expense

Transactions in 2011/12

On March 28 2012, as part the national transition to HRA self-financing (under plans in the Localism Bill), the Government cancelled £197.4m of the Council's loans within the HRA. This has been recognised as taxation and non-specific grant income in the HRA (and consequently the Comprehensive Income and Expenditure Statement). It has been matched with a transfer to the Capital Adjustment Account to ensure no impact on the HRA or General Fund balance. A notional premium of £54.0m - associated with the cancellation of these loans - has been recognised within the Interest Payable and Similar charges line with the HRA (and the overall CIES) and matched with an associated credit in capital grants and contributions, again ensuring no net impact to the HRA or General Fund balance.

Transactions in 2010/11

In 2010/11 the Government announced that it plans to increase future pensions in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This change has resulted in a reduction of past service pension costs of £88.655 million. This has been recognised within "Non-distributed costs - General" in the Comprehensive Income and Expenditure Statement in accordance with SeRCOP.

In 2010/11 the Government revised the adjustment factor, applied to the cost of housing dwelling stock to derive an Existing Use Value - Social Housing (EUV-SH) valuation, from 37% to 25%. In addition the Council conducted a full revaluation of its dwelling stock as at 1 April 2010 in line with the proper practice set out in the Government guidance "Stock Valuation for Resource Accounting: Guidance for Valuers - 2010". Our last full revaluation was conducted as at 1 April 2005. As a result of these two factors a proportion of the assets were revalued downwards and revaluation losses in excess of the Revaluation Reserve balances for those assets totalled £465m, which is mainly the impact of the change in adjustment factor (£352m.) This has been recognised within "Local authority housing (HRA)" in the Comprehensive Income and Expenditure Statement in accordance with SeRCOP.

11. Other Operating Expenditure

	2011/12 £000	2010/11 (Restated) £000
Levies	2,412	2,654
Payments to the Government Housing Capital Receipts Pool	1,915	1,366
Gains/losses on the disposal of non-current assets	(32,574)	20,446
Trading Operations [See Below]	(1,514)	323
Other Operating Income	(2,789)	(517)
	(32,550)	24,272

The following Trading Operations operated during the year. Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. The table illustrates the surplus or deficit for each service.

	2011/12			2010/11		
	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000
Highways Division	(1,171)	1,090	(81)	(1,114)	1,113	(1)
Construction & Property Related Services	(637)	1,442	805	(301)	1,007	706
Catering	(9)	53	44	(35)	308	273
Industrial Estates and Misc Properties	(2,737)	292	(2,445)	(1,954)	1,014	(940)
Other	(104)	267	163	(540)	825	285
Net surplus on trading operations	(4,658)	3,144	(1,514)	(3,944)	4,267	323

12. Financing and Investment Income and Expenditure

	2011/12 £000	2010/11 (Restated) £000
Interest payable and similar charges	28,755	29,748
Pensions interest cost	48,377	50,461
HRA Self-Financing Settlement (Premium)	53,989	-
Expected return on pensions assets	(37,967)	(32,819)
Interest receivable and similar income	(1,705)	(1,902)
Income and expenditure in relation to investment properties and changes in their fair value	(23,081)	(14,889)
	68,368	30,599

13. Taxation and non-specific grant income

	2011/12 £000	2010/11 £000
Council Tax Income	(65,117)	(64,300)
Non domestic rates	(95,111)	(105,590)
Non-ringfenced government grants	(49,757)	(36,651)
Capital grants and contributions	(20,703)	(23,500)
	(230,688)	(230,041)
HRA Self-Financing Settlement (Principal and Premium Credit)	(251,343)	-
	(482,031)	(230,041)

14. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2011/12

	£000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2011	880,943	369,552	165,855	29,199	14,455	13,564	580	1,474,148	18,080
Additions	37,615	5,257	7,774	392	4,729	-	2,152	57,919	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,125	9,254	-	-	-	48	-	12,427	2,070
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,627)	(10,299)	-	-	-	(8,073)	-	(34,999)	-
Derecognition – disposals	(6,952)	(1,291)	-	-	-	-	-	(8,243)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(1,131)	(7,832)	-	-	-	(2,300)	-	(11,263)	-
Assets reclassified (to)/from Investment Properties	180	(7,820)	-	-	-	5,066	-	(2,574)	-
Other reclassifications	-	2,732	-	-	-	-	(2,732)	-	-
Other movements in cost or valuation	17	(4,170)	36	141	(632)	3,157	-	(1,451)	-
At 31 March 2012	897,170	355,383	173,665	29,732	18,552	11,462	-	1,485,964	20,150
Accumulated Depreciation and Impairment									
At 1 April 2011	(151)	(7,941)	(53,111)	(19,693)	(1,726)	-	-	(82,622)	(660)
Depreciation charge	(14,818)	(6,736)	(9,788)	(2,194)	(881)	-	-	(34,417)	(660)
Revaluation	14,969	7,751	-	-	-	-	-	22,720	1,320
Derecognition – disposals	-	20	-	-	-	-	-	20	-
Derecognition – other	-	2	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	1,467	(4)	(41)	45	-	-	1,467	-
At 31 March 2012	-	(5,437)	(62,903)	(21,928)	(2,564)	-	-	(92,832)	-
Net Book Value									
at 31 March 2012	897,170	349,946	110,762	7,804	15,988	11,462	-	1,393,132	20,150

14. Property, Plant and Equipment (cont'd)

Movements in 2010/11 (Restated)

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2010 (Restated)	1,411,345	387,336	159,318	27,879	10,766	12,366	236	2,009,246	18,080
Additions	57,647	11,239	6,537	1,346	4,115	900	467	82,251	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(57,979)	9,525	-	-	-	165	-	(48,289)	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(508,656)	(6,794)	-	-	-	(439)	-	(515,889)	-
Derecognition – disposals	(18,130)	(21,322)	-	(26)	(426)	(112)	(123)	(40,139)	-
Derecognition – other	(422)	(9,001)	-	-	-	(315)	-	(9,738)	-
Assets reclassified (to)/from Held for Sale	-	(274)	-	-	-	-	-	(274)	-
Other reclassifications	-	-	-	-	-	-	-	-	-
Other movements in cost or valuation	(2,862)	(1,157)	-	-	-	999	-	(3,020)	-
At 31 March 2011	880,943	369,552	165,855	29,199	14,455	13,564	580	1,474,148	18,080
Accumulated Depreciation and Impairment									
At 1 April 2010	-	(23,438)	(43,981)	(17,244)	(1,229)	-	-	(85,892)	-
Depreciation charge	(13,268)	(7,398)	(9,130)	(2,468)	(548)	-	-	(32,812)	(660)
Revaluation	13,088	12,363	-	-	-	-	-	25,451	-
Derecognition – disposals	4	2,633	-	19	51	-	-	2,707	-
Derecognition – other	-	7,859	-	-	-	-	-	7,859	-
Other movements in depreciation and impairment	25	40	-	-	-	-	-	65	-
At 31 March 2011	(151)	(7,941)	(53,111)	(19,693)	(1,726)	-	-	(82,622)	(660)
Net Book Value									
at 31 March 2011	880,792	361,611	112,744	9,506	12,729	13,564	580	1,391,526	17,420

(ii) Depreciation and useful life

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Council Dwellings	35 - 75 years
Other Land and Buildings	4 - 100 years
Infrastructure	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 48 years
Community Assets	4 - 73 years

14. Property, Plant and Equipment (cont'd)

(ii) Depreciation and Useful life (cont'd)

The amount charged to services in 2011/12 was:

Central services to the public	95
Cultural & Related Services	1,887
Environmental & Regulatory Services	884
Planning Services	795
Education and children's services	4,886
Highways and transport services	8,488
Local authority housing (HRA)	15,278
Other housing services	46
Adult social care	1,259
Non distributed costs - General	704
Other Operating Expenditure (Trading Operations)	95
	34,417

(iii) Effect of Changes in Estimates

In 2011/12 the Authority made no material changes to its accounting estimates for Property, Plant and Equipment.

(iv) Revaluation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The Authority has used the external valuation contractor Lambert Smith & Hampton to carry out the valuations under instruction from the authority's internal Valuation and Property Services. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations have an effective date of 1 April 2011.

The significant assumptions applied in estimating the fair values are:

- Valuations of owner occupied properties reflect special adaptations or particular suitability of the premises for the existing use, but specifically exclude, so far as possible value attributable to goodwill and alternative uses.
- No allowance has been made for any national or local tax whether existing or which may arise in the future.
- For non-Council Dwellings, the properties have been valued on an individual basis, thus envisaging that they will be marketed individually or in groups over an appropriate period of time.
- Except where specific information is available, properties have been properly maintained and are in good repair and condition.

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	1,365,698	412,995	110,762	7,804	15,988	12,131	-	1,925,378
Carried at Historical Cost	-	1,047	110,762	7,804	15,988	-	-	135,601
Valued at fair value as at:								
31 March 2012	897,170	171,215	-	-	-	5,460	-	1,073,845
31 March 2011	-	177,408	-	-	-	6,002	-	183,410
31 March 2010	-	-	-	-	-	-	-	-
31 March 2009	-	276	-	-	-	-	-	276
31 March 2008	-	-	-	-	-	-	-	-
	897,170	349,946	110,762	7,804	15,988	11,462	-	1,393,132

14. Property, Plant and Equipment (cont'd)

(v) Capital Commitments

Service Department	2011/12 £'000	2010/11 £'000
Environment, Leisure & Resident Services	3,038	4,100
Housing Revenue Account	8,700	17,600
Housing and Regeneration	2,200	9,300
	13,938	31,000

Capital commitments on major schemes at 31 March 2012 totalled £13.9m across the Council. The contractual commitments for ELRS relates to the Bishops Park / Fulham Palace project (£0.7m) and the Shepherds Bush Common (£2.3m) project. The Housing Revenue Account contractual commitment relates to the Decent Homes Programme - Partnering framework £8.7m. The Housing and Regeneration Service commitment relates to Edward Woods estate regeneration - Tower Block Overcladding £2.2m.

(vi) Impairment Losses

The Council values its dwellings in accordance with the proper practice set out in the Government guidance "Stock Valuation for Resource Accounting: Guidance for Valuers - 2010". Under the requirements of the "beacon system" of valuation and 75 per cent discount applied to the open market valuation of the dwellings using the "Existing Use Valuation - Social Housing" methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 25 per cent of the capital expenditure incurred upon it. The Code and associated Guidance Notes for Practitioners require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. The Council has impaired £28.1m it spent enhancing its dwelling stock and charged the impairment to the Surplus or Deficit on the Provision of Services.

The Council conducted a full revaluation of its dwelling stock as at 1 April 2010 in line with the proper practice set out in the Government guidance "Stock Valuation for Resource Accounting: Guidance for Valuers - 2010." Subsequently, a desk-top revaluation on dwellings as at 1 April 2011 was completed. A proportion of the assets were revalued downwards and revaluation losses in excess of the Revaluation Reserve balances for those assets totalling £0.6m were debited to the Surplus or Deficit on the Provision of Services.

15. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2011/12 £000	2010/11 £000
Rental income from investment property	(6,200)	(3,828)
Direct operating expenses (including repairs and maintenance) arising from investment properties	176	273
Net (gain)/loss	(6,024)	(3,555)

(i) Revaluation

In 2011/12 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31st March 2012. The work was undertaken by our independent external valuers - Lambert, Smith, Hampton, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The valuation bases are in accordance with the Statement of Asset Valuation Practices and Guidance Notes of RICS.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The following table summarises the movement in the fair value of investment properties over the year:

	31 March 2012 £000	31 March 2011 (Restated) £000
Balance at start of the year	62,448	44,129
Additions:		
• Purchases	-	18,021
• Construction	-	-
• Subsequent expenditure	772	1,429
Disposals	(3,320)	(6,026)
Net gains/losses from fair value adjustments	23,080	2,058
Transfers:		
• to/from Inventories	-	-
• to/from Property, Plant and Equipment	2,574	2,837
• to/from Assets Held for Sale	(8,050)	-
Other changes	16	-
Balance at end of the year	77,520	62,448

16. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses.

(i) Movements on Balances

The movement on Intangible Asset balances during the year is as follows:

	2011/12			2010/11		
	Internally Generated Assets £000	Other Assets £000	Total £000	Internally Generated Assets £000	Other Assets £000	Total £000
Balance at start of year:						
• Gross carrying amounts	-	3,666	3,666	-	2,896	2,896
• Accumulated amortisation	-	(2,268)	(2,268)	-	(2,066)	(2,066)
Net carrying amount at start of year	-	1,398	1,398	-	830	830
Additions:						
• Internal development	-	-	-	-	-	-
• Purchases	-	97	97	-	811	811
• Acquired through business combinations	-	-	-	-	-	-
Assets reclassified as held for sale	-	-	-	-	-	-
Disposals - Cost	-	-	-	-	(41)	(41)
Disposals - Amortisation	-	-	-	-	21	21
Revaluation increases or decreases	-	-	-	-	-	-
Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-	-	-	-	-
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Amortisation for the period	-	(269)	(269)	-	(223)	(223)
Amortisation transferred to/(from) PPE	-	4	4	-	-	-
Other changes	-	(36)	(36)	-	-	-
Net carrying amount at end of year	-	1,194	1,194	-	1,398	1,398
Comprising:						
• Gross carrying amounts	-	3,728	3,728	-	3,666	3,666
• Accumulated amortisation	-	(2,534)	(2,534)	-	(2,268)	(2,268)
	-	1,194	1,194	-	1,398	1,398

There are no items of capitalised software that are individually material to the financial statements.

(ii) Amortisation and Useful Life

All intangible assets are given a finite useful life, based on assessments of the period that the intangible asset is expected to be of use to the Council. The useful lives assigned to intangible assets range from 3 years to 10 years.

The carrying amount of intangible assets is amortised on a straight-line basis. £61k of the amortisation of £269k charged to revenue in 2011/12 was charged to the service headings in the Net Expenditure of Services where appropriate. The balance was charged to the Service Management and Support Services cost centres and then absorbed as an overhead across all services.

The amount charged to services in 2011/12 was:

	£000
Central Service to the Public	31
Cultural & Related Services	17
Environmental & Regulatory Services	16
Planning Services	36
Children's & Education Services	42
Highways and Transport Services	23
HRA	48
Other Housing Services	15
Adult Social Care	39
Non-Distributed Costs	2
	269

16. Intangible Assets (cont'd)

(iii) Effect of Changes in Estimates

In 2011/12 the Authority made no changes to its accounting estimates for intangible assets.

(iv) Revaluation

IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be determined by reference to an active market. There is no active market for the Authority's intangible assets and therefore intangible assets are not revalued. Intangible assets are therefore carried at its cost less any accumulated amortisation and any accumulated impairment loss.

(v) Capital Commitments

The Council does not have any major commitments in relation to Intangible Assets.

17. Heritage Assets

Reconciliation of the carrying value of heritage assets held by the authority.

(i) Movements on Balances

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2010	7,688	131	118	86	8,023
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in Surplus/Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
At 31 March 2011 (Restated)	7,688	131	118	86	8,023
Cost or Valuation					
At 1 April 2011	7,688	131	118	86	8,023
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in Surplus/Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
At 31 March 2012	7,688	131	118	86	8,023

Heritage Assets

Tangible Heritage assets owned by the Council are mostly held in the following 3 locations: (i) Leighton House Museum (ii) the Lilla Huset Archive and (iii) Hammersmith Town Hall. Leighton House Museum which is located in Kensington & Chelsea has been loaned a collection of bequeathed paintings known as the Cecil French Bequest. The Lilla Huset Archive is open to the public and has collections of Heritage assets which are held in support of increasing the knowledge, understanding and appreciation of Hammersmith & Fulham's history and local area, including the Mylne Bequest. Hammersmith Town Hall principally holds the Mayor's regalia and related artefacts.

Heritage Assets Policy

The Authority's policy for the acquisition, preservation, management and disposal of heritage assets is described below:

- There is no proactive Council policy to acquire heritage assets through purchases, however heritage assets may be donated and received by the Council. The volume of bequests is currently static and is generally very stable and is not subject to significant change / movement.
- The preservation and management of heritage assets contained within the Cecil French Bequest and the borough's archives is the responsibility of the Director of Cleaner, Greener & Cultural Services and Head of Culture within the Environment, Leisure and Residents' Services Department of the Council. All other heritage assets are maintained and preserved for historical and cultural purposes by the relevant Department. Insurance, planning and finance services are also indirectly involved with the management of these assets through record-keeping etc. There are no directly employed archivists or curators, the service relies on volunteers for support.
- There is currently no known intention to dispose of any heritage assets owned by the Council and typically the disposal of bequests and donations are restricted under the terms in which they are gifted to the Authority. If disposals were to occur in the future, any proceeds would be accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

17. Heritage Assets (cont'd)

Valuation Policy

Bonhams - International Auctioneers and Valuers were commissioned by Hammersmith & Fulham Council to carry out a **market basis valuation** on their significant heritage assets in accordance with **Council policy. The effective date of the valuation was 21 March 2012, and was conducted by an experienced professional Valuer. The Council has disclosed Heritage Assets on a market valuation basis on the balance sheet.** The valuation portfolio comprised of three separate components - the Cecil French Bequest, some items held at Lilla Huset and Hammersmith Town Hall. The Cecil French Bequest consists of 51 separate items which are visited by the public and are sometimes loaned for overseas exhibitions. A market valuation of over 147 assets at Lilla Huset and valuations of over 19 items at Hammersmith Town Hall are reported.

(ii) Further analysis

Heritage assets are analysed in 4 categories by the Council as below:

	Art Collections (A)	Books & Printed Materials (B)	Ceramics & Glass (C)	Other Heritage Assets (D)	Total £000
	£000	£000	£000	£000	£000
The Cecil French Bequest	7,648	-	-	-	7,648
The Lilla Huset	40	131	118	23	312
Hammersmith Town Hall	-	-	-	63	63
At 31 March 2012	7,688	131	118	86	8,023

A Art Collections

This category consists of pictures and works of art including historical paintings, sketches and other artwork totalling £7.7m. The Cecil French Bequest was recognised at a market value of £7.6m. For the remaining art collection category items, these are all located at Lilla Huset and valued at £40k.

Cecil French Bequest

This is a collection of British drawings and watercolours, and Victorian and traditionalist pictures which were bequeathed to the then Metropolitan Borough of Fulham by Cecil French.

B Books & Printed Materials

This category consists of books and other printed material including pictures, drawings and prints.

Pictures, Drawings and Prints

This is a collection of pictures, engravings, drawings and prints, many of which have local significance for example, they are views of Hammersmith or Fulham or both.

C Ceramics & Glass

This category consists of ceramics and glass (also refer to the Decorative Arts paragraph below).

D Other Heritage Assets

This category consists of clocks, watches, coins, general items, jewellery, silver items, vertu, other decorative arts and the Mylne Bequest.

Decorative Arts

This is a collection of ceramics, stoneware, clocks, watches, coins, jewellery and vertu. Much of this is of historic local significance; for example Fulham Pottery and Martin Brothers (Fulham) stoneware.

Mylne Bequest

This is a collection of mainly silver dinnerware, plated objects and manuscripts bequeathed by a Jessy Mylne and located in the Lilla Huset. She was local resident who donated her house and its contents to the then Metropolitan Borough of Hammersmith in 1940.

Authority Records of Heritage Assets

A description of the records maintained by the authority of its collection of heritage assets and information on the extent to which access to the assets is permitted is as follows:

For heritage assets which are located within the borough, but where there is lack of conclusive evidence that the Council possesses direct ownership of those assets, the policy is to not bring the value of the asset (if known) onto the balance sheet. The Council is aware of various artworks/historic sculptures which are located in parks. However a review of these assets by our Planning team has concluded that ownership of these by the Council is uncertain so no values (these are not readily available) are reported in respect of these assets in the balance sheet. It would be not practicable or economically viable to report these assets other than disclose knowledge of the listings.

Historic Sculptures

An online database of historic sculptures, artefacts and monuments in the borough has been produced in association with the Hammersmith and Fulham Historic Buildings Group and English Heritage and is located on the LBHF website. For the historic sculptures - these have not been valued and so are not stated in the balance sheet. It was primarily deemed "not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements" in the absence of basic historical cost information which may have indicated the extent of the economic value and whether a more up-to-date valuation would be beneficial to obtain within the Council's budget constraints (in accordance with para 4.10.2.8 of the CIPFA Accounting Code of Practice).

Other Information

It is not practicable to provide information including the cost of acquisition of heritage assets, the value of the assets, any disposals and any impairments for the four accounting periods before 1 April 2010. However, information is provided for the year beginning 1 April 2010 and this is contained within Note 42.

18. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2011/12 £000	2010/11 £000
Opening Capital Financing Requirement	551,109	552,972
Capital Investment		
Property, Plant and Equipment	57,916	77,813
Investment Properties	772	6,490
Intangible Assets	98	811
Revenue Expenditure Funded from Capital under Statute	5,555	6,482
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(25,179)	(27,298)
Government grants and other contributions	(38,054)	(60,667)
Sums set aside from revenue:		
Direct revenue contributions	(901)	(953)
MRP/loans fund principal	(4,200)	(4,541)
Voluntary Application of Capital Receipts	(18,769)	-
Deferred costs of capital disposals	2,243	-
Debt Resettlement (HRA)	(197,354)	-
Closing Capital Financing Requirement	333,236	551,109
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(3,744)	(812)
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(249)	(232)
Debt Resettlement (HRA)	(197,354)	-
Voluntary application of Capital Receipts to repay debt	(18,769)	-
Deferred costs of capital disposals	2,243	-
Assets acquired under finance leases	-	(717)
Assets acquired under PFI/PPP contracts	-	(102)
Increase/(decrease) in Capital Financing Requirement	(217,873)	(1,863)

19. Leases (Finance and Operating)

Council as Lessee

Finance Leases

The Council has acquired some office space, much of its IT and some vehicles under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2012 £000	31 March 2011 £000
Other Land and Buildings	326	435
Vehicles, Plant, Furniture and Equipment	2,507	3,193
	2,833	3,628

19. Leases (Finance and Operating) (cont'd)

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2012 £000	31 March 2011 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	856	771
• non-current	2,328	3,184
Finance costs payable in future years	766	1,164
Minimum lease payments	3,950	5,119

The lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Not later than one year	1,169	1,169	856	771
Later than one year and not later than five years	2,780	3,738	2,328	2,991
Later than five years	-	212	-	193
	3,950	5,119	3,184	3,955

The Council has neither sub-let any of the accommodation or equipment held under the finance leases nor is paying any rental in excess of the contractual minimum lease payments

Operating Leases

The Council has acquired some office accommodation, hostels, depot facilities and a range of vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2012 £000	31 March 2011 £000
Not later than one year	1,390	1,677
Later than one year and not later than five years	3,151	3,441
Later than five years	5,812	6,436
	10,353	11,554

The Council has sub-let some of the accommodation and equipment held under these leases. At 31st March 2012 the minimum income expected to be received under non-cancellable sub-leases was £422,000 (£542,000 at 31st March 2011).

The expenditure charged to the service revenue accounts during the year in relation to these leases was:

	2011/12 £000	2010/11 £000
Minimum lease payments	2,246	2,558
Contingent rents	774	738
Sublease payments receivable	(118)	(130)
	2,902	3,166

19. Leases (Finance and Operating) (cont'd)

Council as Lessor

Finance Leases

In 2011/12 the Council had two properties let on long term commercial leases which qualified as finance leases. One of these leases was disposed of in February 2012. The Council has a gross investment in the remaining lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. 2010/11 Comparatives have been revised to better reflect the disclosure requirements of IAS17. There is no impact on primary financial statements. The gross investment is made up of the following amounts:

	31 March 2012 £000	31 March 2011 £000
Finance lease debtor (net present value of minimum lease payments):		
• current	1	2
• non-current	1,327	1,454
Unearned finance income	10,255	11,070
Unguaranteed residual value of property	890	927
Gross investment in the lease	12,473	13,454

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments (Net Present Values)	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Not later than one year	134	165	126	128
Later than one year and not later than five years	534	649	437	446
Later than five years	11,805	12,640	1,656	2,137
	12,473	13,454	2,218	2,711

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into such as rent reviews. In 2011/12 £415,000 contingent rents were receivable by the council (£412,000 in 2010/11).

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, day centres and community centres.
- for economic development purposes providing suitable affordable accommodation for local businesses.
- as an investment to make the use of the Council's assets.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2012 £000	31 March 2011 £000
Not later than one year	2,275	2,265
Later than one year and not later than five years	7,553	7,608
Later than five years	24,653	24,401
	34,480	34,274

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £320,000 contingent rents were receivable by the Council (2010/11 £341,000).

20. Private Finance Initiative

2011/12 was the seventh year of a 25-year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created three new nursing homes (one of which was completed one year later than the other two). Hammersmith & Fulham PCT also share the services provided at these sites through a back-to-back agreement with the Council.

This is a 25 year contract, at the end of which ownership of the homes reverts to the Council. There have been no variations made to the contract in 2011/12. Payments are adjusted annually for RPI.

Property Plant and Equipment

The assets used to provide services at the residential care and nursing homes and sheltered accommodation are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 14.

Payments

The Council makes an agreed payment each year (Unitary Charge) which is adjusted each year by inflation and three yearly by market conditions, and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. The annual Unitary Charge has been split into service charge, liability and interest.

Payments remaining to be made under the PFI contract at 31 March 2012 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment			
	for			
	Services	Liability	Interest	Total
	£000	£000	£000	£000
Payable in 2012/13	5,112	129	1,287	6,528
Payable within two to five years	20,905	708	4,956	26,569
Payable within six to ten years	28,460	1,571	5,510	35,541
Payable within eleven to fifteen years	31,532	3,014	4,067	38,613
Payable within sixteen to twenty years	23,257	3,587	1,287	28,131
	109,266	9,009	17,107	135,382

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2011/12	2010/11
	£000	£000
Balance outstanding at start of year	9,123	9,224
Payments during the year	(114)	(101)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	9,009	9,123

21. Debtors

	31 March 2012 £000	31 March 2011 £000
Central government bodies	14,573	16,937
Other local authorities	2,352	-
NHS bodies	3,519	738
Public corporations and trading funds	12	-
Other entities and individuals	44,915	44,380
Total	65,371	62,055

22. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	Current Assets		
	31 March 2012 £000	31 March 2011 £000	01 April 2010 £000
Cash held by the Council	534	395	320
Bank current accounts	2,560	2,401	2,061
School bank accounts	13,622	15,404	12,577
Short-term deposits	84,300	40,400	67,000
Total	101,016	58,600	81,958

	Current Liabilities		
	31 March 2012 £000	31 March 2011 £000	01 April 2010 £000
Bank overdraft	(849)	(4,329)	(14,230)
	(849)	(4,329)	(14,230)
Net Cash and Cash Equivalents	100,167	54,271	67,728

23. Assets Held For Sale

All Assets Held for Sale have been classified as Current as sales are expected within 12 months from balance sheet date.

	Current Assets	
	31 March 2012 £000	31 March 2011 £000
Balance outstanding at start of year	234	740
Assets newly classified as held for sale:		
• Property, Plant and Equipment	11,263	-
• Intangible Assets	-	-
• Investment Properties	8,050	234
• Other assets/liabilities in disposal groups	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Assets declassified as held for sale:		
• Property, Plant and Equipment	-	-
• Intangible Assets	-	-
• Investment Properties	-	-
• Other assets/liabilities in disposal groups	-	-
Assets sold	(234)	(740)
Transfers from non-current to current	-	-
Other movements	-	-
Balance outstanding at year-end	19,313	234

24. Creditors

	31 March 2012 £000	31 March 2011 £000
Central government bodies	(19,604)	(27,894)
Other local authorities	(9,346)	-
NHS bodies	(635)	(425)
Public corporations and trading funds	(35)	-
Other entities and individuals	(78,183)	(67,181)
Total	(107,803)	(95,500)

25. Other Long Term Liabilities

	31 March 2012 £000	31 March 2011 £000
Net Pensions Liability	(420,245)	(324,496)
Long Term Lease Liability	(11,208)	(13,077)
Deferred Liabilities	(7)	(7)
TOTAL	(431,460)	(337,580)

26. Provisions

	Insurance £000	Other Provisions £000	Total £000
Balance at 1 April 2010	(4,225)	(340)	(4,565)
Additional provisions	-	(2,389)	(2,389)
Amounts used	-	85	85
Unused amounts reversed	3,635	-	3,635
Unwinding of discount	-	-	-
Balance at 31 March 2011/1 April 2011	(590)	(2,644)	(3,234)
Additional provisions	(275)	(1,683)	(1,958)
Amounts used	-	1,227	1,227
Unused amounts reversed	-	62	62
Unwinding of discount	-	-	-
Balance at 31 March 2012	(865)	(3,038)	(3,903)
<i>Of which:</i>			
Next twelve months	(865)	-	(865)
Over twelve months	-	(3,038)	(3,038)
Balance at 31 March 2012	(865)	(3,038)	(3,903)

Insurance

The council has increased the insurance provision by £275k (held for known future insurance claims resulting from the Authority's self-insurance of liability risks and fire damage) as a result of the recent review of Insurance claims. The updated provision is based on figures from insurers (Zurich) and reflects claims they have currently received for which they expect payment in the next 12 months.

Other Provisions include:

- £950k to cover potential shortfalls in funding for Specific Childcare.
- £580k to cover a potential shortfall in funding for Unaccompanied Asylum Seeking Children.
- £563k was raised for PFI inflation rate which the Council is negotiating with the contractor.
- £443k for anticipated redundancy costs as a result of Tri- Borough working initiatives.
- £221k for a possible risk of a judicial review against a ruling in respect of a potential refund for 5 Section 117 cases living in a supported accommodation.
- £188k to cover any potential shortfall in the funding of New Deal for Communities.
- £93k for various provisions.

27. Financial Instruments

(i) Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term			Current		
	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000
Financial Assets:						
Loans and Receivables						
Investments	100	2,816	2,654	25,503	30,413	70,398
Cash & cash equivalents	-	-	-	101,016	58,600	81,958
Long Term Debtors	2,372	3,312	3,544	-	-	-
Trade Debtors	-	-	-	60,081	60,041	46,110
Total	2,472	6,128	6,198	186,600	149,054	198,466
Financial Liabilities :						
Measured at amortised cost						
Borrowings	(262,302)	(459,670)	(475,289)	(3,891)	(21,855)	(5,855)
Bank overdraft	-	-	-	(849)	(4,329)	(14,230)
Long Term Creditors	(100)	(100)	(100)	-	-	-
Trade Creditors	-	-	-	(22,429)	(66,022)	(60,491)
Total	(262,402)	(459,770)	(475,389)	(27,169)	(92,206)	(80,576)
Other Long Term Liabilities						
PFI & Finance Lease liabilities	(9,005)	(14,238)	(15,513)			

Note 1 - Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent including accrued interest.

Note 2 - Fair value has been measured by direct reference to published price quotations in an active market.

The amounts for trade debtors and creditors are the values identified in Notes 21 and 24 to the accounts gross of any

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2011/12 or previous years.

(iii) Income, Expense, Gains and Losses

	2011/12			2010/11		
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	26,646	-	26,646	29,748	-	29,748
Losses on derecognition	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-
Impairment losses	-	-	-	-	139	139
Fee expense	-	-	-	131	-	131
Total expense in Surplus or Deficit on the Provision of Services	26,646	-	26,646	29,879	139	30,018
Interest income	-	(1,705)	(1,705)	-	(1,902)	(1,902)
Increases in fair value	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-
Fee income	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	(1,705)	(1,705)	-	(1,902)	(1,902)
Net gain/(loss) for the year	26,646	(1,705)	24,941	29,879	(1,763)	28,116

27. Financial Instruments (cont'd)

(iv) Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term investments are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Public Works Loan Board (PWLB) loans have been valued using the new borrowing rates published by the Debt Management Office (DMO) on 31st March 2012.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- The fair value of trade debtors and creditors are taken to be the invoiced amounts.
- The fair value of cash, overdrafts and other cash equivalents is taken to be the carrying value.

The amount for long term debtors at 31/3/2012 represents outstanding mortgages, firstly on sold Council Houses of £268,000 (£392,000 at 31/3/2011), secondly private sector mortgages of £9,000 (£9,000 at 31/3/2011, net of impairments), and lastly a long term loan to the Hammersmith & Fulham Bridge Partnership (HFBP), balance £2,094,000 (£2,910,000 at 31/3/2011). As the interest rate charged to mortgagees is linked to the market rate and given the relatively small amount outstanding fair value is taken to be the carrying value. The HFBP loan is charged at current market rates. Therefore any difference between carrying and fair value on long term debtors would be insignificant.

£100,000 of the Long Term investment at 31/3/2011 (£100,000 at 31/3/2012) shown above relates to the Council's investment in the GLE Group matched by the long term creditor of the same amount. Again as any difference in values would be insignificant the fair value is taken to be the carrying value for both the investment and the liability.

The fair values calculated for the remaining instruments which consist of the Council's borrowings and investments are as follows:

	31 March 2012		31 March 2011	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
<u>Borrowings</u>				
PWLB Debt	(262,067)	(291,736)	(481,525)	(473,362)
Total	(262,067)	(291,736)	(481,525)	(473,362)
Financial Assets				
<u>Loans and receivables</u>				
Money market loans less than one year	25,503	25,503	33,129	33,052
Money market loans greater than one year	-	-	-	-
Total	25,503	25,503	33,129	33,052

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB new borrowing rate as the discount factor. If the premature redemption rate were to be used, the fair value would be £377,448,499.29 as at 31st March 2012.

The fair value for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB loan rates at each Balance Sheet date. They include accrued interest.

27. Financial Instruments (cont'd)

At 31st March 2012, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to be approximate fair value; the figure for both years includes accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

28. Nature and Extent of Risks Arising from Financial Instruments

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

- credit risk - the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments
- Re-financing risk: the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Overall Procedures for Managing Risk

- by formally adopting the requirements of the Code of Practice on Treasury Management in the Public Services;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting the Council's:

- o overall borrowing;
- o maximum and minimum exposures to fixed and variable rates;
- o maximum and minimum exposures for the maturity structure of its debt;
- o maximum annual exposures to investments maturing beyond a year; and

- by approving an investment strategy for the forthcoming year that sets criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's Council Tax is set and Revenue Budget approved. These items are reported within the Annual Treasury Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

These policies are implemented by the treasury team. The Council maintains written principles for overall risk management and written policies (Treasury Management Practices – TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirement of the investment criteria. Additional selection criteria are also applied after this initial criteria is applied.

The Council uses the creditworthiness service provided by Sector. This service uses a modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

28. Nature and Extent of Risks Arising from Financial Instruments (cont'd)

The Council's minimum ratings are:

Sovereign Rating AA+

	Long Term	Short Term	Individual	Support
Fitch	A-	F2	bbb-	2
Moody's	A3	P-2	C	
S&P	A-	A-3		

UK Institutions provided with support from the UK Government

The Council's maximum exposure to credit risk in relation to its investments in bank cannot be assessed generally as the risk of any institutions failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31st March 2012 that this was likely to crystallise.

While the ongoing crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties using only UK banks, AAA Money Market Funds and the Debt Management Office.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparty in relation to outstanding deposits or non investment activity related to financial instruments.

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in Note 21. The sums shown are net of a prudent provision for their impairment amounting to £32.650 million at 31/3/2012 (£28.258 million at 31/3/2011). The council does not normally allow credit for its customers.

The past due but not impaired amount can be analysed by age as follows:

	31 March 2012 £000	31 March 2011 £000
Less than three months	27,397	49,437
Three to six months	6,049	2,591
Six months to one year	6,805	1,804
More than one year	19,830	6,208
	60,081	60,040

Liquidity Risk

The Council manages its liquidity position through the risk management procedure set out above and through cash flow management procedures required by the Code of Practice on Treasury Management in the Public Services. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow needs, while the PwLB provides access to longer term funds, it also acts as a lender of last resort to local authorities (although it will not provide funding to an authority whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The council maintain a significant debt and investment portfolio. While the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

28. Nature and Extent of Risks Arising from Financial Instruments (cont'd)

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The Council's treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of **financial liabilities** is as follows:

	31 March 2012 £000	31 March 2011 £000
Less than one year	-	16,000
Between one and two years	11,556	174
Between two and five years	25,689	52,882
Between five and ten years	33,090	70,400
More than ten years	191,832	336,064
Total	262,167	475,520

The maturity analysis of **financial assets** is as follows:

	31 March 2012 £000	31 March 2011 £000
Less than one year	23,031	149,054
Between one and two years	-	3,656
Between two and three years	-	-
More than three years	2,472	2,472
Total	25,503	155,182

The above tables exclude trade payables and receivables and cash and cash equivalents all of which are due to be paid/received within one year. The table also excludes the effect of premia and discounts.

Market Risk

Interest Rate Risk: The Council is exposed to interest rate movement on its borrowings and investments. Movement in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instruments durations. For instance, a rise in variable and fixed interest rates would have the following effects.

Borrowings are not carried out at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowing and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Strategy Report draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The Strategy sets a treasury indicator that provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team monitors market and forecast interest rates within the year and adjusts exposure appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns; similarly the drawing of longer term fixed rate borrowing would be postponed.

28. Nature and Extent of Risks Arising from Financial Instruments (cont'd)

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

The Council has no variable rate borrowing and no fixed rate investments. If all interest rates had been 1 per cent higher with all other variables held constant the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowing	-
Increase in interest receivable on variable rate investments	(1,020)
Impact on the CIES	(1,020)
Increase in Government grant receivable for financing costs	-
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value for fixed rate borrowings liabilities (no impact (CIES))	31,391

The approximate impact of a 1 per cent fall in interest rates would be as above, but with the movement being reversed. These assumptions are based on the same methodology as used in the note: Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk: the Council, excluding the Pension Fund, does not generally invest in equities or marketable bonds.

Foreign exchange risk: the Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movement in exchange rates.

29. Cash Flow Statement - Net Cash Flow from Operating Activities

	2011/12 £000	2010/11 £000
Adjustment for items included elsewhere in the Cash Flow Statement		
Capital Grants	(32,046)	(14,973)
Adjustment for 'non-cash' items included in the Comprehensive Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	34,687	33,035
Impairments and revaluations	(3,116)	513,830
Value of non-current assets derecognised on disposal	11,539	27,713
Assets transferred to 'Assets Held for Sale'	19,316	391
(Increase)/decrease in Capital Debtors	(204)	-
Increase/(decrease) in Capital Creditors	(3,451)	2,645
(Increase)/decrease in Long-term Debtors	940	232
Net adjustment made in respect of IAS 19 (Pensions)	5,470	(73,186)
Transfer of assets on the conversion of schools to Academy status	(2,628)	-
Amortisation of Premia and Discounts	(493)	506
Impairment of Financial Instruments	-	(140)
HRA Debt Resettlement	(197,354)	-
Adjustment for Collection Fund Debtors and Creditors	-	33,034
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors	(7,783)	(5,050)
Increase/(decrease) in short-term Creditors	5,696	(33,499)
(Increase)/decrease in 'Assets Held for Sale'	(19,079)	506
(Increase)/decrease in Inventories	19	(2)
Increase/(decrease) in Provisions	669	(1,331)
Increase/(decrease) in Grants and Contributions Receipts in Advance	15,209	(7,031)
Net Cash Flow from Operating Activities	(172,609)	476,681

The cash flows for operating activities include the following items:

	2011/12 £000	2010/11 £000
Interest Received	1,545	2,082
Interest Paid	(28,098)	(29,360)

30. Agency Services

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

The expenditure and income relating to agency services is not included in the Income and Expenditure Account, since it is not incurred as part of the authority's normal responsibilities. However, a surplus of £127,000 has been made in relation to Thames Water, for whom collection from tenants is carried out. This surplus is included in the Housing Revenue Account Net Cost of Service.

	2011/12	2010/11
	£000	£000
Capital Ambition - Revenue	3,078	8,705
Capital Ambition - Capital	646	3,400
Joint Improvement Programme	1,787	2,202
Thames Water - Collection from Tenants	3,974	3,532
Total	9,485	17,839

31. Members' Allowances

The Council paid the following amounts to members of the council during the year.

	2011/12	2010/11
	£000	£000
Members' Allowances	870	878

32. Officers' Remuneration

The remuneration as paid through the Council's payroll to the Council's Chief Executive, Executive Directors and employees earning over £150,000 in 2011/12 are as follows:

	Notes		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
Geoff Alltimes - Chief Executive	1	2011/12	108,945	-	-	-	18,218	127,163
		2010/11	215,591	10,194	-	-	55,881	281,666
Jane West - Executive Director of Finance & Corporate Governance		2011/12	154,552	13,910	-	-	-	168,462
		2010/11	151,522	13,637	-	-	40,974	206,133
Nigel Pallace - Bi-Borough Executive Director Transportation & Technical Services	2	2011/12	149,610	11,221	-	-	39,725	200,556
		2010/11	146,676	10,267	-	-	38,922	195,865
James Reilly - Chief Executive of CLCH	3	2011/12	166,545	-	-	-	41,137	207,682
		2010/11	139,566	6,607	-	-	34,604	180,777
Andrew Christie - Tri-Borough Executive Director of Children's Services	4	2011/12	62,338	-	323	-	15,397	78,058
		2010/11	146,676	11,734	689	-	39,268	198,367
Lyn Carpenter - Bi-Borough Executive Director Environment, Leisure & Residents Services	5	2011/12	146,709	9,879	-	-	38,677	195,265
		2010/11	124,913	8,652	-	-	33,237	166,802
Melbourne Barrett - Executive Director of Housing & Regeneration		2011/12	121,290	7,200	-	-	26,667	155,157
		2010/11	-	-	-	-	-	-
Michael Cogher - Director of Legal Services	6	2011/12	114,803	13,020	17	-	31,572	159,412
		2010/11	114,062	5,703	11	-	29,644	149,420
Andrew Webster - Tri-Borough Executive Director of Adult Social Care	7	2011/12	46,667	-	-	-	11,527	58,194
		2010/11	-	-	-	-	-	-
Sir William Atkinson - Head Teacher Phoenix High School	8	2011/12	89,532	-	9,628	-	-	99,160
		2010/11	166,180	-	-	-	23,431	189,611

Note 1 - Geoff Alltimes left LBHF on 31 October 2012. Derek Myers took over the role of Chief Executive on a job sharing arrangement with the Royal Borough of Kensington & Chelsea (RBKC). Derek Myers, who is on the RBKC payroll, received total remuneration in 2011/12 from RBKC of £266,991. The proportion of this cost met by LBHF was £59,693.

Note 2 - Nigel Pallace was appointed Bi-Borough Executive Director of Transportation & Technical Services on 3 January 2012 with RBKC. Nigel Pallace remains on the LBHF payroll and his total remuneration for the year is shown in the table above. In 2011/12 the proportion of this cost met by RBKC was £9,370.

Note 3 - James Reilly is the Chief Executive of the Central London Community Healthcare NHS Trust (CLCH) since February 2011. The salary incurred by LBHF is fully recharged to the CLCH. He was previously the Director of Adult Social Care.

Note 4 - Andrew Christie's employment with LBHF was transferred to RBKC on 1 September 2011 as part of the tri-borough programme. Andrew Christie's total remuneration for the year was £183,832. This includes the amount shown in the table above (£78,058) which was the cost borne by LBHF prior to the Tri-Borough arrangement. The remaining £105,774 is disclosed in the RBKC Statement of Accounts who became the host authority on 1 September 2011. Of the remuneration incurred following the Tri-Borough arrangement, LBHF have contributed £46,240.

Note 5 - Lyn Carpenter was appointed Bi-Borough Executive Director of Environment, Leisure and Residents' Services on 3 January 2012 with RBKC. Lyn Carpenter remains on the LBHF payroll and her total remuneration for the year is shown in the table above. In 2011/12 the proportion of this cost met by RBKC was £23,012.

Note 6 - The full salary of the Director of Legal Services is given above. A job sharing arrangement with the RBKC has been in place since June 2009. In 2011/12 £75,450 (2010/11: £75,000) was received from RBKC in respect of this arrangement.

Note 7 - Andrew Webster was appointed Tri-Borough Executive Director of Adult Social Care on 1 December 2011. In 2011/12 £13,160 was received from RBKC and £20,175 from WCC in respect of this arrangement.

Note 8 - Pay decisions for the head teachers disclosed above rest with the School Governing Body and not the Council.

32. Officers' Remuneration (cont'd)

These numbers do not include senior employees shown on the previous page.

Remuneration Band	Including Redundancies		Excluding Redundancies	
	2011/12 Number of Employees	2010/11 Number of Employees	2011/12 Number of Employees	2010/11 Number of Employees
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	2	1	2	1
£130,000 - £134,999	-	1	-	1
£125,000 - £129,999	-	1	-	1
£120,000 - £124,999	1	-	1	-
£115,000 - £119,999	2	-	1	-
£110,000 - £114,999	-	2	-	1
£105,000 - £109,999	5	3	5	3
£100,000 - £104,999	10	6	10	6
£95,000 - £99,999	4	9	4	8
£90,000 - £94,999	14	8	11	6
£85,000 - £89,999	3	9	3	7
£80,000 - £84,999	15	17	13	16
£75,000 - £79,999	14	13	14	13
£70,000 - £74,999	27	22	25	21
£65,000 - £69,999	34	42	31	39
£60,000 - £64,999	37	34	38	35
£55,000 - £59,999	50	54	50	51
£50,000 - £54,999	131	145	128	138
Total	349	367	336	347

Of the 349 employees listed above in 2011/12, 161 (46%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2010/11 was 153 (42%).

Of the 336 employees listed above in 2011/12, 157 (47%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2010/11 was 153 (44%).

This note discloses officers in the council's payroll who may be shared via the Tri-Borough and Bi-Borough arrangements.

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of packages by cost band		Total cost of exit packages in each band	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
£0 - £20,000	231	66	3	60	234	126	1,333,573	878,881
£20,001 - £40,000	18	11	1	14	19	25	560,290	666,860
£40,001 - £60,000	1	1	-	1	1	2	43,352	97,556
£60,001 - £80,000	-	-	-	1	-	1	-	66,292
£80,001 - £100,000	-	-	-	-	-	-	-	-
Over £100,001	-	-	-	1	-	1	-	195,490
Total	250	78	4	77	254	155	1,937,215	1,905,079

This includes exit packages agreed by School Governing Bodies.

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12, the Council paid £5.70 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £5.58 million and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2011/12 the costs arising from additional benefits amounted to £338.1k (2010/11: £335.7k).

34. Defined Benefit Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in three post employment schemes:

- The Local Government Pension Scheme administered locally by London Borough of Hammersmith and Fulham (LBHF LGPS).
- The Local Government Pension Scheme administered by London Pensions Fund Authority (LPFA LGPS).
- The Local Government Pension Scheme administered by Hammersmith & Fulham Homes (HFH LGPS).

The schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
Comprehensive Income and Expenditure Statement						
<i>Cost of Services:</i>						
• current service costs	16,068	20,526	316	429	1,755	-
• past service gains	-	(85,666)	-	(2,989)	-	-
• settlements and curtailments *	860	499	34	-	491	-
<i>Financing and Investment Income and Expenditure</i>						
• interest cost	43,141	48,153	2,056	2,308	3,180	-
• expected return on scheme assets	(32,134)	(31,085)	(1,805)	(1,734)	(4,028)	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	27,935	(47,573)	601	(1,986)	1,398	-
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>						
• actuarial gains and losses	81,671	(131,923)	1,886	(17,131)	6,722	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	109,606	(179,496)	2,487	(19,117)	8,120	-
Movement in Reserves Statement						
• reversal of net charges made to the Surplus or Actual amount charged against the General	(6,472)	70,836	(75)	2,350	244	-
<i>Fund Balance for pensions in the year:</i>						
• employers' contributions payable to scheme	19,049	20,705	518	545	1,639	-

* Settlement and curtailments are recognised in the Comprehensive Income and Expenditure statement as Non Distributed Costs - General.

34. Defined Benefit Schemes (cont'd)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme		
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	
	£000	£000	£000	£000	£000	£000	
Opening balance 1 April	(789,559)	(988,478)	(38,285)	(50,981)	(56,895)	-	-
Current service cost	(16,068)	(20,526)	(316)	(429)	(1,755)	-	-
Interest cost	(43,141)	(48,153)	(2,056)	(2,308)	(3,180)	-	-
Contributions by Scheme participants	(5,454)	(5,969)	(84)	(103)	(580)	-	-
Actuarial gains and losses	(87,976)	163,820	(2,086)	9,812	(7,511)	-	-
Benefits paid	29,112	22,126	2,209	2,698	1,281	-	-
Past service gain	-	85,666	-	2,989	-	-	-
Unfunded pension payments	2,207	2,454	33	37	-	-	-
Curtailments	(992)	(499)	(34)	-	(491)	-	-
Settlements	959	-	-	-	-	-	-
Closing balance at 31 March	(910,912)	(789,559)	(40,619)	(38,285)	(69,131)	-	-
Funded liabilities	(884,671)	(765,798)	(40,346)	(37,861)	(69,131)	-	-
Unfunded liabilities	(26,241)	(23,761)	(273)	(424)	-	-	-

Reconciliation of fair value of the scheme (plan) assets:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme		
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	
	£000	£000	£000	£000	£000	£000	
Opening balance 1 April	467,218	463,379	36,130	29,345	57,728	-	-
Expected rate of return	32,134	31,085	1,805	1,734	4,028	-	-
Actuarial gains and losses	6,305	(31,897)	200	7,319	789	-	-
Employer contributions	21,463	23,262	526	364	1,642	-	-
Contributions by scheme participants	5,454	5,969	84	103	580	-	-
Benefits paid	(31,319)	(24,580)	(2,242)	(2,735)	(1,281)	-	-
Entity combinations	-	-	-	-	-	-	-
Settlements	(827)	-	-	-	-	-	-
Closing balance at 31 March	500,428	467,218	36,503	36,130	63,486	-	-

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

The actual return on scheme assets in the year was £38.438m (2010/11 £22.985m) for the LBHF Local Government Pension Scheme, £2.005m (2010/11 £3.438m) for the LPFA Local Government Pension Scheme and £4.818m for the HFH Local Government Pension Scheme.

Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12
<i>Present Value of Liabilities</i>					
LBHF Local Government Pension Scheme	(680,440)	(651,744)	(988,478)	(789,559)	(910,912)
LPFA Local Government Pension Scheme	(35,936)	(34,576)	(50,981)	(38,285)	(40,619)
HFH Local Government Pension Scheme	-	-	-	-	(69,131)
<i>Fair Value of Assets</i>					
LBHF Local Government Pension Scheme	393,485	357,372	463,379	467,218	500,428
LPFA Local Government Pension Scheme	31,903	27,825	29,345	36,130	36,503
HFH Local Government Pension Scheme	-	-	-	-	63,486
<i>Surplus/(deficit) in the scheme</i>					
LBHF Local Government Pension Scheme	(286,955)	(294,372)	(525,099)	(322,341)	(410,484)
LPFA Local Government Pension Scheme	(4,033)	(6,751)	(21,636)	(2,155)	(4,116)
HFH Local Government Pension Scheme	-	-	-	-	(5,645)
Total	(290,988)	(301,123)	(546,735)	(324,496)	(420,245)

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £420.235m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a negative overall balance of £420.235m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- deficits on the local government schemes will be made good by increasing contributions as necessary over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made by the council in the year to 31 March 2013 is £19.840m to the LBHF Local Government Pension Scheme, £0.528m to the LPFA Local Government Pension Scheme and £2.167m to the HFH Local Government Pension Scheme.

34. Defined Benefit Schemes (cont'd)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The LBHF Local Government Pension Scheme, LPFA Local Government Pension Scheme and HFH Local Government Pension Scheme have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been:

Long-term expected rate of return on assets in the scheme:

	LBHF Local Government Pension Scheme 2011/12	LBHF Local Government Pension Scheme 2010/11	LPFA Local Government Pension Scheme 2011/12	LPFA Local Government Pension Scheme 2010/11	HFH Local Government Pension Scheme 2011/12	HFH Local Government Pension Scheme 2010/11
Equities	7.4%	7.5%	7.2%	7.3%	7.4%	7.4%
Cashflow matching	-	-	4.4%	4.5%	0.0%	0.0%
Gilts	4.4%	4.5%	-	-	4.4%	4.4%
Alternative Assets	7.4%	7.5%	-	-	7.4%	7.4%
Target Return Portfolio	-	-	5.0%	5.0%	-	-
Cash	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Mortality Assumptions						
<i>Life expectancy from age 65 - retiring today</i>						
Men	20.00	19.70	19.90	18.40	20.00	20.00
Women	24.00	23.80	23.30	21.60	24.00	24.00
<i>Life expectancy from age 65 - retiring in 20 years</i>						
Men	22.00	21.80	22.00	20.40	22.00	22.00
Women	25.90	25.70	25.20	23.40	25.90	25.90
Financial Assumptions						
Rate of Inflation - RPI	3.2%	3.5%	3.2%	3.5%	3.2%	3.2%
Rate of Inflation - CPI	2.4%	2.7%	2.4%	2.7%	2.4%	2.4%
Rate of Increase in Salaries	4.6%	5.0%	4.1%	4.5%	4.6%	4.6%
Rate of Increase in Pensions	2.4%	2.7%	2.4%	2.7%	2.4%	2.4%
Expected Return on Assets	6.2%	6.9%	4.3%	5.1%	6.2%	6.2%
Discount Rate	4.7%	5.5%	4.7%	5.5%	4.7%	4.7%
Take up of option to convert annual pension to retirement lump sum	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

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

	LBHF Local Government Pension Scheme 2011/12	LBHF Local Government Pension Scheme 2010/11	LPFA Local Government Pension Scheme 2011/12	LPFA Local Government Pension Scheme 2010/11	HFH Local Government Pension Scheme 2011/12	HFH Local Government Pension Scheme 2010/11
Equities	57.0%	55.0%	13.0%	14.0%	57.0%	57.0%
Cashflow matching	-	-	31.0%	33.0%	-	-
Gilts	2.0%	13.0%	-	-	2.0%	2.0%
Cash	1.0%	2.0%	2.0%	-	1.0%	1.0%
Target Return Portfolio	-	-	54.0%	53.0%	-	-
Alternative Assets	40.0%	30.0%	-	-	40.0%	40.0%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

34. Defined Benefit Schemes (cont'd)

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Differences between the expected and actual return on assets					
LBHF Local Government Pension Scheme	-10.40	-18.3	20.1	-6.8	1.30
LPFA Local Government Pension Scheme	3.95	-16.50	6.90	20.30	0.50
HFH Local Government Pension Scheme	-	-	-	-	1.20
Experience gains and losses on liabilities					
LBHF Local Government Pension Scheme	-0.50	0.0	0.7	11.6	-0.30
LPFA Local Government Pension Scheme	-4.22	0.03	0.00	9.40	0.40
HFH Local Government Pension Scheme	-	-	-	-	0.10

35. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2011/12 £000	2010/11 £000
Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor for the year	360	400
Fees payable to Audit Commission in respect of statutory inspections	-	-
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	91	81
Fees payable to the Audit Commission for National Fraud Initiative	-	2
Audit and IFRS rebates	(29)	(37)
Total	422	446

36. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2011/12 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2011/12	12,193	96,062	108,255
B Plus Brought forward from 2010/11	729	-	729
C Less Carry forward to 2012/13 agreed in advance	-	-	-
D Agreed budgeted distribution in 2011/12	12,922	96,062	108,984
E Less Actual central expenditure	(10,754)	-	(10,754)
F Less Actual ISB deployed to schools	-	(96,062)	(96,062)
G Plus Council contribution for 2011/12	-	-	-
H Carry forward to 2012/13	2,168	-	2,168

Notes Explained

- A: DSG figure as issued by the Department on June 2011.
 B: Figure brought forward from 2010/11 as agreed with the Department.
 C: Any amount which the Council decided after consultation with the schools forum to carry forward to 2012/13 rather than distribute in 2011/12.
 D: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
 E: Actual amount of central expenditure items in 2011/12.
 F: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Council once it is deployed to schools' budget shares).
 G: Any contribution from the Council in 2011/12 which will have the effect of substituting for DSG in funding the Schools Budget.
 H: Carry forward to 2012/13.

37. Grant Income

The Council credited the following grants, contributions and donations which were greater than £50,000 to the Comprehensive Income and Expenditure Statement in 2011/12:

	2011/12 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax Income	(65,117)	(64,300)
Non domestic rates	(95,111)	(105,590)
Non-ringfenced government grants	(49,757)	(36,651)
Capital grants and contributions	(20,703)	(23,500)
Total	(230,688)	(230,041)
Credited to Services		
Housing & Council Tax Benefit Subsidy	(162,491)	(159,841)
Dedicated Schools Grant	(108,264)	(94,387)
Housing subsidy	(10,953)	(14,253)
Sixth Form Grant	(8,391)	(17,595)
Adult Learning	(1,622)	(1,671)
Transport for London / Surface Transport	(1,313)	(1,516)
Children's Workforce Development Council grants	(1,230)	(1,028)
Supporting People	(1,098)	(3,199)
Further Education	(994)	(1,114)
NNDR Cost of Collection Allowance	(603)	(614)
Unaccompanied Asylum Seeking Children	(482)	(650)
Drug Intervention Programme	(361)	(1,041)
Section 106	(291)	(1,010)
Social Care Reform Grant	(168)	(947)
New Deal for Communities - revenue	(147)	(1,006)
Homelessness	(38)	(1,288)
Standards Funds and Schools Standards grants	-	(16,084)
Sure Start, Early Years & Childcare	-	(7,508)
Housing Benefit/ Council Tax Benefit Administration grant	-	(2,439)
Child Poverty Pilot	-	(595)
Think Family	-	(517)
Other grants and contributions individually less than £0.5m	(2,782)	(6,694)
Total	(301,228)	(334,997)

* Treated as part of Non-ringfenced government grants in 11/12

** Now part of Dedicated Schools Grant from 11/12 onwards

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are:

	31 March 2012 £000	31 March 2011 £000
Grants and Contributions Receipts in Advance (Current)		
Children's Workforce Development Council	(753)	(485)
Learning & Skills Council - revenue	(558)	(809)
Social Care Reform - revenue	(251)	(637)
Standards Fund - revenue	-	(1,169)
Other revenue grants	(458)	(1,656)
Total	(2,020)	(4,756)

37. Grant Income (cont'd)

	31 March 2012 £000	31 March 2011 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions	(13,784)	(14,023)
Standards Fund - capital	(22,510)	(6,552)
Sure Start - capital	(677)	(925)
Capital Investment Comm Grant	(475)	-
Major Works Income	(2,229)	37
TfL	(450)	17
Other revenue grants	104	(167)
Other capital grants	(1,187)	(1,650)
Total	(41,208)	(23,263)

38. Related Parties

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

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding.

Grants received from government departments are set out in Note 6 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 37.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 31.

Information regarding reportable transactions has been collated by requiring all Members and Chief Officers to declare any related party transactions. A review was also carried out of the Council's Register of Declarations of Interests and of the Register of Pecuniary and Non-Pecuniary Interests of Councillors drawn up from declarations made at Committee and other meetings.

During 2011/12, the Council engaged in various transactions with related parties which is disclosed in the information provided by Councillors and Chief Officers to the value of £12.1 million. The most significant transactions are to environmental concerns (£8.3m), cultural organisations (£1.5m), health care support (£1.0m), charitable organisations (£0.8m), legal support in the borough (£0.4m) and Housing Associations (£0.1m)

In addition to the above, 22 Councillors serve as School Governors in the borough's schools.

Other Public Bodies

The Council is the administering authority of the Pension Fund. During the financial year the Pension Fund had an average balance of £535k of surplus cash deposited with the Council. The Council paid the Fund £6,199 of interest on these monies. The Council charged the Fund £741k for expenses incurred in administering the fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

Entities Controlled or Significantly Influenced by the Council

Hammersmith & Fulham Bridge Partnership (HFBP) is a joint venture between Agilisys (80.1%) and the Council (19.9%). The contract between HFBP and the Council is for ten years and commenced on 1st November 2006. HFBP provides IT services to the council and provides significant capital investment in a range of projects.

The Council is deemed to have a significant influence over HFBP. This is exerted through active participation in policy decision-making and implementation. The Council comprises one third of the memberships of the Board of Directors in HFBP.

39. Interest in Companies

The Council has an involvement with a number of associated companies which are set out below, two of which were referred to in the Related Parties Note 38. The assets and liabilities of these companies are not included in the Council's accounts as the materiality of the relationship does not justify such consolidation. Information is provided as to the general purpose of the company, its financial position, and any other material financial issues affecting the Council.

(i) Lyric Theatre Hammersmith Limited

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of lively arts and theatre management. The Council supplies funding under an agreement to enable the company to carry out its charitable objectives. The contributions were £299,520 in 2011/12. The latest audited accounts available, those relating to 2010/11, show net assets of £3,902,564 (£2,793,450, restated in 2009/10) and a profit on its activities in that year of £1,107,095 (surplus of £55,995 restated in 2009/10). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

(ii) Hammersmith and Fulham Urban Studies Centre

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are the advancement of environmental education at all levels, particularly in the London Borough of Hammersmith and Fulham. The Council is the main source of grant funding for the charity. The charity's latest audited accounts available, those relating to 2010/11 show net assets worth £67,442 (£66,638 in 2009/10). A surplus of £804k has been reported for 2010/11 (£12,932 surplus in 2009/10). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) Hammersmith & Fulham Bridge Partnership (HFBP)

As referred to in Note 38 HFBP is a joint venture between Agilisys (80.1%) and the council (19.9%). Although HFBP has been included in the Group Accounts of the Council as an Associate of the Council in previous years, the issue of materiality was considered and the conclusion was that inclusion would not make a material difference to the usefulness of the Statement of Accounts for readers. The audited accounts for the year 2011/12 showed total net assets of £0.55million (£0.53million net liabilities in 2010/11) with a profit before tax of £1.47million (£2.55million in 2010/11) of which 19.9% would apply to the Council's Group accounts if these had been prepared. Copies of HFBP accounts may be obtained from HFBP, 2nd Floor, 26-28 Hammersmith Grove, Hammersmith, London, W6 7AW.

(iv) Hammersmith & Fulham Homes (HFH)

HFH was a company limited by guarantee and did not have any share capital. The company was set up as an Arms Length Management Organisation (ALMO) in June 2004 to provide housing management services in relation to the Council's housing stock. This agreement ended on the 31st May 2010. However, members agreed to an extension of the ALMO Management contract until 31st March 2011 to allow for the completion of the Decent Homes programme and internal reorganisations of housing management services.

HFH did not trade in the 2011/12 financial year based on the termination of their Management Contract mentioned above. Based on HFH's external auditors advice no year end accounts have been prepared. £1,867,678 Surplus after payments of suppliers and creditors was paid to LBHF and has been captured in the Housing Revenue Account in the 2011/12 financial year. The company submitted a Resolution to striking off to Companies House which is currently still in progress. Copies of H&F Homes 2010/11 accounts may be obtained from Housing and Regeneration, 3rd Floor, Hammersmith Town Hall Extension, King St, London, W6 9JU.

40. Contingent Assets and Contingent Liabilities

Contingent Assets

Imperial Wharf: Discounted Market Sale Units

Through various Section 106 Agreements, the Council has received a 30% equity share on properties that are being sold at a discount at various sites in the borough. The total number of such properties currently stands at 177 units with an estimated valuation of £38.4m. This represents a potential asset to the Council of £11.5m, however this is subject to market fluctuations. At any time the owners of such properties can request that they buy the remaining 30% share. Such a purchase would realise additional capital resources for the Council which can be invested in affordable housing projects, but the level and timing of such resources is uncertain.

Contingent Liabilities

The Council's Contingent Liabilities cover various ongoing litigations and guarantees, a summary of which is shown below. The total expected value of these liabilities is £0.7m. In addition, in 2012 it was determined that a number of NNDR (rate payer) accounts have historically been underbilled. In accordance with guidance, Hammersmith and Fulham - as the billing authority - are in the process of re-billing for these amounts. Investigations into this matter are on-going and it is not possible at this stage to estimate a liability, should one exist.

Guarantees

Underwriting of Loans to Third Parties

Total Guarantees

2011/12 £'000
350
350

In February 2012 The Council agreed to provide a loan guarantee to Fulham Palace Trust, underwriting a loan from the Architectural Heritage Fund (AHF). This guarantee will remain in place for the 5 year loan period.

Litigations

The council has a number of litigations that were ongoing as at the 31st March 2011 but their outcome is not yet determined. A summary of these litigations by type is shown below:

Prosecutions

Total Litigations

2011/12 £'000
350
350

The council is undertaking a number of prosecutions in addition to being subject to a prosecution. These cases remain as Contingent Liabilities. If the council is unsuccessful in these prosecutions, then the council may be liable for costs and associated fine and compensation. All the above litigations are prudent estimates of the potential cost to the council. It is not possible, due to considerations of legal privilege to either provide further information or to give an assessment of the likelihood of success of any of the litigations.

41. Trust Funds

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

	2011/12 £000	2010/11 £000
Balance at 1st April	(5,679)	(5,698)
Income	(579)	(654)
Sub total	(6,258)	(6,352)
Less:		
Expenditure and Transfers	687	673
Balance at 31 March	(5,571)	(5,679)

42. Prior Year Adjustments

There have been three material adjustments to the amounts presented in the 2010/11 financial statements and the equivalent amounts presented in the 2011/12 financial statements. These were the result of:

- the *Service Reporting Code of Practice for Local Authorities* (SeRCOP) requiring that Cultural, Environment, Regulatory and Planning Services be split within the Comprehensive Income and Expenditure Statement into three components
- the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introducing a change to the treatment in accounting for heritage assets held by the Council and
- reconciliation work on the Council's properties.

The following tables explain the material differences between the amounts presented in the 2010/11 financial statements and the equivalent amounts presented in the 2011/12 financial statements.

2010/11 Comprehensive Income and Expenditure Statement

Cost of Services (Net)

	2010/11 Published £000	Cultural, Environment, Regulatory and Planning Services £000	Heritage Assets £000	Property Reconciliation £000	2010/11 Adjusted £000
Central services to the public	(470)	-	-	-	(470)
Cultural, Environment, Regulatory and Planning Services	45,461	(45,461)	-	-	-
Cultural and Related Services	-	12,509	-	(117)	12,392
Environment and Regulatory Services	-	27,525	-	(42)	27,483
Planning Service	-	5,427	-	(2)	5,425
Education and children's services	60,723	-	-	(5)	60,718
Highways and transport services	1,482	-	-	-	1,482
Local authority housing (HRA)	486,824	-	-	(82)	486,742
Other housing services	11,404	-	-	-	11,404
Adult social care	72,298	-	-	(37)	72,261
Corporate and democratic core	8,047	-	-	-	8,047
Non distributed costs	(78,572)	-	-	(537)	(79,109)
	607,197	-	-	(822)	606,375

Cost of Services

Other Operating Expenditure	2,621	-	-	21,651	24,272
Financing and Investment Income and Expenditure	43,558	-	-	(12,959)	30,599
Taxation and non-specific grant income	(230,041)	-	-	-	(230,041)
(Surplus) or Deficit on Provision of Services	423,335	-	-	7,870	431,204
Surplus or deficit on revaluation of Property, Plant and Equipment assets	19,667	-	-	(4,451)	15,216
Actuarial (gains)/losses on pension assets/liabilities	(149,054)	-	-	-	(149,054)
Other Comprehensive Income and Expenditure	(129,387)	-	-	(4,451)	(133,838)
Total Comprehensive Income and Expenditure	293,948	-	-	3,419	297,366

2010/11 Movement in Reserves Statement – Unusable Reserves

	2010/11 Published £000	Cultural, Environment, Regulatory and Planning Services £000	Heritage Assets £000	Property Reconciliation £000	2010/11 Adjusted £000
Balance at 31 March 2010	(865,813)	-	(8,023)	-	(873,836)
Movement in Reserves during 2010/11					
(Surplus) or Deficit on Provision of Services	-	-	-	-	-
Other Comprehensive Income and Expenditure	(129,387)	-	-	(4,452)	(133,839)
Total Comprehensive Income and Expenditure	(129,387)	-	-	(4,452)	(133,839)
Adjustments between accounting basis & funding basis under regulations	414,326	-	-	7,871	422,197
Net (Increase)/Decrease before Transfers to Earmarked Reserves	284,939	-	-	3,419	288,358
Transfers to/(from) Earmarked Reserves	(30)	-	-	-	(30)
(Increase)/Decrease in 2010/11	284,909	-	-	3,419	288,328
Balance at 31 March 2011	(580,904)	-	(8,023)	3,419	(585,508)

42. Prior Year Adjustments (Cont'd)**Opening 1 April 2010 Balance Sheet**

	2010/11 Published £000	Cultural, Environment, Regulatory and Planning Services £000	Heritage Assets £000	Property Reconciliation £000	2010/11 Adjusted £000
Property, Plant and Equipment	1,923,354	-	-	-	1,923,354
Heritage Assets	-	-	8,023	-	8,023
Investment Property	44,129	-	-	-	44,129
Intangible Assets	830	-	-	-	830
Long Term Investments	2,654	-	-	-	2,654
Long Term Debtors	3,544	-	-	-	3,544
Long Term Assets	1,974,511	-	8,023	-	1,982,534
Assets Held for Sale	740	-	-	-	740
Short Term Investments	70,398	-	-	-	70,398
Short Term Debtors	57,005	-	-	-	57,005
Inventories	207	-	-	-	207
Cash and Cash Equivalents	81,958	-	-	-	81,958
Current Assets	210,308	-	-	-	210,308
Cash Balances Overdrawn	(14,230)	-	-	-	(14,230)
Short Term Borrowing	(5,855)	-	-	-	(5,855)
Short Term Creditors	(128,999)	-	-	-	(128,999)
Provisions	-	-	-	-	-
Grants and Contributions Receipts in Advance	(5,983)	-	-	-	(5,983)
Current Liabilities	(155,067)	-	-	-	(155,067)
Long Term Borrowing	(475,289)	-	-	-	(475,289)
Long Term Creditors	(100)	-	-	-	(100)
Provisions	(4,565)	-	-	-	(4,565)
Other Long Term Liabilities	(560,639)	-	-	-	(560,639)
Grants and Contributions Receipts in Advance	(29,068)	-	-	-	(29,068)
Long Term Liabilities	(1,069,661)	-	-	-	(1,069,661)
NET ASSETS	960,091	-	8,023	-	968,114
Usable Reserves	(94,278)	-	-	-	(94,278)
Unusable Reserves	(865,813)	-	(8,023)	-	(873,836)
TOTAL RESERVES	(960,091)	-	(8,023)	-	(968,114)

Closing 31 March 2011 Balance Sheet

	2010/11 Published £000	Cultural, Environment, Regulatory and Planning Services £000	Heritage Assets £000	Property Reconciliation £000	2010/11 Adjusted £000
Property, Plant and Equipment	1,405,687	-	-	(14,161)	1,391,526
Heritage Assets	-	-	8,023	-	8,023
Investment Property	51,706	-	-	10,742	62,448
Intangible Assets	1,398	-	-	-	1,398
Long Term Investments	2,816	-	-	-	2,816
Long Term Debtors	3,312	-	-	-	3,312
Long Term Assets	1,464,919	-	8,023	(3,419)	1,469,523
Assets Held for Sale	234	-	-	-	234
Short Term Investments	30,413	-	-	-	30,413
Short Term Debtors	62,055	-	-	-	62,055
Inventories	209	-	-	-	209
Cash and Cash Equivalents	58,600	-	-	-	58,600
Current Assets	151,511	-	-	-	151,511
Cash Balances Overdrawn	(4,329)	-	-	-	(4,329)
Short Term Borrowing	(21,855)	-	-	-	(21,855)
Short Term Creditors	(95,500)	-	-	-	(95,500)
Provisions	(590)	-	-	-	(590)
Grants and Contributions Receipts in Advance	(4,756)	-	-	-	(4,756)
Current Liabilities	(127,030)	-	-	-	(127,030)
Long Term Borrowing	(459,670)	-	-	-	(459,670)
Long Term Creditors	(100)	-	-	-	(100)
Provisions	(2,644)	-	-	-	(2,644)
Other Long Term Liabilities	(337,580)	-	-	-	(337,580)
Grants and Contributions Receipts in Advance	(23,263)	-	-	-	(23,263)
Long Term Liabilities	(823,257)	-	-	-	(823,257)
NET ASSETS	666,143	-	8,023	(3,419)	670,747
Usable Reserves	(85,239)	-	-	-	(85,239)
Unusable Reserves	(580,904)	-	(8,023)	3,419	(585,508)
TOTAL RESERVES	(666,143)	-	(8,023)	3,419	(670,747)

a. Cultural, Environment, Regulatory and Planning Services

For 2011/12, the *Best Value Accounting Code of Practice* has been updated and expanded to keep pace with the needs of modern local government; particularly the Transparency agenda, Best Value and public services reform. To reflect this, it has been renamed the *Service Reporting Code of Practice for Local Authorities* (SeRCOP).

As a result of the update Cultural, Environment, Regulatory and Planning Services have now been split into three services:

- Cultural and Related Services.
- Environment and Regulatory Services and
- Planning Services.

b. Heritage Assets

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (see Note 1 ix.)

In applying the new accounting policy, the Authority will recognise an additional £8.023 million for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy. Depreciation or amortisation is not required on heritage assets which have indefinite lives, as is the case.

c. Property Reconciliation

During 2011/12 a reconciliation exercise was completed, primarily a comparison between the Fixed Asset Register and the Property Asset database CAMSYS records. The findings have resulted in the restated figures for 2010/11 as presented. The net adjustment to the 2010/11 Balance Sheet was £3.419million. This comprised assets brought onto to the Balance Sheet of £17.398million (this figure being the valuation figure) and assets written off amounting to £20.817million.

The Authority has disclosed this information in view of the extent of the gross material amounts involved affecting the accuracy of the final accounts both historically and in the future, and for transparency reasons. To conclude that the net effect of the transactions is minimal, below the materiality threshold and the impact on accuracy for the 2011/12 Statement of Accounts has been significantly enhanced.

43. Acquired and Discontinued Operations

In 2011/12 the Council re-acquired control of the management of its social-housing stock. This had previously been managed by H&F Homes which was set up as an Arms Length Management Organisation, or ALMO, in 2004. The residual assets of H&F Homes have now transferred to the Council. These comprised a net cash asset of £1.8m and pension asset of £0.8m.

Two of the Authority's schools transferred to Academy status in 2011/12. The assets and liabilities and associated reserves have been written out of the Council's accounts and transferred to the school.

The Council does not consider these transactions to be material and as such has not undertaken specific accounting required for acquired and discontinued operations. These transactions have been treated as in-year entries within the Council's accounts.

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account
Housing Revenue Account
Pension Fund Account

Collection Fund Account

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	Notes	2011/12 £000	2010/11 £000
Income			
Council Tax	1	(75,032)	(73,925)
Transfers from the General Fund:			
Council Tax Benefits		(16,333)	(16,673)
Income collectable from business ratepayers	2	(183,695)	(161,657)
		(275,060)	(252,255)
Expenditure			
Precepts and Demands	3	89,502	88,665
Business rate:			
Payment to the national pool	2	176,779	154,565
Costs of collection		568	554
Business Rate Supplement			
Payment to the Greater London Authority	2	6,316	6,478
Costs of collection		32	60
Impairment of debts/appeals:			
Write-offs of uncollectable amounts		1,081	1,058
Allowance for impairment		315	698
Distribution/Recovery of previous year's estimated Collection Fund surplus/(deficit)		-	(1,028)
		274,593	251,050
Movement on Fund balance		(467)	(1,205)
(Surplus)/Deficit as at 1 April		277	1,482
(Surplus)/Deficit as at 31 March	4	(190)	277

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2011/12 it was calculated as follows:

Band	Estimated number of taxable properties after discounts and exemptions	Ratio to Band D	Band D equivalent dwellings
A	2598	6/9	1732
B	4488	7/9	3490
C	11162	8/9	9922
D	19879	1	19879
E	12764	11/9	15600
F	7870	13/9	11367
G	9568	15/9	15946
H	1851	18/9	3702

2. National Non-Domestic Rates

NNDR is organised and administered on a national basis. The government specifies an amount (43.3 pence to the pound in 2011/12) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

In 2011/12 the council was also required to collect a Business Rate Supplement (BRS) from NNDR taxpayers. This BRS is then paid over to Greater London Authority (GLA) who have responsibility for applying it to the Crossrail project across London.

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

The NNDR income (after reliefs and provisions) was £183.695 million for 2011/12 (£161.657 million for 2010/11). The rateable value at 31st March 2012 was £468.635 million (£470.214 million at 31st March 2011).

3. Precepts and Demands

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

	2011/12	2010/11
	£000	£000
London Borough of Hammersmith and Fulham	64,779	64,173
Greater London Authority	24,723	24,492
	89,502	88,665

4. Collection Fund Balance

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

	31 March	31 March
	2012	2011
	£000	£000
London Borough of Hammersmith and Fulham	(138)	201
Greater London Authority	(52)	76
	(190)	277

Housing Revenue Account (HRA)

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA Income and Expenditure Statement

	Notes	2011/12 £000	2010/11 £000 (Restated)
Income			
Dwelling Rents		(60,465)	(57,461)
Non-dwelling rents		(2,511)	(2,513)
Charges for services and facilities		(9,961)	(10,555)
Contributions towards expenditure		(15)	(684)
HRA Subsidy receivable	8	(10,953)	(14,253)
		(83,905)	(85,466)
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		12,867	14,634
Supervision and management		31,090	25,410
Special Services		2,253	7,490
Rents, rates, taxes and other charges		1,054	1,483
Depreciation and impairment of non-current assets	7	22,690	522,427
Movement in the allowance for bad debts		536	501
Debt management costs		125	125
Revenue Expenditure Funded from Capital Under Statute		208	138
		70,823	572,208
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		(13,082)	486,742
HRA services' share of Corporate and Democratic Core		497	497
Net (Income)/Cost for HRA Services		(12,585)	487,239
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
(Gain)/loss on sale of HRA non-current assets		(19,907)	(206)
Interest payable and similar charges		76,634	22,691
Amortisation of Premiums and Discounts		83	378
Pensions interest cost and expected return on pensions assets		(644)	273
Interest and investment income		(168)	(287)
Income and expenditure in relation to investment properties and changes in their fair value		(19,045)	(1,667)
Capital grants and contributions		(251,343)	-
Other Operating Income		(2,703)	-
(Surplus)/deficit for the year on HRA services		(229,678)	508,421
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		(3,107)	(3,241)
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(229,678)	508,421
Adjustments between accounting basis and funding basis under statute	1	227,661	(507,188)
Net (increase)/decrease before transfers to/(from) reserves		(2,017)	1,233
Transfers to/(from) reserves			
Major Repairs Reserve		-	(1,099)
Earmarked Reserves*		94	-
(Increase)/decrease in year on the HRA		(1,923)	134
Balance on the HRA at the end of the current year		(5,030)	(3,107)

* For movements in HRA Earmarked Reserves refer to Note 8 of the Core Financial Statements.

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

	2011/12 £000	2010/11 £000 (Restated)
Impairment/Revaluation losses (charged to the I&E)	(7,364)	(508,656)
Movements in the market value of investment properties	19,045	1,667
Charges for depreciation of non-dwellings	(508)	(504)
Reversal of Major Repairs Allowance credited to the HRA	(2,094)	
Gain or loss on sale of HRA non-current assets	19,906	207
Deferred charges	(208)	(138)
HRA Self-Financing Resettlement	197,354	-
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	198	519
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(92)	(13)
HRA share of contributions (to)/from the Pensions Reserve	1,424	(270)
	227,661	(507,188)

2. Housing Stock

The average number of dwellings during 2011/12 was 12,866. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents; for this purpose three bed spaces equals one dwelling.

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2011	12,896	112	14	13,022
Additions	1	-	-	1
Sales	(61)	-	(1)	(62)
Number at 31 March 2012	12,836	112	13	12,961

3. Stock Valuation

The net balance sheet value of land, housing dwellings and other assets within the HRA is as follows:

	31 March 2012 £000	1 April 2011 £000
Operational Assets		
Housing Dwellings	897,170	880,793
Other Land and Buildings	9,477	12,152
Vehicles, Plant, Equipment	503	681
Intangible Assets	142	190
Non Operational Assets		
Surplus Assets	3,800	-
Investment Properties	55,399	36,804
	966,491	930,620

The open market, vacant possession value of hostels, houses and flats within the HRA as at 1 April 2011 was £3.546 billion. This compares to the balance sheet value of £897.2 million for the Council's hostels, houses and flats as at 1 April 2011. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

Notes to the Housing Revenue Account (cont'd)

4. Major Repairs Reserve

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

	2011/12 £000	2010/11 £000
Balance as at 1 April	-	(19,633)
Depreciation Charges to HRA	(15,326)	(13,805)
Adjusting transfer from HRA:		
Depreciation on Non-Dwellings	508	537
Excess/(Shortfall) of Depreciation on Dwellings over MRA	2,095	1,099
Funding of Capital Expenditure	12,723	31,802
Balance as at 31 March	-	-

5. Capital Expenditure Financing

	2011/12 £000	2010/11 £000
Borrowing	208	9,893
Major Repairs Reserve	12,723	31,802
Other Grants and Contributions	6,279	9,876
Capital Receipts	18,612	6,215
Total	37,822	57,786

6. Capital Receipts

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

	2011/12 £000	2010/11 £000
Dwellings & Hostels	(28,303)	(23,832)
Non-Dwellings	(474)	-
Total	(28,777)	(23,832)

7. Depreciation and Impairment

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

	2011/12 £000	2010/11 £000
Operational Assets		
Depreciation		
Dwellings	14,818	13,268
Other Land and Buildings	282	277
Vehicles, Plant, Equipment and Intangible Assets	226	226
Revaluation Loss	7,364	-
Impairment*	-	508,656
Total	22,690	522,427

* Note 10 of the Core Statement of Accounts provides a detailed explanation of the Impairment for 10/11.

8. HRA Subsidy

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

	2011/12 £000	2010/11 £000
Allowance for Management	(13,329)	(13,285)
Allowance for Maintenance	(20,806)	(20,136)
Allowance for Major Repairs	(12,723)	(12,169)
Charges for Capital	(25,349)	(25,912)
Other Items	(242)	(1,073)
Rent	61,516	58,411
Interest on Receipts	24	34
Adjustment for Previous Year	(44)	(123)
Total	(10,953)	(14,253)

Notes to the Housing Revenue Account (cont'd)**9. Rent Arrears and Bad Debt Provisions**

Gross rent arrears were as follows:

	2011/12 £000	2010/11 £000
Main Council Stock	3,175	3,357
Hostels	439	409
Total	3,614	3,766

Bad debt provisions at 31 March 2012 were:

	2011/12 £000	2010/11 £000
Main Council Stock	(2,198)	(1,959)
Hostels	(415)	(391)
Total	(2,613)	(2,350)

10. IAS19 Retirement Benefits

The Council considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs, interest costs and expected return on assets. To ensure that there is no net effect on the HRA, these entries are reversed out and replaced by employers' contributions payable by means of an appropriation to the Pensions Reserve in the Movement on the HRA Statement (see Note 1).

Note 33-34 to the Core Financial Statements provides further details.

11. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

REFCUS comprises capital expenditure on non-asset related items and maintenance that is capital expenditure under statute but revenue expenditure under accounting rules.

REFCUS is charged to the Comprehensive Income and Expenditure Statement, although there is no effect on the bottom line on the Housing Revenue Account.

PENSION FUND ACCOUNTS

Fund Account

Net Assets Statement

Notes to the Pension Fund

Fund Account

	Note	2011/12		2010/11	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	14	23,234		24,924	
From Members	14	6,906	30,140	7,564	32,488
Individual Transfers In from other Pension Funds	2(a)		1,906		6,746
Other Income			20		45
Benefits					
Pensions	15	(17,373)		(16,358)	
Pensions Increases on Pensions and Lump Sum Benefits	15	(6,911)		(6,399)	
Lump Sum Retirement Benefits	15	(6,102)		(3,866)	
Lump Sum Death Benefits	15	(750)	(31,136)	(208)	(26,831)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds	2(a)		(2,575)		(4,693)
Refund of Contributions			(3)		(10)
Other Expenditure			(57)		(3)
Administrative Expenses					
			(867)		(902)
Net Additions (Withdrawals) from dealings with members					
			(2,572)		6,840
Returns on Investments					
Investment Income	12		9,579		7,766
Taxes on Income (Irrecoverable Withholding Tax)			(133)		(154)
Profit and losses on disposal of investments and changes in value of investments					
Realised	8		37,698		26,207
Unrealised	8		1,572		3,681
Investment Management Expenses					
	2(c)		(3,222)		(2,936)
Net Returns on Investments					
			45,494		34,564
Net Increase (Decrease) in the net assets available for benefits during the year					
			42,922		41,404
Opening Net Assets of the Scheme					
			595,718		554,314
Closing Net Assets of the Scheme					
			638,640		595,718

Net Assets Statement

The objective of the fund's accounts is to provide information about the financial position of the fund. The accounts summarise the transactions of the fund and show the net assets of the fund at the end of the financial year. The accounts do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 4 of these accounts.

	Note	31 March 2012 £000	31 March 2011 £000
Investment Assets			
Fixed Interest Securities	Public Sector	-	-
	Private Sector	-	-
Index Linked Securities	Public Sector	13,211	11,871
	Private Sector	-	-
Equities	UK	100,574	96,072
	Overseas	177,048	164,106
Pooled Investment Vehicles			
	Managed Funds – UK Fixed Interest	-	63,331
	Managed Funds – UK Equities	66,562	62,786
	Managed Funds – Overseas Equities	1,206	865
	Managed Funds – Libor Plus 1 Fund	59,637	59,254
	Managed Funds – LDI Bespoke Fund	81,804	-
	Managed Funds – Illiquid Strategies Fund of Funds	1,570	1,740
	Managed Funds – Dynamic Asset Allocation Funds	114,821	108,900
	Managed Funds – Ruffer Baker Steel Gold Fund	684	2,504
	Managed Funds – Red Kite Fund	371	648
	Managed Funds – Private Equity	13,142	12,628
Cash Deposits		8,366	8,379
Other Investment Balances			
	Amounts Outstanding on Sale of Investments	1,041	765
	Investment Income Due	1,470	1,061
Investment Liabilities			
	Amounts Outstanding on Purchase of Investments	(127)	(746)
Total Investment Assets	9	641,380	594,164
Current Assets			
	Contributions due from Employers	45	144
	Contributions due from Members	134	45
	Combined Benefits	32	44
	Administration Expenses	13	(10)
Current Liabilities			
	Unpaid Benefits	(429)	(43)
	Investment Management Expenses	(637)	(502)
	Other Current Assets	(1)	1
	Cash Balances	(1,897)	1,875
Net assets of the scheme available to fund benefits at the period end.		638,640	595,718

Notes to the Pension Fund Accounts

1. INTRODUCTION

The Pension Fund is part of the Local Government Pension Scheme and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable are based on an employee's final salary and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the fund's investments.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The regulations are updated on a regular basis by central government. A revised scheme came in to effect from 1st April 2008.

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee (the Committee) who decide on the investment policy most suitable to meet the liabilities of the fund and have the ultimate responsibility for the investment policy. The Committee is made up of six elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies, representatives of the Trade Unions and one co-opted member may attend the committee meetings but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the fund's appointed actuary, investment managers and advisor.

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

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Hammersmith & Fulham Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table is a membership summary of the scheme:

	31 March 2012	31 March 2011
Contributing employees	3,835	4,064
Pensioners receiving benefit	4,461	4,285
Deferred Pensioners	5,409	5,217

Details of the scheduled and admitted bodies in the scheme are shown in Notes 14 (contributions receivable) and 15 (benefits payable.)

2. ACCOUNTING POLICIES

(a) General Principles

The accounts have been prepared in accordance with IAS 26 and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accrual basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis.

(b) Valuation of Investment Assets

Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by Northern Trust, the fund's custodian and Pooled Investment Vehicles at the bid prices quoted by their managers.

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the balance sheet date. The values of the investment in Private Equity are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

(c) Investment Management Expenses

The Committee has appointed external investment managers to manage the investments of the Fund. These managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance. The cost of obtaining investment advice from the external consultant is included in the investment managements expenses.

3. ACTUARIAL VALUATION

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 2010 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 31 March 2011 and this is available on the Council's Internet site.

The following statement has been prepared by the Actuary to the Fund.

2010 Valuation Results

The 2010 valuation certified a common contribution rate of 21.5% of pensionable pay to be paid by each employing body participating in the London Borough of Hammersmith and Fulham Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contribution rates were calculated using the Projected Unit Method.

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- a) the additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
- b) an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2010 for valuation purposes was £531.7m which represented 74% (70% at 31st March 2007) of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

To be consistent with the market related valuation of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows:

- Rate of return on investments - 6.7% per annum
- Rate of increases in pay - 5.0% per annum
- Rate of Increases to pensions in payment - 3.0% per annum

Post Valuation Events – Changes in market conditions

Since March 2010 investment returns have been slightly less than assumed at the 2010 valuation and liabilities may have slightly increased due to a decrease in the real discount rate underlying the valuation funding model.

Overall we estimate that the funding level as at 31 March 2012 will be slightly less than as at the 2010 valuation.

The next actuarial valuation is due as at 31 March 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014. We will continue to monitor the financial position of the Fund.

Alison Hamilton FFA
Partner, Barnett Waddingham
10 May 2012

4. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31st March 2012. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the required information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers the actuary adopted methods and assumptions that are consistent with IAS19.

	31 March 2012 £'000	31 March 2011 £'000
Present Value of Promised Retirement Benefits*	1,079,048	899,733
Fair Value of Scheme Assets (bid value)	(638,640)	(595,718)
Net Liability	440,408	304,015

*Present Value of Promised Retirement Benefits comprises of approximately £918,319,000 (£774,653,000 in 2010/2011) and £160,729,000 (£125,080,000 in 2010/2011) in respect of vested benefits and non-vested benefits respectively as at 31 March 2012.

5. INVESTMENT STRATEGY

The investment strategy of the Fund consists of having four main portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). The investment strategy is designed to give asset diversification and specialisation to reduce exposure to market risk and achieve optimum return against the Liability Benchmark.

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

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

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

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

	31 March 2012		31 March 2011	
	Market Value £000	Total %	Market Value £000	Total %
Majedie Asset Management	165,450	25.8	155,398	26.2
MFS International	167,753	26.1	156,527	26.3
Baring Asset Management	114,060	17.8	108,900	18.3
Ruffer LLP	39,533	6.2	37,708	6.3
Goldman Sachs	59,638	9.3	59,262	10.0
Legal and General	81,804	12.7	63,335	10.7
Invesco Private Equity	7,600	1.2	6,677	1.1
Unigestion Private Equity	5,530	0.9	6,316	1.1
Barings English Growth Fund	12	0.0	41	0.0
	641,380	100.0	594,164	100.0

The Panel has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. The bank account for the Pension Fund is also held with Northern Trust. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P rating's agencies.

6. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the 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, which most match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4%, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt 1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

a) Market Risk

The investment strategy of the Fund has been set so as to meet a return equivalent to the Liability Benchmark plus 2.2% p a. The investment strategy aims to exceed this and targets a return of 2.5% in excess of the Liability Benchmark. To achieve this the Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above the Liability Benchmark over the long term albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. Responsibility for the Fund's investment strategy rests with the Audit and Pensions Committee and is reviewed on a regular basis.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following represents potential movements in market prices for different asset classes for the 2012/13 reporting period, consistent with a one standard deviation movement in the change in value of the assets over the latest three years as determined by State Street Global Services. These potential movements assume the observed historical volatility of asset returns will be repeated and that the Fund's overall asset allocation and individual asset positions remain constant

Asset Type	Market Value as at 31st March 2012 £000	Movement %	Value on Increase £000	Value on Decrease £000
UK Equities	167,716	13.16%	189,787	145,645
Overseas Equities	178,588	14.58%	204,626	152,550
Total Bonds	59,637	1.97%	60,812	58,462
Index-Linked Gilts	95,015	12.06%	106,474	83,556
Cash	9,836	0.00%	9,836	9,836
Alternative Investments	117,446	6.47%	125,045	109,847
Private Equity	13,142	6.47%	13,992	12,292
Total Assets	<u>641,380</u>		<u>710,572</u>	<u>572,188</u>

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 25 basis point (BPS) movement in interest rates is consistent with the level of interest rates over the last three years. The analysis below assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 BPS change in interest rates:

Asset Type	Market Value as at 31st March 2012 £000	Movement %	Change in Year on Increase £000	Change in Year on Decrease £000
Total Bonds	59,637	0.25	149	(149)
Index-Linked Gilts	95,015	0.25	238	(238)
Cash	9,836	0.25	25	(25)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

Following analysis of historical data by State Street Global Services, the Council considers the likely volatility associated with foreign exchange rate movements to be 9.8%. A 9.8% fluctuation in the currency is considered reasonable based on the analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.8% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Market Value as at 31st March 2012 £000	Movement %	Value on Increase £000	Value on Decrease £000
Overseas Investments				
Equities	177,048	9.8%	194,399	159,697
Index-Linked Gilts	5,579	9.8%	6,126	5,032
Pooled Investment Vehicles	2,338	9.8%	2,567	2,109
Private Equity	13,130	9.8%	14,417	11,843
Total Assets	<u>198,095</u>		<u>217,509</u>	<u>178,681</u>

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The council has immediate access to its pension fund cash holdings.

The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments. As at 31 March 2012 the balance on this facility stood at £1,416,974. These borrowings are of a limited short-term nature.

7. FUND PERFORMANCE

Northern Trust is also employed to monitor the investment performance of the fund. Performance is measured on a financial year basis against a customised benchmark. From 1st January 2009, following the implementation of a new investment strategy, the benchmark was changed to more reflect the performance against the Fund's liabilities. The benchmark was defined as a portfolio of index-linked gilts with an average duration of 18 years in line with the Fund's liabilities with an outperformance target of the benchmark of 1.75% per annum. From 1st November 2011 following the 2010 Actuarial Valuation the benchmark was adjusted to more accurately reflect the fund's liabilities, as at the valuation date, with a new outperformance target of 2.2% per annum (See note 6).

The performance compared to the benchmark is as follows:

	2011/12 % p.a.	2010/11 % p.a.	3 Years % pa	5 Years % pa
Fund	8.2	6.4	15.4	6.9
Benchmark	21.7	8.6	14.7	4.8
Difference	(13.5)	(2.2)	0.7	2.1

8. INVESTMENT ASSETS - MOVEMENTS IN YEAR

The table below shows a reconciliation of the movement in the total investment assets of the fund.

	2011/12 £000	2010/11 £000
Market Value of Investment Assets at 1st April	594,164	556,831
Movements in Year		
Purchase of Investments	205,195	206,069
Sale of Investments	(198,541)	(203,101)
Realised Profit/(Loss) on Sales	37,698	26,207
Unrealised Profit/(Loss) in Market Value	1,572	3,681
Change in Cash Deposits	(13)	3,809
Change in Debtors and Creditors	1,305	668
Market Value of Investment Assets At 31st March	641,380	594,164

The table below shows a reconciliation of the movement in the total investment assets of each fund manager in 2011/2012.

Fund Manager	Value at 31 March 2011 £000	Purchase of Investments £000	Sale of Investments £000	Realised Profit/(Loss) on sales £000	Unrealised Profit/(Loss) in Market value £000	Change in Cash Deposits £000	Change in Debtors and Creditors £000	Value at 31 March 2012 £000
Majedie Asset Management	155,398	46,812	(41,898)	4,400	(283)	1,168	(147)	165,450
MFS International	156,527	52,576	(49,663)	4,694	4,064	(362)	(83)	167,753
Baring Asset Management	108,900	110	-	-	5,050	-	-	114,060
Ruffer LLP	37,708	21,227	(21,632)	1,873	(776)	(402)	1,535	39,533
Goldman Sachs	59,262	-	(19)	19	383	(7)	-	59,638
Legal and General	63,335	83,371	(83,372)	25,812	(7,338)	(4)	-	81,804
Invesco Private Equity	6,677	380	(699)	120	1,208	(86)	-	7,600
Unigestion Private Equity	6,316	719	(1,258)	780	(707)	(320)	-	5,530
Barings English Growth Fund	41	-	-	-	(29)	-	-	12
Totals	594,164	205,195	(198,541)	37,698	1,572	(13)	1,305	641,380

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £467,851 (£600,124 in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

9. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. No financial assets were reclassified during the accounting period. All investments are quoted unless stated.

Designated at fair value through Profit and Loss	31 March 2012		31 March 2011	
	£000	£000	£000	£000
United Kingdom				
Fixed Interest - Private Sector		-		-
Index Linked Securities - Public Sector		7,632		6,084
Index Linked Securities - Private Sector		-		-
Equities		100,574		96,072
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	66,562		62,786	
Managed Fund - L & G 2055 Index Linked Gilt	-		63,331	
Managed Fund - L & G LDI Bespoke Fund	81,804		-	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	59,637		59,254	
Managed Fund - Baring Dynamic Asset Allocation Fund	114,060		108,900	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	1,570		1,740	
Managed Fund - Ruffer Baker Steel Gold Fund	684	324,317	2,504	298,515
Managed Fund - Private Equity (Unquoted)		12	-	41
Total United Kingdom		432,535		400,712
Overseas				
Fixed Interest - Public Sector		-		-
Fixed Interest - Private Sector		-		-
Index Linked Securities - Public Sector		5,579		5,787
Equities				
North America	93,855		78,233	
Japan	8,923		11,716	
Europe (ex UK)	49,756		52,218	
Pacific Basin	11,058		10,417	
Other	13,456	177,048	11,522	164,106
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	761		0.00	
Managed Fund - Ruffer Japanese Fund	1,206		865	
Managed Fund - Red Kite Fund	371	2,338	648	1,513
Managed Fund - Private Equity (Unquoted)				
Invesco - North America	7,600		6,591	
Unigestion - Europe	5,530	13,130	5,996	12,587
Total Overseas		198,095		183,993
Loans and Receivables				
Cash Deposits	8,366		8,379	
Amounts outstanding on Sale of Investments	1,041		765	
Investment Income Due	1,470		1,061	
Contributions due from Employers	45		144	
Contributions due from Members	134		45	
Combined Benefits	32		44	
Administration Expenses	13	11,101	(10)	10,428
Financial Liabilities at Amortised Cost				
Amounts outstanding on Purchase of Investments	(127)		(746)	
Unpaid Benefits	(429)		(43)	
Investment Management Expenses	(637)		(502)	
Other Current Assets	(1)		1	
Cash Balances	(1,897)	(3,091)	1,875	585
Net assets of the scheme available to fund benefits at the period end.		638,640		595,718

10. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

The following table summarises the Book Cost of the financial assets and financial liabilities by class of instrument compared with their Market Values (Fair Value). The table shows only the investment assets and does not include current assets and liabilities which have no book cost.

	31 March 2012		31 March 2011	
	Market Value	Book Cost	Market Value	Book Cost
	£000	£000	£000	£000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	630,630	545,247	584,705	500,894
Loans and Receivables				
Cash Deposits	8,366	8,366	8,379	8,379
Amounts outstanding on Sale of Investments	1,041	1,041	765	765
Investment Income Due	1,470	1,470	1,061	1,061
Financial Liabilities at Amortised Cost				
Amounts outstanding on Purchase of Investments	(127)	(127)	(746)	(746)
Total Value of Investments	641,380	555,997	594,164	510,353

11. TOP TEN EQUITY HOLDINGS

The largest 10 equity holdings of the Fund as at 31 March 2012 was:

Holding	Country	Market Value	
		£'000	% Holding
BP	United Kingdom	8,311	1.30
Vodafone Group	United Kingdom	7,799	1.22
GlaxoSmithKline	United Kingdom	6,997	1.09
Royal Dutch Shell	United Kingdom	6,130	0.96
BT	United Kingdom	4,468	0.70
Danone	France	4,463	0.70
Google	United States	4,455	0.69
Danaher Corporation	United States	4,307	0.67
Taiwan Semiconductor Manufacturing	Taiwan	4,067	0.63
BAE Systems	United Kingdom	3,816	0.59
Total		54,813	8.55
Total Value of Investments		641,380	

No single investment exceeds either 5% of the net assets available for benefits or 5% of any class or type of security except for some pooled investment vehicles detailed in paragraph 9 above. These pooled investment vehicles are made up of underlying assets which will be far less than 5%.

12. INVESTMENT INCOME

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

	2011/12	2010/11
	£000	£000
Income from Fixed Interest Securities	-	5
Dividends from Equities	9,220	7,732
Income from Index-Linked Securities	178	179
Interest on Cash Deposits	140	124
Currency profit/(loss)	(179)	(343)
Private Equity/Other	220	69
Total	9,579	7,766

13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2012, the fund had a commitment to invest a further £4.3million in the four private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next three years.

14. CONTRIBUTIONS RECEIVABLE

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make balancing contributions determined by the fund's actuary to maintain the solvency of the fund.

The table below shows a breakdown of the total amount of employers' and employees' contributions made during the year by the Council and each admitted body. H & F Homes came back under control of the Council at 1st April 2011 and is no longer an admitted body.

	Employers'		Employees'	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
LB Hammersmith and Fulham	20,698	20,761	5,976	5,951
H & F Homes	-	1,353	-	617
LBHF Councillors	74	66	18	16
Mortlake Crematorium Board	53	62	14	15
London Oratory School	89	89	40	39
Burlington Danes Academy	106	104	49	48
F M Conway Ltd	85	100	34	34
Urban Partnership Group	50	63	13	17
H&F Community Law Centre	5	20	2	5
Family Mosaic	111	169	35	44
Disabilities Trust	5	5	2	1
Thames Reach	6	6	2	2
Medequip Assistive Technology	14	14	3	4
Eden Food Service	243	262	80	87
Fulham Palace Trust	54	-	15	-
Family Mosaic Supporting People	20	21	8	9
Glencross Cleaning Ltd	3	3	1	2
Inspace Partnerships Ltd	58	65	19	21
H & F Bridge Partnership	374	396	154	224
Keir	141	144	44	44
Keir - Non HR Contract	4	4	2	2
P H Jones Ltd	5	5	2	2
Irish Cultural Centre	6	6	1	1
Hammersmith Academy	49	1	24	-
Conway Academy	7	-	2	-
West London Free School	11	-	3	-
Financial Data Management	-	3		2
E C Harris LLP	49	55	20	23
Crime Reduction Initiatives	1	5	1	2
Quadron	244	208	69	67
Serco	499	763	218	231
Tendis	21	25	6	7
Turners	149	146	49	47
Grand Totals	23,234	24,924	6,906	7,564

15. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2011/12. H & F Homes came back under control of the Council on 1st April 2011 and is no longer an admitted body.

	Pensions		Pension Increases	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
LB Hammersmith and Fulham	16,787	15,100	6,870	6,317
Councillors	1	1	-	1
H & F Homes	-	752	-	49
Mortlake Crematorium Board	40	37	5	4
London Oratory School	2	-	-	-
H&F Community Law Centre	26	45	3	3
Burlington Danes Academy	17	11	1	3
H&F Police Consultative Group	5	5	1	1
ROOM the National Council	4	4	1	1
Family Mosaic	90	81	15	13
Greenwich Leisure Ltd	2	2	1	1
Blythe Neighbourhood Council	1	1	-	-
Inspace Partnerships Ltd	42	35	2	1
Turners	15	5	-	-
Urban Partnership Group	3	3	-	-
EC Harris LLP	4	-	-	-
Eden Food Service	14	1	-	-
F M Conway Ltd	12	7	-	-
H & F Bridge Partnership	236	227	10	5
Quadron	27	13	1	-
Serco	45	28	1	-
Grand Totals	17,373	16,358	6,911	6,399

	Lump Sum Retirement Benefits		Lump sum Death Benefits	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
LB Hammersmith and Fulham	5,564	2,642	744	191
Councillors	-	7	-	-
H & F Homes	-	535	-	-
Mortlake Crematorium Board	-	147	-	-
London Oratory School	12	-	-	-
H&F Community Law Centre	-	46	-	-
Burlington Danes Academy	6	47	-	-
Family Mosaic	102	1	-	-
Inspace Partnerships Ltd	-	49	-	-
EC Harris LLP	78	-	-	-
Eden Food Service	78	15	6	-
F M Conway Ltd	68	17	-	-
H & F Bridge Partnership	-	301	-	17
Quadron	58	2	-	-
Turners	3	-	-	-
Serco	133	57	-	-
Grand Totals	6,102	3,866	750	208

16. RELATED PARTIES

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 to the Pension Fund Accounts. In accordance with the regulations the Council's expenses in administering the scheme are charged direct to the Fund. The amount charged by the Council for 2011/2012 was £740,954 (2010/2011 £817,172).

During 2011/2012 as a result of the day to day administration of the fund the pension fund borrowed monies from the Council or invested some surplus monies with the Council. The pension fund paid £6,199 in interest to the Council during 2011/2012. At 31st March 2012 the Pension Fund owed the Council £480,112.

Some of the elected representatives and senior officers of the Council who attended the Audit and Pensions Committee were members of the Pension Fund and made contributions to the fund in accordance with the regulations. No other material transactions with related parties of the fund during 2011/2012 were identified.

17. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

18. STATEMENT OF INVESTMENT PRINCIPLES

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

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although no employees are currently contributing to the Equitable Life scheme apart from three members who contributed £198.52 during the year for death-in-service benefits. At the year end there was only two members contributing.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2012 was £249,340. At the year end there were 69 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2011/2012 was £72,936.33 and the total market value of the separately invested AVC's with Zurich Assurance at 5 April 2012 was £904,628.09

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

20. TRI-BOROUGH WORKING

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that has joined together has been the treasury and pension teams of the three boroughs.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster's offices.

The Pension Funds and Treasury operations will continue to be managed separately in accordance with Government Regulations and the current strategies agreed by the home boroughs who will continue to have sovereignty over decision making.

21. EVENTS AFTER THE BALANCE SHEET DATE

At the 31st August 2012 the market value of the investments of the Fund had decreased to approximately £634.54 million due to the fall in global stock markets since the date of the balance sheet.

Since the reporting year end date the Local Government Association (LGA) and trade unions have announced the outcome of their negotiations on a new Local Government Pension Scheme for England & Wales. Among the proposals are changes to the accrual rate as well as the basis on which earnings are to be determined. The LGA and unions will now consult with their respective members, the successful outcome of which may lead the Government to go straight to a statutory consultation. Any final agreement is due to take effect on 1st April 2014.

ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

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

The Council has reviewed its code of corporate governance, now implemented as a shadow document, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council complies with the principles of corporate governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) [England] Regulations 2011 in relation to the publication of a statement of internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31st March 2012 and up to the date of approval of the annual report and statement of accounts.

The governance framework

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

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

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

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

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

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements, including where mandates are agreed for the purpose of TriBorough or BiBorough working, are presented to Hammersmith & Fulham Business Board, Cabinet, and Full Council for approval as required.

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

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

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

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and Cabinet Members, Chief Officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). Key decisions are set out in a Forward Plan, which documents decisions likely to be taken in the next four months, and decisions are taken in public unless certain statutory 'exempt' items are taken to members for decision. Occasionally a situation will arise where a decision will need to be taken quickly, in which case it will form a Leader's Urgent Decision, reported at the next Cabinet meeting. Decisions, which are not classified as key, are taken either by Cabinet members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the relevant Cabinet Member and are available to the public. Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a Committee that reflects the political balance of the council or officers as set out in the Constitution. All Key Decisions are accompanied by an Equality Impact Analysis and/or Equality Statement.

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

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

As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members (a national code, overseen by the Standards Board for England). In line with the Localism Act 2012, from July 2012 the Council's Standards Committee will be abolished and integrated into the Audit & Pensions Committee. A new process for dealing with complaints received against Councillors and co-opted members will be introduced. A new Members Code of Conduct promoting high standards of behaviour in the public life based upon the Seven Principles of Public Life will also be adopted. Members and officers will continue to be governed by the various additional local protocols contained within the Constitution.

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

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

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

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

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

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

Regular reports are produced by the authority in compliance with current initiatives and external requirements.

Services are delivered by suitably experienced staff. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation. There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control. The Internal Audit Service has been subject to an independent annual review since financial year 2006/07.

All Cabinet reports are cleared by the Executive Director of Finance & Corporate Governance and by the Director (Legal Services) or a Lawyer in the Legal Services Department. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

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

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

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

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

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

Members who are to sit on the planning and licensing committees are required to undertake specialist training before they are allowed to sit. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit & Pensions and Standards Committee receives regular training eg in interpreting accounts and different pension investment fund vehicles. The Leader undertakes appraisal meetings with Cabinet Members annually from which additional training programmes may arise.

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

Many forms of consultation take place across the Council, as appropriate to the circumstances, aims of the exercise, and need to consult. For example, consultation exercises may be conducted when revisiting or determining new policy, or reconfiguring or ending service provision. For these kinds of exercises, the Council uses a variety of methods such as open sessions for the public, sessions for service users and groups with an interest in our proposals, and a web based consultation package, Citizen Space. Each year a Borough Residents' Survey takes place that acts as a test of satisfaction in relation to the council's overall performance and that of individual services. The Council uses an internal challenge process for budget setting, and conducts Equality Impact Assessments when changes are to be implemented. The Council produces performance and finance related material that is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

Where services have been delivered through significant partners such as the National Health Service, Inner North West London NHS, Central London Community Healthcare, G.P. Consortia, H & F Bridge Partnership for Information and communication technology, or through other Councils particularly the Royal Borough of Kensington and Chelsea and the City of Westminster, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Review of effectiveness

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

Control Assurances

The Council has reviewed in detail the control assurances across the authority and of its significant delivery partners including its Tri and Bi Borough partners. The results of the review of the effectiveness of the Internal Control environment has been reported to the Audit & Pension Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place. In completing this review the following governance issues were identified:

1. Reconciliation of financial systems

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. Improvements made over recent years have been sustained and demonstrate greater co-ordination and centralisation. Whilst some issues remain they can be classified as operational and no longer significant.

2. Business Continuity IT

New business continuity arrangements have been put into place, user acceptance testing to increase IT resilience has also taken place and the system went live in 2011. An internal audit of business continuity was conducted following implementation and established a positive outcome. It is therefore no longer considered a significant control issue.

3. Contract Management

Following a review conducted by Internal Audit improvements have been made that address control weaknesses identified in managing contracts for consultants. As improvements have been made that clarify the management policy, process, reporting and compliance this is no longer considered a significant control issue.

4. Information requests

The provision of information in compliance with the Freedom of Information Act was been the subject of a review in 2011 from the Office of the Information Commissioner who 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. The improvements in the control environment are such to no longer consider this a significant control issue.

5. Health and Safety

Substantial progress has achieved in the delivery of a reasonable Health & Safety environment. This has included enhanced training, support, resource and guidance provided by the Corporate Safety Team. Residual legacy risks, including a pending HSE prosecution, remain in relation to previously established control weakness and control of gas safety certification however the improvements in this area are such to no longer consider this a significant matter.

There is some evidence that health & safety action plans are not being implemented and that implementation is not effectively monitored. While proposals to improve the controls have been agreed and will being monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time.

6. Theft of materials

Metal theft increases when worldwide prices for scrap metal rise. Metal items are stolen for their value as raw materials and are ultimately scrapped, or recycled, to provide material for making new products. The recent instances of theft of metals in the White City Estate area affected 24 properties. The council is currently exploring the idea of using technology to mark valuable metals which would allow them to be identified as Council property. An Internal Audit report concludes that there is only a limited assurance in this area and that a number of control improvement recommendations need to be made.

7. Housing repairs and maintenance.

Following recent investigations undertaken by Internal Audit, it has been established that there are some historic control weaknesses relating to the financial administration of the repairs and maintenance function. Work in this area is being conducted to gauge the extent to which charges have been correctly validated, and to refresh management procedures to ensure risks are appropriately mitigated.

8. Local taxation

A significant internal control issue has been identified in the council's system for business rates collection. A subsequent internal audit of the system concluded that there is only a limited assurance in this area currently. A number of control improvement recommendations have been made that are in the process of being implemented. Once these recommendations are addressed, the significant control issue will have been resolved.

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

Chief Executive

Leading Member

On behalf of Hammersmith & Fulham Council

GLOSSARY OF TERMS

ACCOUNTING PERIOD

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

ACCOUNTING POLICIES

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

ACCOUNTING STANDARDS

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

ACCRUALS

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

ACQUISITIONS

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

ACTUARIAL VALUATION

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

AGENCY SERVICES

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

AMORTISATION

The equivalent of depreciation for intangible assets.

ARMS LENGTH MANAGEMENT ORGANISATIONS (ALMOs)

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

APPROPRIATION

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

ASSET REGISTER

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

AUDIT COMMISSION

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

BALANCES

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

BUDGET

A forecast of the Council's planned expenditure; the level of the council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.

CAPITAL ADJUSTMENT ACCOUNT

An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CAPITAL EXPENDITURE

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

CAPITAL FINANCING

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

CAPITAL FINANCING REQUIREMENT

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

CAPITALISATION

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

CAPITAL RECEIPTS

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

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

COLLECTION FUND

A statutory account into which Council Tax and National Non-Domestic Rates are paid and from which amounts are paid to the Council and the precepting body, the Greater London Authority.

COMMUNITY ASSETS

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

CONTINGENT ASSET

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

CONTINGENT LIABILITIES

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

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

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

DEBTORS

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

DEFERRED CREDITS

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

DEFERRED LIABILITIES

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

DEPRECIATION

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

EARMARKED RESERVES

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

EVENTS AFTER THE BALANCE SHEET DATE

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

FAIR VALUE

The fair value of a fixed asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE & OPERATING LEASES

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FIXED ASSETS

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

FORMULA GRANT

Government subsidy to local authorities comprising two elements: Revenue Support Grant and redistributed National Non-Domestic Rates.

GENERAL FUND

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

HERITAGE ASSET

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

HISTORIC COST

The actual cost of an asset in terms of past consideration as opposed to its current value.

HOUSING REVENUE ACCOUNT

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

HOUSING SUBSIDY

The grant payable by central government to local authorities to subsidise the cost of providing Council housing and the management and maintenance of that housing. The grant is paid into the Housing Revenue Account.

IAS19 EMPLOYMENT BENEFITS (Formerly FRS17)

This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual payments will be made many years into the future.

IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by a continued use of the asset created. Examples of infrastructure assets include highways and footpaths.

INTANGIBLE ASSET

Fixed assets that do not have physical substance but are identified and controlled by the Council, for example, purchased software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS in 2010/11.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

LPFA

This is the acronym for the London Pensions Fund Authority.

MAJOR REPAIRS ALLOWANCE (MRA)

The Major Repairs Allowance is an element of Government subsidy payable to the Housing Revenue Account. It represents the capital cost of keeping the housing stock in its current condition. Unused Major Repairs Allowance is held in the Major Repairs Reserve (MRR) until required.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount that the Council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

NATIONAL NON-DOMESTIC RATE (NNDR)

The form of local taxation charged on non-residential premises at a level set by the Government. Rates are collected and paid into a central pool administered by the Government. The total collected is then redistributed to local authorities on the basis of population.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET REALISABLE VALUE

The open market value of the asset less the expenses to be incurred in realising the asset.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility of for the service or strategic objectives of the authority.

OUTTURN

Actual income and expenditure in a financial year.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

PRIVATE FINANCE INITIATIVE (PFI)

A contract between a public body, in our case the Council, and a private company. The private sector makes a capital investment in the assets required to deliver improved services.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 1st April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

POST BALANCE SHEET EVENTS

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

PROVISIONS

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified. FRS 12 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC WORKS LOAN BOARD (PWL B)

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

RELATED PARTIES

Related Parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior offices.

RESERVES (UNUSABLE)

Unusable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services. For example, the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure.

RESERVES (USABLE)

Usable reserves are those reserves that can be released to spend on services or added to for future spending on services.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, RSG, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that is treated by the regulations as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice.

REVENUE SUPPORT GRANT (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and Council Tax. Revenue Support Grant is distributed as part of Formula Grant.

RIGHT TO BUY

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

SECTION 151 OFFICER

A term used to describe the chief financial officer, whose responsibilities are set out in the Statement of Responsibilities for the Statement of Accounts. The Council's chief financial officer is the Executive Director of Finance and Corporate Governance.

SERVICE REPORTING CODE OF PRACTICE (SeRCOP)

CIPFA's Service expenditure Reporting Code of Practice, which provides guidance on financial reporting to stakeholders and establishes 'proper practice' with regard to consistent financial reporting.

STOCKS

The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE

This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

WRITE-OFFS

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

Annual governance report

London Borough of Hammersmith & Fulham

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 28 September 2012 I expect to issue an unqualified audit opinion.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 4).

Financial statements

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

Opinion on the financial statements

All audit work on the financial statements has been completed. 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.

Uncorrected errors

The financial statements have been adjusted for all errors identified in the audit. Therefore I have no uncorrected errors to bring to your attention.

Corrected errors

No material errors were identified during the audit. A number of adjustments were made that were non-material or disclosure issues only.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks and the key risks identified after the issue of the audit plan.

Table 1: **Risks and findings**

Risk	Finding
<p>Accruals</p> <p>International Standards on Auditing (ISA 240 UK&I) presume an inherent risk in relation to revenue recognition for all audits. Given the pressures placed on council finances by the local government finance settlement, the risk of misstatement exceeds that of prior years particularly with regard to management accruals of expenditure.</p>	<p>I have specifically tested manual accruals and have no matters to report.</p>
<p>Housing Revenue Account (HRA) reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will change the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I have reviewed the accounting for the HRA financing settlement and confirmed it is in accordance with the guidance issued by CIPFA.</p>
<p>Accounts payable and receivable audit reports</p> <p>Internal Audit reports on the accounts payable and accounts receivable systems provide only limited assurance over system controls. The work found weaknesses relating to the authorisation of transactions and changes to suppliers and customer standing data. Due to the importance of these controls in the system, there is a risk that income and expenditure in the financial statements could be misstated.</p>	<p>I have sample tested the accounts payable and accounts receivable transactions included in the financial statements and have no matters to report.</p>
<p>Heritage assets</p> <p>The 2011/12 IFRS Code adopts the requirements of FRS 30 Heritage Assets for the first time. These are assets held with the intention of preserving them for future generations because of their cultural,</p>	<p>I have reviewed the arrangements for identifying and accounting for heritage assets and have no matters to report.</p>

Risk

environmental or historical associations. Typical examples in local government include mayoral regalia and paintings. The standard requires that where information on cost or value is available, heritage assets must be reported on the Authority's balance sheet and accounted for in accordance with the Code and its disclosure requirements. There is a risk that due to the difficulty in identifying and valuing heritage assets, this change in accounting policy may not be implemented correctly.

Finding

Prior period adjustments to property, plant and equipment

Subsequent to the issue of the audit plan, officers informed me of a prior period adjustment that would be required to property, plant and equipment as the result of work that was carried out to reconcile the asset register to records held elsewhere in the Authority.

I have reviewed the accounting for the prior period adjustment and have no matters to report.

National non-domestic rates

Subsequent to the issue of the audit plan, officers informed me of an irregularity in relation to the collection of National Non Domestic Rates (NNDR).

I have reviewed the Authority's response to the matter. An internal audit report has been commissioned and this has identified control weaknesses and made recommendations. Work has been completed to confirm the maximum potential amount of under-billed NNDR and I am satisfied that the amount is not material to the accounts. I am not minded to challenge the Authority's assertion that there is unlikely to be a significant financial impact, as any unpaid NNDR accounts will result in lower payments to the national pool.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have no weaknesses in internal control to report other than those concerning NNDR as mentioned above.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Capital expenditure

My sample testing of capital expenditure identified instances of expenditure that did not meet the definition of capital as defined by *International Accounting Standard 16: Property, Plant and Equipment*. The total amount of expenditure capitalised in 2011/12 is £58 million. Of this amount I tested transactions with gross value of £71,000. For four transactions totalling £9,803, the expenditure did not meet the definition of capital and therefore should have been treated as revenue expenditure. Three of the transactions that did not test satisfactorily related to schools which suggest arrangements at schools need to be reviewed in particular. Although I am satisfied the accounts are not materially misstated, controls should be strengthened to ensure that all spend that is capitalised meets the definition of the International Accounting Standards.

I also found that the Authority could strengthen instructions to valuers in respect of the valuation of Council Dwellings. CLG guidance "Stock Valuation for Resource Accounting: Guidance for valuers 2010" suggests authorities inform valuers of capital schemes scheduled for completion within twelve months so that they are incorporated within the valuation. The valuer was not informed of such capital schemes and therefore the valuation was updated by the finance team. This resulted in some complex adjustments, some of which required amending during the audit. The Authority should ensure that future instructions to the valuers contain more detail of the capital plan to allow them to be incorporated into the valuation, thereby simplifying the production of the accounts.

Short term debtors

My sample testing of short term debtors identified instances where supporting documentation could not be provided to evidence that the amount was recoverable. The total debtors on the balance sheet are £66 million. Of this amount I tested 20 transactions with a value of £17 million. For two transactions totalling £110,000, evidence could not be provided. The majority of this is unlikely to be recoverable as officers have stated it relates to

2003/04 and earlier. Although I am satisfied the accounts are not materially misstated, controls should be strengthened to ensure that all old debts that are no longer recoverable are written off.

Recommendation
<p>R1 Ensure management responses to the Internal Audit recommendations on National Non Domestic Rates are obtained and the recommendations implemented in a timely manner.</p>
<p>R2 Strengthen arrangements concerning the capitalisation of expenditure as follows:</p> <ul style="list-style-type: none"> ■ Establish controls to ensure all expenditure capitalised meets the definition of IAS16 Property, Plant & Equipment. ■ Expand instructions to valuers to ensure the valuation of Council Dwellings takes into account capital schemes to be completed during the year.
<p>R3 Review debtor listings and ensure all irrecoverable debt is written off.</p>

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. At the time of writing my audit work on this is in progress. I anticipate finishing this work by the time I issue my opinion on the Authority's financial statements.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you two significant risks that were relevant to my conclusion:

- the Local Government Finance Settlement and the level of savings this requires the Authority to identify; and
- plans to combine certain services as part of the tri-borough programme

I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p>	<p>Financial planning is robust and demonstrates that the Authority has adequate arrangements in place to manage the tough Local Government Finance Settlement. Savings have been identified in the short term, with the scale of savings required in the medium term clearly reported.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>I have reviewed the Authority's developing arrangements that underpin its joint working with the City of Westminster Council and the Royal Borough of Kensington & Chelsea. The main focus of my work was on the arrangements for:</p> <ul style="list-style-type: none"> • short and medium-term financial planning (including savings projections) and the supporting budgetary processes; • establishing the methodology for the attribution of costs and savings; and

Criteria

Findings

- maintaining sound governance (including risk management) to support the joint management of services.

The three councils have made good progress in establishing proper arrangements. Plans for sharing services, premises and management capacity have been developed, and have begun to be implemented, during 2011/12. Further integration is planned for 2012/13 and the future.

The Authority and its partners will need to continue to prioritise the delivery of good governance and value for money in the developing arrangements. This needs to include the enhanced integration of tri-borough risks into the individual councils' risk management arrangements and, to support internal control, the establishment of effective arrangements for ongoing internal audit.

Overall, I am satisfied the Authority has proper arrangements in place for securing economy, efficiency and effectiveness.

Recommendation

R4 Enhance the integration of tri-borough risks into the Authority's risk management arrangements and, to support internal control, establish effective arrangements for ongoing internal audit.

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit*	360,000	360,000
Claims and returns	70,000	55,000
Non-audit work	0	0
Total	430,000	415,000

* The fee above does not include the 8% rebate that the Audit Commission has paid to reflect attaining internal efficiency savings.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAMMERSMITH & FULHAM

Opinion on the Authority financial statements

I have audited the financial statements of London Borough of Hammersmith & Fulham for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Executive Director of Finance and Corporate Governance, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 financial position of London Borough of Hammersmith & Fulham as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board'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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Jon Hayes
District Auditor

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

28 September 2012

Appendix 2 – Draft letter of management representation

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

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 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 Authority 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 the Authority's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that this letter has been discussed and agreed by the Audit, Pensions and Standards Committee on 27 September 2012.

Signed:

Name: Jane West

Position: Executive Director of Finance and Corporate Governance

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 4 – Action plan

Recommendations

Recommendation 1

Ensure management responses to the Internal Audit recommendations on National Non Domestic Rates are obtained and the recommendations implemented in a timely manner.

Responsibility John Collins, Director H&F Direct

Priority High

Date Management responses to Internal Audit have been provided (September 2012); implementation of recommendations will be ongoing in accordance with the action plan set out in the Internal Audit report.

Comments The Internal Audit report has been finalised (inclusive of management responses) and will be presented to the Audit Committee in September 2012. This report contains a detailed action plan which will be implemented with high priority.

Recommendation 2

Strengthen arrangements concerning the capitalisation of expenditure as follows:

- Establish controls to ensure all expenditure capitalised meets the definition of IAS16 Property, Plant & Equipment.
- Expand instructions to valuers to ensure the valuation of Council Dwellings takes into account capital schemes to be completed during the year.

Responsibility Hitesh Jolapara, Bi-Borough Director of Finance

Priority Medium

Date Guidance to be issued September 2012; review mechanism will be ongoing (quarterly)

Comments The Council's capitalisation guidance will be reviewed as a priority and refined as necessary – in particular it will include more worked examples which the Services have identified as a means to help clarify their understanding of what can be a complex issue. Corporate Finance will work with Children's Services to ensure that this guidance is issued to, and

	understood by, the Council's schools. The Council will also review its guidance to valuers.
Recommendation 3	
	Review debtor listings and ensure all irrecoverable debt is written off.
Responsibility	Hitesh Jolapara, Bi-Borough Director of Finance
Priority	Medium
Date	Guidance to be reviewed and reissued – October 2012; review process – ongoing
Comments	Guidance on reviewing aged debtors will be reviewed by Corporate Finance and reissued to service departments as a priority.
Recommendation 4	
	Enhance the integration of tri-borough risks into the Authority's risk management arrangements and, to support internal control, establish effective arrangements for ongoing internal audit.
Responsibility	Hitesh Jolapara, Bi-Borough Director of Finance
Priority	Medium
Date	Ongoing
Comments	A formal programme has been developed to move towards a tri borough internal audit and risk management function. The outcome of the current proposals will further enhance current arrangements to facilitate a robust risk management framework to support both the integration of tri, bi and sovereign borough risks and will improve on existing effective internal audit arrangements.

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



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2012

September

Annual governance report

Hammersmith & Fulham Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 27 September 2012 I expect to issue an unqualified audit opinion. The draft financial statements were of a good quality and few adjustments were required as a result of the audit. As in the previous year, the Pension Fund financial statements were provided earlier than the Council financial statements, allowing for earlier completion of the audit.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

I ask the Audit, Pensions and Standards Committee to approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

Financial statements

The Pension Fund’s financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority’s Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Uncorrected errors

There are no uncorrected errors other than those that are clearly trivial.

Corrected errors

All non-trivial errors identified during the audit were corrected. There are no adjusted errors of significance that I feel it is necessary to report to the committee.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Change in pensions administration provider</p> <p>In October 2011 the cabinet awarded the framework for provision of pension administration on behalf of the council to Capita Hartshead Ltd replacing the previous administrators the London Pension Fund Authority. The change in provider will require us to gain assurance over this new significant service organisation to the council.</p>	<p>I have obtained assurances over the internal control environment at Capita Hartshead via their AAF01/06 and ISAE302 report. I have reviewed these reports and they have not raised any risks for my audit.</p>

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

No weaknesses in internal control have been identified.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Audit*	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit*	35,000	35,000	35,000
Non-audit work	0	0	0
Total	35,000	35,000	35,000

* The fee above does not include the 8% rebate that the Audit Commission has paid to reflect attaining internal efficiency savings.

Appendix 1 – Draft independent auditor’s reports

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAMMERSMITH & FULHAM

Opinion on the Authority financial statements

I have audited the financial statements of London Borough of Hammersmith & Fulham for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 financial position of London Borough of Hammersmith & Fulham as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board'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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

INDEPENDENT AUDITOR'S REPORT ON THE STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Finance and Corporate Governance and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board'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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the Executive Director of Finance and Corporate Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial 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 pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Jon Hayes
District Auditor

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

28 September 2012

Appendix 2 – Draft letter of management representation

Hammersmith & Fulham Pension Fund - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Members of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

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 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 Pension Fund 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 the Pension Fund's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Hammersmith & Fulham Pension Fund

I confirm that this letter has been discussed and agreed by the Audit, Pensions and Standards Committee on 27 September 2012.

Signed:

Name: Jane West

Position: Executive Director of Finance and Corporate Governance

Appendix 3 – Glossary

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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



Agenda Item 9



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

Environment, Leisure &
Residents Services
Department

2011/12 WORMWOOD SCRUB WARD/S CHARITABLE TRUST ACCOUNTS

All

This report presents the 2011/12 Wormwood Scrubs Charitable Trust statement of financial activity. The Audit Committee is the specific body that the Council has established to receive the annual reports of the Trust.

Recommendations:

1. To approve the Wormwood Scrubs Charitable Trust's 2011/12 audited statement of accounts and Trustee's report.
2. To note the content of the Auditor's Annual Governance Report (AGR) stating that the accounts will receive an unqualified opinion.
3. To approve the management representation letter (as included with the AGR).
4. To approve the 2012/13 contribution to the running costs of Linford Christie stadium up to a maximum of £115,500.

1. PURPOSE OF REPORT

- 1.1 The report presents the statement of financial activity for 2011/12 for the Wormwood Scrubs Charitable Trust. The Audit Commission must report their findings to a properly constituted governance body of the Trust before they can publish their signed and final opinion on the integrity of the Trust's accounts.
- 1.2 These accounts have been audited and are presented for approval.

2. INTRODUCTION

- 2.1 Wormwood Scrubs is the subject of a charitable trust created by the Wormwood Scrubs Act 1879. The Council of the London Borough of Hammersmith & Fulham is the sole corporate trustee and holds the land in trust for the "use by the inhabitants of the metropolis for exercise and recreation".
- 2.2 The statement of financial activities and Trustees' report have been prepared in accordance with the Charities' Statement of Recommended Practice 2005.
- 2.3 The 2011/12 accounts and Trustees' report are provided at Appendix A. The Auditor's Annual Governance Report is provided at Appendix B.

3. STATEMENT OF FINANCIAL ACTIVITIES 2011/12

- 3.1 Wormwood Scrubs Charitable Trust started the year with an opening balance of £5,679,451. Net incoming resources for the year totalled £(108,395) which resulted in a year-end balance of £5,571,056.

Summary of Financial Position	2011/12
	£
Total Incoming Resources	579,106
Total Resources Expended	(687,501)
Net Incoming Resources	(108,395)
Total funds brought forward	5,679,451
Total funds carried forward	5,571,056

- 3.2 The amount carried forward consists of unrestricted income funds of £571,055 and a revaluation reserve for land and buildings of £5,000,001.
- 3.3 The Trust's Land includes Athletics Stadium, Pony Centre, three bedroom cottage and single storey parks depot, all of which are valued as £1. It also includes the car park valued at £5,000,000 at 31st March 2004.

4 SUMMARY

- 4.1 The Trust's main source of income is achieved through the use of the car parks that append Wormwood Scrubs. The income is generated from 2 areas, Pay and Display income from people using the Trusts' facilities and a licence agreement with Hammersmith Hospital.
- 4.2 The majority of expended resources relate to maintenance for the Trusts' facilities.
- 4.3 The main areas of financial activity are set out below

Statement of Financial Activities for Year ended 31 March 2012		
	2011/12	2010/11
	£	£
Income and Expenditure		
Incoming Resources		
Pay and Display Parking Meters	343,520	379,345
Hammersmith Hospital Car Park Licence	226,000	226,000
Other Income	5,579	45,889
Interest Receivable	4,008	2,974
Total Incoming Resources	579,106	654,208
Resources Expended		
Costs of generating Parking Income	294	3,979
Contribution to Linford Christie Stadium	16,832	0
Non Routine Maintenance of Wormwood Scrubs	0	0
Routine Grounds Maintenance of Wormwood Scrubs	656,910	642,700
Charitable activities	0	0
Governance costs	13,465	21,737
Other resources expended	0	4,588
Total Resources Expended	687,501	673,004
Net Incoming Resources	(108,395)	(18,796)
Reconciliation of Funds		
Total funds brought forward	5,679,451	5,698,247
Total funds carried forward	5,571,056	5,679,451

5 Review of Balances

- 5.1 The Wormwood Scrubs Charitable Trust reserve has reduced by £108,395 in 2011/12 to £5,571,056. This is a significantly worsened position from 2010/11 where the reduction on reserves was £18,796. This movement is partly due to the fact that in 2010/11 WSCT benefitted from a one-off £40k payment from Crossrail for exchange of land. Another reason for the reduction in reserves is a 10% decrease in pay and display parking income. In 2012/13 there will be a review of the pay and display usage and charges in order to understand more fully the reason for this reduction. The car park licence with Hammersmith Hospital will also be reviewed to ensure that the Trust is receiving a fair market rate (the lease charge has remained static for a number of years). It is expected that this will help to bring the net position on the Trust account back in line and therefore maintain the Trust's balances at an acceptable level going forward.

- 5.2 Interest is calculated on an average cash position for the year and is included in the accounts at year end. The interest rate used is the 7 day LIBOR rate, which increased from 0.42% in 2010/11 to 0.58% in 2011/12. This has increased interest received in year.
- 5.3 In 2010/11 there was no required contribution to Linford Christie due to an increase in income received in this year which reduced the net running cost of the Stadium. In 2011/12 a contribution of £16,832 was required. This was because the 2011/12 income targets for Linford Christie Stadium were not achieved. Income in 2011/12 reduced by 16% from the previous year,
- 5.4 Routine Grounds Maintenance is undertaken in accordance with a series of schedules that form part of the grounds maintenance contract. The fixed element of the contract has increased from £642,700 in 2010/11 to £656,910 in 2011/12 due to the annual inflationary uplift in line with the terms of the contract.
- 5.5 It is recommended that the Committee approve the 2012/13 contribution to the running costs of Linford Christie stadium to a maximum of £115,500, noting that officers will take targeted action to contain the net running costs of the stadium in order to minimise the required contribution from the Trust.
- 5.6 Currently, the Fund's Reserves are in the region of 83% of the turnover of the trust, which is considered prudent given the dependency on a single source of income and planned expenditure for 2012/13.

6 COMMENTS OF THE EXECUTIVE DIRECTOR FOR FINANCE

- 6.1 The 2011/12 audited statement of financial activities and trustees report are attached as Appendices A and B. It is a statutory requirement that the accounts are approved by the Audit committee and signed by the Chairman as representatives of trustees of Wormwood Scrubs Charitable Trust.

7 PUBLICATION AND AUDIT OF ACCOUNTS

- 7.1 The External Auditor's report has been submitted for consideration by the Audit, Pensions and Standards Committee as Appendix B to this report. The Auditor has requested the Committee to note and approve two items on page 4, including approval of the management representation letter (suggested wording is included on p.10-11). Following the Audit, Pensions and Standards Committee's consideration of this report, the Auditor will issue an opinion on the financial statements.

8 List of Appendices

- Appendix A – Annual Statement of Accounts and Trustees' Report
Appendix B – Audit Commission Annual Governance Report

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of Holder of File/Copy	Department/Location
1.	Statement of Financial Activity and Trustee's Report 2011/12 Charities SORP 2005	Mark Jones Ext 6700	Environment, Leisure & Residents Services 1 st Floor 77 Glenthorne Road

▪ **Reference and Administrative details**

<u>Charity Name and Number</u>	Wormwood Scrubs Charitable Trust, Registration No. 1033705
<u>Charity Correspondent</u>	MARK JONES DIRECTOR FOR FINANCE & RESOURCES ENVIRONMENT, LEISURE & RESIDENTS SERVICES DEPARTMENT FIRST FLOOR 77 GLENTHORNE ROAD LONDON W6 0LJ
<u>Trustees</u>	The Council of the London Borough of Hammersmith & Fulham
<u>Telephone</u>	020 8753 6700
<u>Email Address</u>	mark.jones@lbhf.gov.uk
<u>Governing Document</u>	WORMWOOD SCRUBS ACT 1879 AS AMENDED BY SCHEME OF THE CHARITY COMMISSIONERS DATED 25 MARCH 2002.
<u>Objects</u>	FOR RECREATIONAL USE AS SET OUT IN THE WORMWOOD SCRUBS ACT 1879.
<u>Area of Benefit</u>	WORMWOOD SCRUBS AND WEST LONDON. (Area prescribed by Governing Document)
<u>Area of Operation</u>	GREATER LONDON-HAMMERSMITH AND FULHAM-FULHAM
<u>Registration History</u>	23 Feb 1994 Registered
<u>Auditor Details</u>	Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

Structure, Governance and Management

The Wormwood Scrubs Charitable Trust shares similar governance arrangements with the Council. Depending upon the scale of the proposal, decisions relating to the Trust will be taken either by Council or the Cabinet, an executive body set up to which operational decisions are delegated. Decisions under £100,000 are delegated to the Cabinet Member for Environment, Leisure & Residents Services, Cllr. Greg Smith.

The Audit, Pensions and Standards Committee is the specific body that the Council has established to receive the annual reports of the Trust.

Day to day running of the Trust is undertaken by officers in line with the Council's scheme of delegation. The *de facto* chief executive of the Trust, is the Council's Chief Executive, Mr. Derek Myers. Ms. Lyn Carpenter (Executive Director of Environment, Leisure & Residents Services) and Ms. Sue Harris (Director, Cleaner, Greener & Cultural Services) are the main officers responsible for the day to day running.

Ms Jane West, the Council's Executive Director of Finance and Corporate Governance is the Trust's Chief Finance Officer but day to day financial management of the Trust is undertaken by Mr. Mark Jones (Director for Finance and Resources, Environment, Leisure & Residents Services).

Risk Management

The trustees have a risk management strategy which comprises:

- An annual review of the risks the charity may face;
- Establishment of plans to mitigate those risks identified;
- Implementation of steps designed to minimise any potential impact on the charity should those risks materialise.

The work has identified only a few minor risks and the situation is being monitored (Appendix B).

A key element in the management of risk is the setting of a reserves policy and its regular review by trustees.

Objectives and Activities

Wormwood Scrubs is the subject of a charitable trust created by the Wormwood Scrubs Act 1879. The Council of the London Borough of Hammersmith & Fulham is the sole corporate trustee and holds the land in trust for the "use by the inhabitants of the metropolis for exercise and recreation". This is the Trust's sole objective.

In discharging this objective, the Trust seeks to encourage sporting and recreational use of Wormwood Scrubs through the provision and maintenance of an environment that is conducive to its objective.

The Linford Christie stadium is sited on Wormwood Scrubs and was built by the Greater London Council when that body was responsible for the Scrubs. The stadium is run by the Council and the Trust makes an annual contribution to its running costs.

In addition to supporting the recreational activities provided by the Council through the Linford Christie stadium, the Trust's main activity relates to the maintenance of the scrubs itself. Since 6th May 2008 Quadron Services Ltd has provided a grounds maintenance service at Wormwood Scrubs following a procurement exercise run by the Council.

Achievements and Performance

In 2011-12 the Trust maintained day to day operation of the scrubs.

On the 3rd December 2007, the Cabinet of the London Borough of Hammersmith and Fulham approved the award of a contract on behalf of the Council and the Wormwood Scrubs Charitable Trust for grounds maintenance to Quadron Services Ltd for a period of seven years with an option to extend for a further seven years. The contract commenced on 7th May 2008.

Financial Review

Summary of Financial position	2011/12	2010/11	2009/10	2008/09
Total Incoming Resources	579,106	654,208	735,258	750,588
Total Resources Expended	(687,501)	(673,004)	(785,444)	(699,602)
Net Incoming Resources	(108,395)	(18,796)	(50,186)	50,986
Total funds brought forward	5,679,451	5,698,247	5,748,433	5,697,447
Total funds carried forward	5,571,056	5,679,451	5,698,247	5,748,433

The main income sources are pay and display income from the 4 machines in Wormwood Scrubs Car Park and licence income for the use of the car park. Expenditure is deemed to be in line with the objectives of the Trust.

The Trust's policy is to consider the level of its Balance annually;

- Whether the Trust has approved a balanced budget,
- The robustness of the assumptions and calculations that have underpinned the budget strategy,
- The frequency and effectiveness of in year budget monitoring,
- The effectiveness of Risk Management,
- The affordability of its commitments in respect of grounds maintenance and support of the Linford Christie Stadium,
- The review of, and the opinion of, the Trust's financial standing by the External Auditor,
- The condition of the Trust's assets,
- The affordability considerations of prudential borrowing

Currently, the Fund's usable reserves are in the region of 83% of the turnover of the Trust, which is considered prudent given the factors identified above.

Determining an adequate level of Balance requires professional judgement in the context of assessing performance against the key criteria listed above. Consequently, it is considered inappropriate to stipulate either a minimum or a maximum level of Trust Balance. It is considered more important that the key criteria are reviewed annually at the time of preparing the annual Revenue Budget and reviewing the previous year's performance.

The Trust's investments are managed by the Council. Please see appendix A for an extract from the **Council's Treasury Management Strategy Report** governing the investment policy adopted, adopted by the Council in February 2012.

The Trust undertook a number of capital projects in 2011-12. Work to repair/replace the fencing adjoining the All Weather Pitches has now been completed at a cost of £25,000. A substantial lighting replacement programme costing £90,000 was concluded in the end of 2011 resulting in new lighting throughout the communal building. More recently, work has also been completed to service the floodlights throughout the site.

Plans for future periods

There are a number of issues which are being considered.

Although the facility is not being used as an Olympic training area for the London 2012 Olympics and Paralympics the Linford Christie Outdoor Sports Centre (LCOSC), has picked up displaced activity from those facilities that are hosting Olympic teams

In 2012-13 the stadium will continue to host an array of local sporting events including 26 school sports days (2 of which are borough championships) which are anticipated to attract approximately 6,500 participants and 1,700 helpers and spectators.

Investment into the facility continues and has had a significant impact on user experience. During 2012 work will commence on a project utilising £160k of section 106 money that will include extensive repair of the changing block roof, a sanitary ware replacement programme and repair/replacement of doors and shutters.

Future projects in the pipeline include the potential restoration of the covered running track. Appropriate funding opportunities are currently being identified and the project is being considered in partnership with Thames Valley Harriers.

The car park has a maintenance regime identifying minor repairs that have safety implications. A full survey was carried out in 2004 identifying the need for more extensive work to be carried out in the medium term. This requirement is being kept under review but there remain no immediate plans to commission the works.

The artillery wall was noted in 2009 as being in need of repair. The Council had identified a contractor to demolish the wall at zero cost but subsequent investigations found that part of the wall is listed so demolition is no longer an option. The deterioration of the wall will continue to be monitored.

Opportunities for more significant investment are continually being sought via Sport England and other Governing bodies.

Trustees' responsibilities in relation to financial statements

Charity law requires the trustees to prepare financial statements for each year which show a true and fair view of the state of affairs of the charity and its financial activities for the period. In preparing the financial statements, the trustees are required to:

- Select suitable accounting policies and apply them consistently.
- Make sound judgements and estimates them are reasonable and prudent.
- Prepare financial statements on the going concern basis unless it is not appropriate to assume that the charity will continue in operational existence.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position and to enable them to ensure that the financial statements comply with the Charities Act 1993. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The appointment of the auditor to undertake the audit of accounts in the following year is pending further to the abolition of the Audit Commission.

For and on Behalf of Wormwood Scrubs Charitable Trust

Signed



Mark Jones
27 September 2012

Appendix A – Investment Strategy

Extract from Council’s Treasury Strategy Management Report February 2012

10. ANNUAL INVESTMENT STRATEGY

- 10.1 The Council must have regard to the CLG’s Guidance on Local Government Investments (“the Guidance”) and the 2011 revised CIPFA’s Treasury Management in Public Services of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”).
- 10.2 Although the annual investment strategy has to be approved by full Council, it is proposed that amendments to the investment methodology are delegated to Cabinet to enable changes to be made on a timely basis to reflect changes in market conditions.
- 10.3 The Council’s investments priorities are:-
- (a) the security of capital and
 - (b) the liquidity of its investments.
- The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.
- 10.4 In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list.
- 10.5 The Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps” and overlay that information on top of the credit ratings.
- 10.6 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 10.7 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
- 10.8 Investment instruments identified for use in the financial year are listed below under the ‘Specified’ and ‘Non Specified’ Investment categories.
- 10.9 The DCLG guidance requires authorities to specify their minimum acceptable credit rating. The minimum ratings required by the Council are:

Sovereign Rating AA+

	Long Term	Short Term	Individual	Support
Fitch	A-	F2	bbb-	2

	Long Term	Short Term	Financial Strength
Moody's	A3	P-2	C
	Long Term	Short Term	
S&P	A-	A-3	

11. CREDITWORTHINESS POLICY

11.1 This Council applies the creditworthiness service provided by Sector. This service employs a modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays.

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Spreads (CDS) to give early warning of likely changes in credit rating; and,
- Sovereign ratings to select counterparties from only the most creditworthy countries.

11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands.

Table 7 - Exposure limits and Duration

	Exposure limit £ million	Duration
Purple	25	2 years
Blue *	35	1 year
Orange	20	1 year
Red	20	6 months
Green	10	3 months
No Colour	0	not to be used

*only applies to nationalised or semi nationalised UK Banks

11.3 Their exceptions to this methodology include:

UK Government (no maximum amount)

- Debt Management Office
- Treasury Bills
- Government Gilts

Public Authorities (Exposure limit of £25 million with a maximum duration of 364 days)

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

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

Money Market Funds

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

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

11.4 Whilst the Council have adopted the Sector methodology for applying creditworthiness if any of the counterparties rating fall below the Council's acceptable minimum credit rating (Para 10.9) they will be withdrawn immediately from the counterparty list.

11.5 The Council is alerted to changes to ratings of all three agencies through its use of Sector creditworthiness service.

- If a down grade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

11.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information on government support for banks and the credit ratings of that government.

12. COUNTRY LIMITS

12.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies). The exposure limit to any one Country will be £20 million with the exception of the UK which will be unlimited.

13. INTEREST RATE OUTLOOK FOR INVESTMENTS

13.1 Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are as follows:-

2011/12 0.50%
 2012/13 0.50%
 2013/14 1.25%
 2014/15 2.50%

13.2 There is downside risk to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

13.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13 0.70%
2013/14 1.00%
2014/15 1.60%
2015/16 3.30%
2016/17 4.10%

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

13.5 Specified Investments

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

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

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

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

13.6 Non-Specified Investments

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

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

- Certificates of deposits - issued by banks and building societies in excess of one year.
- UK Government Gilts in excess of one year

14. CREDIT CRITERIA

- 14.1 The banking sector is still a volatile area and the current policy is that whilst we maintain our full lending list in accordance with the methodology approved by Council on the 24 February 2010 we have been operating a more restricted lending list, lending only to UK banks, other Local Authorities and AAA Money Market Funds. For illustrative purposes Appendix C is attached to show the countries and organisations on the lending list at the present time using the approved methodology.
- 14.2 The limits are driven by the methodology which is explained in paragraph 11 above the maximum limits for these banks are shown in table 7. The limits can change if there are rating changes, however the maximum limit would never be more than £25 million except for the part nationalised banks which have a £35 million limit.

15. NATIONALISED BANKS AND PART NATIONALISED BANKS

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

▪ **Appendix B – Risk Assessment**

Risk Index No.	AREA OF RISK	IMPACT OF RISK	SEVERITY High/Medium/Low	POTENTIAL High/medium/Low	VALUATION	COMMENT
001	Pay and Display income level	i) Theft of cash boxes. ii) Lower income levels due to decisions taken about Pay and Display tariffs.	High	High	Potential loss of income.	Pay & display tariffs to be reviewed in 2012/13
002	Hammersmith Hospital Trust car park income	The licensing agreement with Hammersmith Hospital Trust has a three month notice period with a possible impact on the level of income.	High	Medium	Potential loss of income.	Contract to be reviewed in 2012/13
003	Condition – Wormwood Scrubs car park	Wormwood Scrubs car park is in need of resurfacing. A review of the car park is planned for 2012.	High	Low	Significant expenditure.	The risk should be manageable. In the year of resurfacing works funds will be managed accordingly.
004	Insurance claims against Trust	Liability of trust in case of personal injury claims.	Low	Low	Possible liability of Trust in case of insurance claim.	Wormwood Scrubs would be covered by the Council's insurance.
005	Safety of Artillery Wall	Cost of demolition, collapse could possibly lead to damage or liability of Trust.	Low	High	Cost of demolition or insurance claims.	The condition of the wall is being monitored.

Wormwood Scrubs Charitable Trust

Statement of Financial Activities for Year ended 31 March 2012

	2011/12	2010/11
	£	£
Notes		
Income and Expenditure		
2 Incoming Resources		
Pay and Display Parking Meters	343,520	379,345
3 Hammersmith Hospital Car Park Licence	226,000	226,000
Other Income	5,579	45,889
4 Interest Receivable	4,008	2,974
Total Incoming Resources	579,108	654,208

Resources Expended		
Costs of generating Parking Income	294	3,979
5 Contribution to Linford Christie Stadium	16,832	0
6 Non Routine Maintenance of Wormwood Scrubs	0	0
6 Routine Grounds Maintenance of Wormwood Scrubs	656,910	642,700
7 Charitable activities	0	0
8 Governance costs	13,465	21,737
Other resources expended	0	4,588
Total Resources Expended	687,501	673,004

Net Incoming Resources	(108,393)	(18,796)
Reconciliation of Funds		
Total funds brought forward	5,679,451	5,698,247
Total funds carried forward	5,571,056	5,679,451

Wormwood Scrubs Charitable Trust

Balance Sheet at 31 March 2012

	2011/12	2010/11
	£	£
9		
Tangible Fixed Assets		
Land and Buildings		1
Car Park	5,000,000	5,000,000
Total Fixed Assets	5,000,001	5,000,001
Add: Current Assets		
Cash in Bank	584,504	690,950
Debtors	0	0
Total Current Assets	584,504	690,950
Less: Liabilities		
Creditors: Amounts falling due within one year	(13,449)	(11,500)
Total Liabilities	(13,449)	(11,500)
Total Net Assets and Liabilities	5,571,056	5,679,451
The Funds of the charity:		
	£	£
11		
Unrestricted income funds	571,055	679,450
Revaluation reserve	5,000,001	5,000,001
Balance of the Charitable Trust held by the London Borough of Hammersmith and Fulham	5,571,056	5,679,451

Notes to the Accounts

(1) Statement of Accounting Policies

The Financial Statements have been prepared on a historic cost basis and in accordance with the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP 2005) and the Companies Act 1985.

(i) Accounting Concept

The accounts have been prepared on an accruals basis. That is, on the basis of income being due and expenditure being payable in the related financial year.

(ii) Depreciation

Depreciation has not been charged to the land or the car park. Any changes in value will be reported as gains or losses on revaluations. The trustees are not aware of any indication that an impairment has occurred.

(iii) Fixed Assets

The Trust has ownership of land, passed under the Wormwood Scrubs Act 1879 for the perpetual use of the inhabitants of London for exercise and recreation. Due to the restrictions on the use of the land and its disposal, it is included in the balance sheet at a fair value at the point of donation, as there are no records of this value a nominal value of £1 is used. This is in line with the Charities SORP. The car park is held at historic value. This was initially established by a valuation in 2004, though the trust does not operate a policy of revaluation.

(2) Incoming Resources

The Trust has a licensing agreement with Hammersmith Hospital NHS Trust (HHT), for the use of a limited number of parking spaces within the car park, making use of surplus capacity. The Trustee's consider that the arrangement is consistent with the Trust's objectives, as the arrangement can be terminated at any time.

(3) Other Income

	2011/12	2010/11
BHF Contribution to the Trust	£	£
Filing income	(1,415)	(808)
Exchange of Land - Crossrail	0	(40,001)
Other rental income	(4,164)	(5,080)
	<u>(5,579)</u>	<u>(45,889)</u>

(4) Interest Received

Interest is calculated on an average cash position for the year and is included in the accounts at year end. The interest rate used is the 7 day LIBOR rate, which increased from 0.42% in 2010/11 to 0.58% in 2011/12.

(5) Contribution to Linford Christie Stadium

The Charity contributes to the up-keep of an athletic stadium located on the Trust grounds, not as a cost apportionment exercise but in furtherance of the objectives of the Trust to support recreation. Linford Christie Stadium is managed by the Environment Leisure and Resident Services Department.

On 27 November 2006 a yearly contribution of £110,000 to the running costs of the stadium was approved by Cabinet as an ongoing commitment. In 2011/12 a contribution of £16,832 was made to the Linford Christie Stadium.

(6) Grounds Maintenance

The grounds maintenance work undertaken at Wormwood Scrubs is undertaken by the Council's external contractor under a Grounds Maintenance contract that was tendered in 2008 for a period of 7 years. The award of this contract was considered in the best interest of both the Council and the Trust. Until 2001-02 the Trust was not in a position to fund the entire cost of the works and until this point, the Council only received a contribution. Since this time, the Trust has funded the full cost of grounds maintenance costs at Wormwood Scrubs. Grounds Maintenance services are currently provided by the Environment Leisure and Resident Services Department of the Council. The continuation of these services are periodically approved by Cabinet Members.

Routine Grounds Maintenance is undertaken in accordance with a series of schedules that form part of the new contract. The fixed element of the contract has increased from £642,700 in 2010/11 to £656,910 in 2011/12 due to a 2.16% inflationary uplift in line with the terms of the contract. The specification included in the new Grounds Maintenance contract represents a significant enhancement to the level of grounds maintenance that currently takes place at Wormwood Scrubs, which is reflected in the increased costs.

Non-routine Grounds Maintenance is identified and commissioned on behalf of the trust by the contractor. Due to the comprehensive specification of works outlined in the new grounds maintenance contract there was no non-routine ground maintenance work.

The Council's Audit Committee formally approved the continuation of the service provided by the Environment Leisure and Resident Services Department in June 2009.

(7) Charitable activities

These costs represent the activities undertaken and advice provided by project and policy officers in enabling the trustees to make informed decisions impacting on the trust and the Council and so delivering the charity's objectives. There were no charges for charitable activities in 2011/12.

(9) Governance costs
The resources expended that relate to the governance of the charity consist of the following:

	2011/12	2010/11
	£	£
Financial Administration and Support fees - these costs result from the statutory requirement to prepare accounts. Also included are the costs of the time spent liaising and meeting with auditors, and attending closing of account meetings.	1,948	7,334
Legal Fees - In the management of the trust during the year legal advice was required. This was provided by Legal Services of LBHF and the charges were based on a staff time basis.	17	4,683
Audit Fees - It is a statutory requirement that the accounts of the trust should be audited. The service is provided by the Audit Commission.	11,500	9,720
	13,464	21,737

(9) Tangible Assets

The Trust's Land and Buildings includes an Athletics Stadium, Pony Centre, three bedroom cottage and single storey parks depot, all of which are valued as a nominal £1 due to the restrictions placed on the use of the land and its disposal.

The Athletics Stadium was built in 1961 under the Greater London Council (GLC) and prior to the creation of the London Borough of Hammersmith and Fulham, who are now responsible for administering the Trust. There is no available documentation to demonstrate that approval has been gained by the Secretary of State for Defence.

The Pony Centre was given approval to be built by the Secretary of State for Defence.

The car park is included in the accounts at historic cost in line with the charity SORP. To establish a proxy for historic cost the asset was valued on the 31st March 2004. The Trust does not operate a policy of revaluation.

(10) External Creditors

The creditors relate to audit services by the Audit Commission and financial administration and support fees.

	2011/12	2010/11
	£	£
External creditors at the start of the year	(11,500)	(9,865)
New creditors recognised in year	(13,449)	(11,500)
Adjustment to creditor liability during the year	11,500	-
Creditors paid during the year	-	8,085
Over accrual 2009/10	-	1,780
Amount of creditor liabilities as at 31 March	(13,449)	(11,500)

(11) Fund Structure:

All Income and Expenditure are Unrestricted funds solely used for the specific purpose of the Trust. Expenditure which meets this criteria is

(12) Related Party Transactions:

The Council of London Borough of Hammersmith and Fulham (LBHF) is the trustee of the charity. Most expenditure transactions of the Trust are with LBHF and therefore fall under the definition of related party transactions. However, as stated this does not conflict with the charity's ability to meet its objectives.

	2011/12	2010/11
	£	£

a) London Borough of Hammersmith and Fulham as transacting party

- <i>LBHF as contractor to the Trust</i>		
Environment Leisure and Resident Services Department for the provision of Routine Grounds Maintenance of Wormwood Scrubs (Ref Note 6)	656,910	642,700
LBHF - Parking Control for the collection of Parking Income	294	3,979
- <i>LBHF as recipient of contribution</i>		
Contribution to Uinford Christie Stadium (Ref Note 5)	16,832	0
- <i>LBHF as provider of administrative and management support to the Trust</i>		
Environment Leisure and Resident Services Department for management of Charitable Activities	0	0
Environment Leisure and Resident Services Department for financial administration services of Wormwood Scrubs	1,948	7,334
Legal Services for the provision of legal advice required in the management of Wormwood Scrubs	17	4,683
	676,000	658,696

Amounts due to or from related parties:

	0.00	0.00
--	------	------

(13) **Trustee Remuneration, Benefits and Expenses**
The Charities SORP (2005) requires all trustee (or people connected with the charity) remuneration, benefits and expenses to be disclosed.

Approval by the Board

These financial statements were authorised for issue on 27th September 2012 by the London Borough of Hammersmith & Fulham's Audit

For and on Behalf of
The Mayor and Burgesses of the London Borough of Hammersmith and Fulham



Mark Jones
Director for Finance and Resources

Date:

14/9/12

Annual governance report

Wormwood Scrubs Charitable Trust

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial statements

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

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Charity during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Charity before I issue my opinion.

Financial statements

The Charity's financial statements and annual governance statement 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 annual governance statement.

Opinion on the financial statements

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.

Corrected errors

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

Significant risks and my findings

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

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the charity's financial reporting process, including aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

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

Fees

I reported my planned audit fee in the 12 April 2011 Audit Fee letter.

I will complete the audit within the planned fee.

Appendix 1 – Draft independent auditor’s report

I have audited the financial statements of Wormwood Scrubs Charitable Trust for the year ended 31 March 2012 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. 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 149 of the Charities Act 2011 and regulations made under section 149 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 5 of the Trustees’ Report, the trustees are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view.

I have been appointed as auditor under section 149 of the Charities Act 2011 and report in accordance with regulations made under section 149 of the Charities Act 2011. 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. In addition, I read all the financial and non-financial information in the Trustees’ 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 2012, 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 2011.

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 2011 requires me to report to you if, in my opinion:

- the information given in the Trustees' 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, London SW1P 4HQ

September 2012

Appendix 2 – Corrected errors

I identified the following error during the audit which management have addressed in the revised financial statements.

Item of account	Statement of financial activities		Balance sheet	
	Dr £'s	Cr £'s	Cr £'s	Cr £'000s
Provision for Audit Fees	Audit Fee should be accounted for as a creditor rather than a provision			
	Creditors: Amounts falling due within one year		11,500	11,500
	Provision for Audit Fees			

Appendix 3 – Draft letter of management representation

Wormwood Scrubs Charitable Trust – Audit for the year ended 31 March 2012

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 2012.

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.

Supporting records

I have made available all relevant information and access to persons within the Charity for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Charity.

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 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 the Charity's 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 requirements of the framework.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Wormwood Scrubs Charitable Trust

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

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

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

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



www.audit-commission.gov.uk

August 2012



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27th SEPTEMBER 2012

CONTRIBUTORS

Annual Governance Statement 2012

WARDS

All

Chief Internal Auditor

Risk Management
Consultant

This report presents the Annual Governance
Statement 2012.

H&F Business Board

Financial Strategy
Board, Corporate
Safety, Corporate Anti
Fraud Service

Legal Services
Division

All departments

Internal Audit of
The Royal Borough of
Kensington and
Chelsea and
Westminster City
Councils

RECOMMENDATION:

1. To note the contents of this statement as attached as Appendix 1.

**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 2012 working papers (electronic files), Long and Shortlist of Issues, Directors and Executive Directors Assurance Statements	Michael Sloniowski 2587	Finance and Corporate Services Department, Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

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

The Council has reviewed its code of corporate governance, now implemented as a shadow document, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council complies with the principles of corporate governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) [England] Regulations 2011 in relation to the publication of a statement of internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31st March 2012 and up to the date of approval of the annual report and statement of accounts.

The governance framework

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

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

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

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

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

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements, including where mandates are agreed for the purpose of TriBorough or BiBorough working, are presented to Hammersmith & Fulham Business Board, Cabinet, and Full Council for approval as required.

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

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

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

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and Cabinet Members, Chief Officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). Key decisions are set out in a Forward Plan, which documents decisions likely to be taken in the next four months, and decisions are taken in public unless certain statutory 'exempt' items are taken to members for decision. Occasionally a situation will arise where a

decision will need to be taken quickly, in which case it will form a Leader's Urgent Decision, reported at the next Cabinet meeting. Decisions, which are not classified as key, are taken either by Cabinet members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the relevant Cabinet Member and are available to the public. Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a Committee that reflects the political balance of the council or officers as set out in the Constitution. All Key Decisions are accompanied by an Equality Impact Analysis and/or Equality Statement.

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

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

As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members (a national code, overseen by the Standards Board for England). In line with the Localism Act 2012, from July 2012 the Council's Standards Committee will be abolished and integrated into the Audit & Pensions Committee. A new process for dealing with complaints received against Councillors and co-opted members will be introduced. A new Members Code of Conduct promoting high standards of behaviour in the public life based upon the Seven Principles of Public Life will also be adopted. Members and officers will continue to be governed by the various additional local protocols contained within the Constitution.

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

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

Standing Orders and Standing Financial Instructions form part of the Constitution. As such they are reviewed and approved annually. There is a framework of regular financial management information and reporting to all levels of management and to Members. In addition there are Financial Regulations and financial procedures in place, which are regularly

reviewed, including the Contracts Standing Orders and a structure of Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.

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

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

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

Regular reports are produced by the authority in compliance with current initiatives and external requirements

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

All Cabinet reports are cleared by the Executive Director of Finance & Corporate Governance and by the Director (Legal Services) or a Lawyer in the Legal Services Department. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

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

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

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

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

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

Members who are to sit on the planning and licensing committees are required to undertake specialist training before they are allowed to sit. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit & Pensions and Standards Committee receives regular training eg in interpreting accounts and different pension investment fund vehicles. The Leader undertakes appraisal meetings with Cabinet Members annually from which additional training programmes may arise.

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

Many forms of consultation take place across the Council, as appropriate to the circumstances, aims of the exercise, and need to consult. For example, consultation exercises may be conducted when revisiting or determining new policy, or reconfiguring or ending service provision. For these kinds of exercises, the Council uses a variety of methods such as open sessions for the public, sessions for service users and groups with an interest in our proposals, and a web based consultation package, Citizen Space. Each year a Borough Residents' Survey takes place that acts as a test of satisfaction in relation to the council's overall performance and that of individual services. The Council uses an internal challenge process for budget setting, and conducts Equality Impact Assessments when changes are to be implemented. The Council produces performance and finance related material that is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

Where services have been delivered through significant partners such as the National Health Service, Inner North West London NHS, Central London Community Healthcare, G.P. Consortia, H & F Bridge Partnership for Information and communication technology, or through other Councils particularly the Royal Borough of Kensington and Chelsea and the City of Westminster, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Review of effectiveness

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

Control Assurances

The Council has reviewed in detail the control assurances across the authority and of its significant delivery partners including its Tri and Bi Borough partners. The results of the review of the effectiveness of the Internal Control environment has been reported to the Audit & Pension Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place. In completing this review the following governance issues were identified:

1. Reconciliation of financial systems

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. Improvements made over recent years have been sustained and demonstrate greater co-ordination and centralisation. Whilst some issues remain they can be classified as operational and no longer significant.

2. Business Continuity IT

New business continuity arrangements have been put into place, user acceptance testing to increase IT resilience has also taken place and the system went live in 2011. An internal audit of business continuity was conducted following implementation and established a positive outcome. It is therefore no longer considered a significant control issue.

3. Contract Management

Following a review conducted by Internal Audit improvements have been made that address control weaknesses identified in managing contracts for consultants. As improvements have been made that clarify the management policy, process, reporting and compliance this is no longer considered a significant control issue.

4. Information requests

The provision of information in compliance with the Freedom of Information Act was been the subject of a review in 2011 from the Office of the Information Commissioner who 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. The improvements in the control environment are such to no longer consider this a significant control issue.

5. Health and Safety

Substantial progress has achieved in the delivery of a reasonable Health & Safety environment. This has included enhanced training, support, resource and guidance provided by the Corporate Safety Team. Residual legacy risks, including a pending HSE prosecution, remain in relation to previously established control weakness and control of gas safety certification however the improvements in this area are such to no longer consider this a significant matter.

There is some evidence that health & safety action plans are not being implemented and that implementation is not effectively monitored. While proposals to improve the controls have been agreed and will be monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time.

6. Theft of materials

Metal theft increases when worldwide prices for scrap metal rise. Metal items are stolen for their value as raw materials and are ultimately scrapped, or recycled, to provide material for making new products. The recent instances of theft of metals in the White City Estate area affected 24 properties. The council is currently exploring the idea of using technology to mark valuable metals which would allow them to be identified as Council property. An Internal Audit report concludes that there is only a limited assurance in this area and that a number of control improvement recommendations need to be made.

7. Housing repairs and maintenance.


Following recent investigations undertaken by Internal Audit, it has been established that there are some historic control weaknesses relating to the financial administration of the repairs and maintenance function. Work in this area is being conducted to gauge the extent to which charges have been correctly validated, and to refresh management procedures to ensure risks are appropriately mitigated.

8. Local taxation

A significant internal control issue has been identified in the council's system for business rates collection. A subsequent internal audit of the system concluded that there is only a limited assurance in this area currently. A number of control improvement recommendations have been made that are in the process of being implemented. Once these recommendations are addressed, the significant control issue will have been resolved...

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

Signed: 
Chief Executive

Signed: 
Leading Member
On behalf of Hammersmith & Fulham Council
12th September 2012



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 SEPTEMBER 2012

CONTRIBUTORS

VOLUNTARY DISCLOSURE TO HMRC

WARDS
All

This report is to update the Committee on progress with the voluntary disclosure made to HMRC on 16th April 2012 with respect to people who had been incorrectly treated by the council as being self employed and were paid without deduction of tax and National Insurance Contributions (NIC's).

RECOMMENDATION:

The Committee is asked to note progress with respect to the voluntary disclosure which LBHF has made to HMRC and the calculation of the council's liability.

1. PURPOSE

The purpose of this report is to update the Committee on progress with the voluntary disclosure made to HMRC on 16th April 2012 with respect to people who had been incorrectly treated by the council as being self employed and were paid without deduction of tax and National Insurance Contributions (NIC's).

The paper reminds the Committee of the oral report which it received on 28th June; sets out, based on further discussion with HMRC, how the council's liability will out be calculated; and explains what further steps have been taken with HMRC. It concludes with an explanation of the timeline which the disclosure is now expected to follow.

2. BACKGROUND

Report made on 28th June

The report made to the Committee on 28th June reminded members of the new process for the recruitment of additional resources that had been introduced, the review of all engagements that had been undertaken at the council's initiative and the work being done with schools to ensure that they understood their responsibilities with respect to employment status decisions.

Deloitte, who attended the meeting, explained that they had recommended a voluntary disclosure to HMRC following a detailed review of the cases identified by the council. LBHF wrote to HMRC confirming its intention to make such a disclosure in February 2012 and the disclosure was made on 16th April. A meeting with HMRC was organised and took place on 24th May to go through the disclosure.

The Committee was informed that the council had identified 52 people, out of a total of 215 cases, who had been incorrectly treated as self employed for the purposes of tax and NIC's. Tim Waterhouse from Deloitte explained the approach that had been adopted to the voluntary disclosure and the work that was being done to with HMRC to establish the quantum and extent of the council's liability. Jane West confirmed that the total liability of the council was at this stage estimated to be significantly less than £1m.

Calculating the council's liability

The calculation of the council's liability set out below is based on the approach adopted by HMRC when an error is disclosed or comes to light as a result of a compliance check. First, the council must pay the tax and NIC's which should have been deducted from the payments made to those wrongly categorised as self-employed. However, it can ask for any payments made by those people in this position as part of their own tax returns to be set off against this part of its liability.

Secondly, HMRC can impose a penalty which is based on its judgement of the nature of the error. Penalties are as follows:

- A careless error – up to 30% of the potential lost revenue
- A deliberate error – up to 70% of the potential lost revenue
- A deliberate and concealed error – up to 100% of the potential lost revenue

Thirdly, interest will be charged by HMRC on its lost revenue. The current rate of interest on late payments is 3.0%, but has been higher in previous years.

Steps taken since the last meeting of the Committee

Since the last meeting we have agreed the approach to be taken with HMRC, subject to some final details. We have submitted a detailed calculation of the council's liability to HMRC, which puts the total amount of tax and NIC's at £500,783. HMRC have confirmed that it will apply its procedure for setting off tax already paid in all re-categorisations of employment status. We have no reason to believe that those wrongly treated as self-employed did not deal with their own tax affairs entirely correctly. We expect the council's liability to reduce substantially as a result of the application of the set off procedure.

We have also begun with HMRC a discussion about the approach to penalties. We have accepted that the errors made would be classified as careless, but, with the criteria for the reduction of any penalty in mind, we have also underlined that LBHF:

- Took the initiative and made an unprompted disclosure;
- Told HMRC as much about the errors as it has been able to and why they happened;
- Put in place robust procedures to ensure that similar errors cannot happen again;
- Took time and trouble to assist HMRC in working out the size of the errors and the tax and NIC's liabilities to which they had given rise;
- Remains prepared to give HMRC access to any records or documents which it asks for; and
- Notified HMRC of payments being made without deduction of tax and NIC's on year end returns submitted annually to HMRC. There was, therefore, no intention to conceal the error.

We have suggested that all this constitutes reasonable grounds for HMRC to exercise their discretion to suspend any penalty which they might decide to charge. In such a case if the council meets the conditions imposed by HMRC and does not make any other careless or deliberate errors during the period of the suspension, then the penalty would be cancelled at the end of the

suspension period. We have no reason to believe that HMRC will classify the error as anything other than careless. We have some reason to believe that HMRC will be sympathetic to the argument that they should exercise their discretion to suspend the penalty. We have been told by HMRC that it is not unusual for them to suspend penalties in cases such as this.

That leaves only the calculation of interest, which would be charged on the amount of tax and NIC's after the application of set off. The greatest amount of interest that could be charged, assuming an average rate of interest over six years of 5.5%, would be £31k. HMRC do not charge interest on a compound basis.

The worst case scenario in terms of the council's liability, therefore, is around £734k. If we assume that set off will reduce the amount of unpaid tax and NIC's by 50% and that HMRC will exercise its discretion to suspend any penalty, then the liability would reduce to around £298k. We might regard this as a best case scenario.

3. FUTURE REPORTING NEEDS

We anticipate that HMRC will complete their review of the calculations which the council has submitted by the end of October. At that point we will have HMRC's view of the council's total liability. LBHF will be able to challenge HMRC's decisions about the correct treatment of people for tax and NIC's purposes if the decisions seem harsh or unfair.

Once a figure has been agreed, HMRC will write to each individual named in the voluntary disclosure asking them if they are prepared for the tax paid through their self assessment tax returns to be set off against the council's liability. The individuals concerned will have three months to reply and non-response will be taken as consent to the set off.

That would suggest a further report to the Committee in October or November 2012 and a final report in January or February 2013, depending on the speed of response of HMRC.

4. CONCLUSION

The Council has made a timely and detailed voluntary disclosure to HMRC. HMRC has complimented the council on the effectiveness and efficiency of its approach to the voluntary disclosure.

A worst case scenario would put the council's liability at £734k. However it has been agreed that HMRC's set off procedure will be applied and we have no reason to believe that the people to whom payments were made have not

dealt with their tax affairs properly. We can assume that this will significantly reduce the liability.

The penalty charged by HMRC will not exceed 30%. We would anyway expect to negotiate this and have proposed its suspension. In this case if the council makes no further errors in any of its tax affairs the penalty will be waived. Making no further errors will require a vigilant approach to:

- Compliance with the new procedure for the recruitment of additional resources; and
- To the management of the council's tax affairs as a whole. With this in mind we have let a one year contract for ongoing tax advice.

We should not expect to hear anything further from HMRC before the end of October and we will not be completely clear about the extent of the council's liabilities before the application of set off. We do not expect that to be concluded until the end of January 2013.

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	N/A		
2.			
3.			
4.			



AUDIT PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

All departments

COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

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

WARDS All

RECOMMENDATION:

1. The committee consider the current Strategic, Change and Operational risk position as outlined in the report.
2. The committee consider the Key Risk Indicators attached in Appendix 2 and their ongoing development.

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 to meet BS31100 requirements for Enterprise Risk Management. 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 public sector is changing and increasingly confronted by a growing range of new areas of vulnerability, such as complex supply chains, the interconnectivity of new technology, funding reductions and civil unrest. Taken against a backdrop of a challenging global risk environment, unpredictable severe weather and natural catastrophes and unprecedented levels of organisational flux, these scenarios pose real risks to the long term resilience of public services.

2.2. The UK public services model, both in terms of operational design and funding, is under the greatest period of stress since the second world war. It is a distinct likelihood that potential incidents, crises and failures will form part of the landscape of risk over the next few years. Additionally John Hurrell the Chief Executive of the UK Risk Management association Airmic, believes that significant risks are emerging around technology and communications due to the extent of organisations dependency on the Internet.

3. TRI-BOROUGH RISK MANAGEMENT DELIVERY

3.1. H&F Risk Management has been included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. The target operating model and organisational structure that will deliver the risk management service is being developed following a review of risk management arrangements in each of the three boroughs. At present each council has in place a policy, strategy, framework and approach distinct from each other. These will be reviewed and aligned following an assessment of the service and proposals accepted by the Executive and by each of the 3 councils Cabinets. Following that efficiencies will be made in the administration, training and delivery of the service.

4. TRIBOROUGH RISK & ASSURANCE REGISTERS

4.1. A review of the composition and structure of departmental risk registers in order to compare and contrast how they can be aligned has been initiated by the Principal Consultant, Risk Management. TriBorough and BiBorough departments could and should retain ownership of sovereign risks however these may be a shared responsibility for their management and going forward may start to rely on common controls. It is possible to combine existing sets of risk & assurance registers across Tri and Bi Borough services, eliminating potential duplication or triplication of administration. A

benefit of this exercise would be the use of risk and assurance registers from a common source to inform future internal audit plans.

5. H&F - STRATEGIC RISKS PERSPECTIVE

5.1. Risk and Assurance Registers are an expression of Departmental Governance arrangements. The Corporate Risk & Assurance Register has been remodelled as an Enterprise Wide Risk & Assurance Register to address Tri,Bi and Sovereign Borough Services risks across three perspectives Strategic, Change and Operational. This model will continue to operate as the three boroughs bring together the risk management service.

5.2. Evidence and material for the refresh of the Enterprise Wide Risk and Assurance Register was drawn from a number of sources both within the council, across TriBorough Services and in other Public and Private Sector organisations. Risks have also been reviewed in line with the recent Zurich Municipal & Ipsos MORI report entitled 'Risk and Response', Price Waterhouse Coopers report 'Fighting Fraud in Government' and the Grant Thornton 2012 review on Governance 'High Pressure Systems' . This includes an element of 'horizon scanning' from each of these report from which the following risks were identified;

5.3. The significant top key areas of vulnerability identified by Zurich's report, along with the views expressed, were;

- Governance
 - Key point – Structures and processes may not keep pace with the speed and degree of transformation underway.
- Financial
 - Key point – Underestimation of the scale and difficulty of the financial challenges and risks ahead and the impact on reserves.
 - Key point – Financial loss due to insolvency
- Human Resources
 - Key point – Losing staff skilled and knowledgeable staff in governance and control* (also identified in the Grant Thornton report as a key Strategic Risk)
- Contractor/Partner
 - Key point – New partners/contractors may not have the experience or resources to manage transferred risks.
- Property
 - Key point – Investment drops in maintenance of under utilised assets
- Technological – Data integrity and cyber security
 - Key point – Significance of the increasing number of high profile data breaches experienced in the public sector.

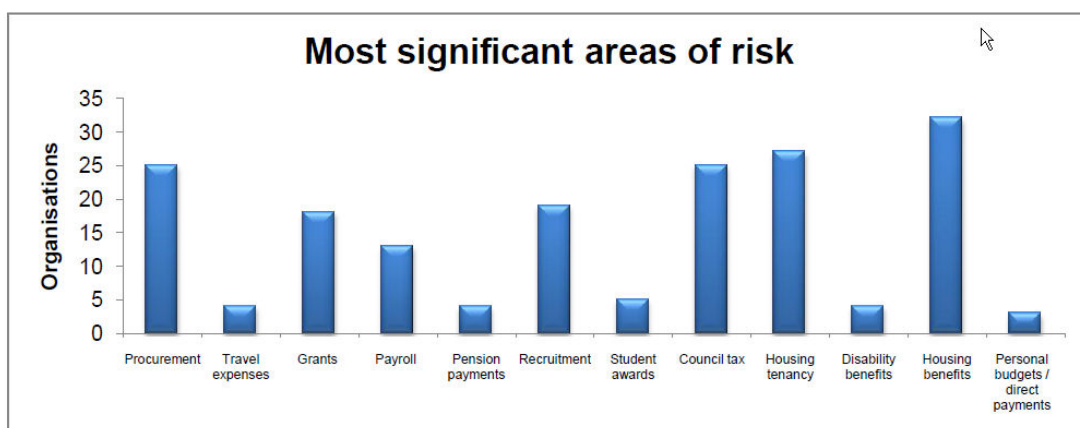
5.4. Whilst the Zurich Municipal report identified that public sector leaders and Finance Directors overall are confident in their respective organisations ability to respond to major risks they are significantly less confident in their ability to recover quickly. The economic and funding environment over the next few years will increasingly challenge the ability to manage major incident risk.

5.5. Zurich Municipal, also conducted a survey with the Chartered Institute of Public Finance and Accountancy (CIPFA) that showed that 79 Finance Directors declared the following future threats as key;

- Further central funding reductions * (also identified in the Grant Thornton report)
- Increasing service demands whilst having to cut costs * (also identified in the Grant Thornton report)
- Falling reserves
- New spending demands / expenditure shocks
- Economic challenges
- Transformation problems

5.6. Price Waterhouse Coopers (PWC) report addressed the number of specific challenges faced by the Public Sector in the procuring of services and the potential risk of Fraud. This was supported by the responses gathered from the London Public Sector Counter Fraud Partnership (established in 1999/2000 in reply to the Crime and Disorder Act 1998. Member organisations include the London Boroughs, NHS Protect, Metropolitan Police and the External Audit.) Procurement risk is one of the most significant areas of fraud as expressed in **Table 1**.

5.7. **TABLE 1**



5.8. The most common reasons given for fraud risks, as expressed in the report, were failure to follow procedures, lack of management checks, lack of verification process and lack of segregation of duties, these are illustrated more fully in **Table 2**.

5.9. TABLE 2



5.10. Reasons given for emerging areas of procurement risk include;

financial regulations not being adhered to, large expenditure not being tendered, contracts expiring and not being re-tendered, limited in-house knowledge with respect to large construction projects, increase in outsourced services and inadequate clauses in contracts undermining the ability to monitor and audit.

5.11. Their report informed work undertaken by the Principal Consultant Risk Management who conducted a review of the H&F procurement risk landscape. It was the first full refresh of risks covering Procurement since February 2011 and the results shared with the BiBorough Procurement Strategy Board. This wide ranging review established the negative risks and controls associated with procurement and proposed a number of Key Risk Indicators be adopted by the Bi Borough Procurement Strategy Board for future monitoring.

6. ENTERPRISE WIDE RISK AND ASSURANCE REGISTER

6.1. The Enterprise Wide Risk and Assurance Register has been updated and reviewed by Hammersmith & Fulham Business Board. It remains an indicator of 'Corporate Preparedness'. The full version accompanies this paper for Members information at **Appendix 1**.

6.2. Rebranding of the Corporate Risk Register to Enterprise Wide Risk & Assurance Register, this is to cover three perspectives of Strategic, Change or Operational risk across H&F services irrespective of whether the service area will be Sovereign, Bi or TriBorough.

6.3. Information gathered for the purpose of the production of the Annual Governance Statement and list of significant control issues has been considered and incorporated into the risks listed.

6.4. Revision highlights include;

6.5. Operational risk number 7 – Managing Statutory Duty – Medium risk – updated position reflecting progress on compliance with the Equalities & Human Rights Act following implementation of an agreed action plan.

6.6. Operational risk number 10 – Managing Fraud Internal and External – High risk – * awaiting the results of ongoing investigations and testing of controls conducted by the Internal Audit Unit.

6.7. Opportunity risks

6.8. Risk number 1. – Updated position clarifying the ‘height guarantee’ of the King Street Regeneration proposals.

6.9. Risk number 3. – Updated position on the emerging and managed risks that are present in the Childrens Services Social Enterprise, Employee Led Mutual.

7. H&F - CHANGE RISK PERSPECTIVE

7.1. Change or Programme risk management is the responsibility of the RBKC programme management office (PMO) and Transformation Management Office (TMO) in H&F. Information collated as part of the function of the PMO/TMO on risk is shared through Sharepoint with the H&F risk management consultant or through recent updates from the TMO. Data drawn from the PMO /TMO highlight reports are considered as the H&F Enterprise Wide risk & assurance register is updated. As the activity of the PMO/TMO in delivery of TriBorough and Sovereign Objectives diminishes risks will migrate to form part of the business as usual function.

8. H&F Programme and projects

8.1. The Transformation Office has refreshed their project and programme governance reporting arrangements. This has been approved by the Hammersmith & Fulham Business Board. Departments will in future track and report on progress of individual projects. Aspects of which will be discussed at their respective Department Management Teams.

Key Risk update – The number, scale and complexity of H&F initiatives are increasing possibly resulting in potential overload, competing priorities, lack of clarity on priorities.

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

10. H&F - OPERATIONAL PERSPECTIVE

11. The direction of travel for H&F departmental health and safety performance continues to be one of improvement and the commitment of management and Safety Champions remains high during a period of significant transition.

12. Market Testing

12.1. An update to contract schedules (market testing programme, new contracts, contract renewals and contract review & negotiation Programme) was reviewed and discussed at the councils Bi Borough Procurement Strategy Board. No significant issues were reported. The Board has asked the councils Contracts Register Group to continue to monitor progress on new contracts, contract renewals and renegotiations, Market Testing Programme, and contract monitoring and report back to the Board on an exception basis. In effect this concerns reporting on red flag items where major problems or issues have been encountered and the Board need to be advised. It was also considered sensible to report on any major headlines issues.

12.2. The Bi Borough Procurement Strategy Board was updated in the last quarter on Procurement Risk and Assurance. It has been agreed that a small number of Key Risk Indicators (KRI's) are defined to monitor the council's exposure to risks in this area. This will be done in consultation with Agilisys through the Transforming Procurement Programme and in association with the Lead Procurement Officers at the Royal Borough of Kensington & Chelsea and London Borough of Hammersmith and Fulham.

13. Key Risk Indicators

13.1. Risk indicators are an important tool within operational risk management, facilitating the monitoring and control of risk. In so doing they may be used to support a range of operational risk management activities and processes, including: risk identification; risk and control assessments; and the implementation of effective risk appetite, risk management and governance frameworks. As previously report to the Committee a number of Key risk indicators were being developed for this purpose. These are outlined, together with a status of their development, in **Appendix 2**.

13.2. Indicators are metrics used to monitor identified risk exposures over time. Therefore any piece of data that can perform this function may be considered a risk indicator. The indicator becomes 'key' when it tracks an especially important risk exposure (a key risk), or it does so especially well (a key indicator), or ideally both.

More specifically a metric may be considered to be a risk indicator when it can be used to measure:

- The quantum (amount) of exposure to a given risk or set of risks.
- The effectiveness of any controls that have been implemented to reduce or mitigate a given risk exposure.
- How well we are managing our risk exposures (the performance of our risk management framework).

Expressed slightly differently, this implies that the council make use of three different types of indicator: risk (exposure) indicators, control effectiveness indicators and performance indicators.

14. Role and Purpose: Using Risk Indicators

14.1. Indicators can be used for a number of purposes, both in the management of operational risk and also in a wider context in the overall management of an organisation. The distinction between Risk, Control and Performance Indicators is often only slight and these areas can overlap, both in terms of usage and also terminology. Hence for simplicity this section will use the term risk indicator to mean all three.

15. Indicators and Risk Monitoring

15.1. Indicators can be used by the council and services as a means of control to track changes in their exposure to Strategic, Change and Operational risk. If selected appropriately indicators can provide a means for identifying:

- Emerging risk trends and issues on the horizon that may need to be addressed (via 'leading' indicators);
- Current exposure levels; and
- Events that may have materialised in the past and which could occur again (via 'lagging' indicators).

15.2. The frequency with which an indicator is measured is an important factor. Generally, the more often an indicator is updated, the more useful the data it represents will be. However there can be occasions where more frequent measurement of the indicator will show only small changes in the risk profile. In such circumstances it is important to consider the longer term trend of measures before arriving at conclusions as to the overall changes in operational risk exposure.

15.3. The Committee is presented with a suite of indicators attached in Appendix 2. These are to provide transparency of some of the key information already collated, and planned, for their scrutiny.

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	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	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

HFBB ENTERPRISE WIDE CORPORATE RISK & ASSURANCE REGISTER
(Incorporating Tri and Bi Borough risks) **APPENDIX 1**



Key Risks (refer to note 1)

No.	Business risk Perspective (Strategic, Change or Operational)	TriBorough BiBorough or Sovereign risk	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
1.	Strategic	Sovereign	<p>Managing budgets</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Underlying performance of the economy is still poor. Impact of a sluggish national economic recovery and cascade effect on social budgets * link to revenue forecast Demand led services may occur mid year resulting in unanticipated additional costs HMRC VAT claims regarding partnering activities Grant application is incorrectly calculated Unplanned growth Failure to achieve VFM Accruals & reconciliations Planned savings not implemented Creditworthiness of some contractors may be downgraded as a result of the economic downturn Increase in social welfare services as a result of the economic downturn may impact on projected spend. 	<ul style="list-style-type: none"> Pressure on the authority to manage overspends Departments have to manage cost pressures Pressure to meet target savings and Administrations commitment to cut Council Tax HMRC recovery of VAT from the council affecting cash flow 	<ul style="list-style-type: none"> High risk & volatile budget areas identified by H & F Finance E-Learning package for Finance Managers now live Collaborative Planning system with supported training for budget holders Medium Term Financial Strategy and Business Planning Processes MTFS Officer & Member Challenge Leader’s monthly monitoring reports Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements Partnership activity now includes a VAT trace and has been raised at FSB Grant Claims & returns record is tracked at FSB Monthly corporate revenue & capital monitoring to cabinet Reports to the Leader identify where spend levels exceed a tolerable level during the year Credit check of contractors is being undertaken through the BiBorough Procurement 	<p>Annual Audit Letter</p> <p>Select Committees are given the opportunity to fully scrutinise budgets during January.</p> <p>Internal Audit reviews of National Non Domestic Rates, Financial Accounting System Ledger, Cost reduction Contracts Management, S106 Economic Development and Regeneration Expenditure 2012 2013</p> <p>HFBB, Audit Pensions and Standards Committee, External Audit</p>	3	4	12	Medium	Jane West lead – All Executive Directors	Review August 2012

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No.	Business risk Perspective (Strategic, Change or Operational)	TriBorough BiBorough or Sovereign risk	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
			<ul style="list-style-type: none"> Insufficient budgetary provision and/or budgetary under/overspend * Incomplete/inaccurate accounting records Overestimation of potential revenue streams 		Strategy Board (RBKC & H&F) <ul style="list-style-type: none"> Disposal of Assets Sponsorship and advertising opportunities risk & reward exercise 	Overview and Scrutiny Board						
2.	Strategic	Sovereign	<p>Managing the Business Objectives (publics needs and expectations)</p> <p>Sub-risks</p> <ul style="list-style-type: none"> A successor integrated financial and business planning process is not delivered impacting on the Governance of H&F 	<ul style="list-style-type: none"> The Public or section of the public may not receive the service that they need or to the quality they expect Reputation of the service may be affected Services are delivered in an unplanned way Services start to do their own thing - Maverick decisions Inconsistencies in service delivery start to emerge Lack of transparency Duplication of effort Communication of objectives and values is lost Target and Objective setting is diminished reducing the effectiveness of the performance management regime for officers 	<ul style="list-style-type: none"> TriBorough Business Plans have been issued for 2013 Implementation of Lean Thinking principles putting the voice of the customer at the heart of service design Performance monitoring and feedback through local media Customer experience and satisfaction surveys 	Cabinet Members Scrutiny Cttee review performance Ofsted Care Quality Commission	3	3	9	Low 	All Executive Directors	Review August 2012

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3.	Strategic	Sovereign	<p>Market Testing of Services (refer to Bi Borough Procurement Strategy Board RBKC & H&F)</p> <p>Sub-risks</p> <ul style="list-style-type: none"> • Tri Borough or Bi Borough procurement risk appetite may vary • Procurement procedures may become unclear across Tri or Bi Borough services • WiFi deployment across H&F • Localism Act – Community Right to Challenge 	<ul style="list-style-type: none"> • Increase in threat of legal challenge on contract awards • Officers time away from other projects • Timescale of project is tight • Insufficient numbers of Officers designated to the project • Benefits are not realised • Data Quality (Accuracy, timeliness of information) results in variation to original contract spec. • Uncertainty about the most appropriate procurement route, lengthen process due to reporting to 3 Member bodies • The benefits of this may be eroded through negative campaigning based on ‘health & safety’ concerns regarding their location • Expressions of interest may create more work for the council evaluating the value of bids. 	<ul style="list-style-type: none"> • Transforming Procurement work with Agilysis procurement processes to make them slicker and more efficient • Consultation with other boroughs • Project managing the process • Separation or joining of projects to maximise benefit potential • Realistic timetables agreed and reviewed at BiBorough Procurement Strategy Board (RBKC & H&F) • Market Testing progress report to HFBB • Programme & Project Management – Risk Logs being maintained, periodic risk reviews • Revenue estimated from the contract to be included as a risk in the MTFS <p>Information on the process has been published on the H&F internet. These will be considered through the Bi Borough Procurement Strategy Board</p>	<p>BiBorough Procurement Strategy Board (RBKC & H&F)</p> <p>Transformation Board</p> <p>HFBB</p> <p>Audit review conducted for Use of Contractors</p> <p>Internal Audit Substantial Assurance reports 2011/12 Market Testing H & F News, BTS, Legal Services Full Assurance report 2011/12 Market Testing Out of Hours Service</p>	3	3	9	Low 	All Executive Directors	Review August 2012
4.	Change	TriBorough	<p>Managing projects</p> <p>Sub-risks</p> <ul style="list-style-type: none"> • Projects do not consider enough time to mobilise in the event services are awarded to the private sector • Project implementation is delayed due to protracted discussions regarding pensions transfers • The risk of challenge to contract awards may increase during the 	<ul style="list-style-type: none"> • Customers needs and expectations are not fully met when projects are delivered • Benefits of investment in creating toolkit not realised • Threat of overspend on projects • Benefits are not fully realised • Delays in mobilisation of services through revised contracts 	<ul style="list-style-type: none"> • Transforming Procurement Programme with Agilysis undertakes to improve the knowledge base and skills throughout H&F • Programme and Project management is now supported by a recommended decision-making and governance process. This process sets out requirements for gate reviews with standard programme 	<p>The Royal Borough of Kensington & Chelsea Internal Audit</p> <p>Corporate Programme & project management audited in 2009 draft report</p>	3	3	9	Low 	Jane West lead – All Executive Directors Tony Redpath (RBKC Tri & Bi Borough) Marie Snelling (Tri Borough Portfolios)	Review May 2011


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(Incorporating Tri and Bi Borough risks) **APPENDIX 1**

- harsher economic climate
- Large scale high risk high return projects are not led by a qualified or experienced project manager.
 - Too many projects are undertaken with unrealistic or unachievable targets
 - Successful delivery of the World Class Financial Management Programme
 - Housing Regeneration, Borough Investment Plan.


- documentation. This approach has now been agreed by HFBB – April, 2012. To support this, presentation to DMT's as well as training of programme managers and projects managers is being progressed through the context of the Transformational portfolios. A centralised project register is also contributing this to goal by giving visibility of projects that are in department.
- Further training and capability is being advanced with the RBKC Programme management office.
 - The Royal Borough PMO for TriBorough activity
 - Project Management toolkit
 - Transformation Office in Finance & Corporate Services Department acts as a repository for project information and reports to HFBB but does not ensure compliance with any toolkit
 - Senior Managers have all been briefed about the Project Toolkit
 - Toolkit is available on desktop PC's
 - Monthly transformation reporting to HFBB (dashboard)
 - BiBorough Procurement Strategy Board (RBKC & H&F) monitor aspects of project management compliance
 - Procedures for TUPE transfer have been included in project management instructions

- issued (Limited Assurance)
- Bi Borough Procurement Strategy Board
- Transformation Board
- Internal Audit review of specific contracts under 2010/11 Audit Plan and of Use of Consultants (Nil Assurance) HFBB, Audit Pensions and Standards Committee

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5.	Change	Sovereign	Scrutiny of Public Health Service	<ul style="list-style-type: none"> • Department of Health is creating a governing body (Public Health England) where a joint appointment of a Director with the Council – would be necessary. Currently the appointment is jointly with the NHS trust • Maintaining an audit trail of financial expenditure • Monitoring of financial spend against performance targets to achieve financial credit or top ups • Mayor of London seeks increased responsibility for some Public Health work areas in competition to Local Authorities that could reduce the amount allocated to the Council • Setting up a Health and Wellbeing Board attendees would need to include Councillors and managing their time demands • Three Boroughs merged services may result in functions being delivered to support the new responsibilities jointly • H&F currently jointly fund the Director of Public Health post, RBKC don't fund Westminster to jointly fund • Deprivation statistics could affect the distribution of financial settlement unevenly • Public Health budgets will be ring fenced however local authorities seek unringfencing of the monies • Commissioning of services responsibilities for some health inequalities (healthy 	<ul style="list-style-type: none"> • Director of Public Health attends Housing, Health and Adult Social Care Select Committee • Dedicated officers implementing the setting up of a Health & Well Being Board • Pilot council before full delivery which is due (start April 1st 2013) • HM Government Healthy Lives Healthy People Nov 2010 • Joint meetings with K & C & Westminster • Officer meetings with Department of Health 	HFBB Education & Childrens Services Select Committee	3	3	9	Low 	Derek Myers, Director of Public Health	Review May 2012
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HFBB ENTERPRISE WIDE CORPORATE RISK & ASSURANCE REGISTER
(Incorporating Tri and Bi Borough risks) **APPENDIX 1**

				eating, smoking cessation, immunisation, screening, air pollution, drugs and alcohol, teenage pregnancy) <ul style="list-style-type: none"> • Provision of audit and resilience services i.e. managing environmental hazards and emergency planning 								
6.	Operational	Sovereign	<p>Business Resilience –</p> <p>Sub-risk IT resilience</p> <ul style="list-style-type: none"> • Systems not joined up and connected in the event of a H & F or Tri-Bi Borough event • Strategic Information technology framework not implemented effectively • Lack of top tier response plans • ISP version update to the infrastructure of the internet will have to move over to a new system, IPv6 previous versions not being compatible • Electronic information storage capacity • Mobile Communications technology provider service failure 	<p>If an event occurs</p> <ul style="list-style-type: none"> • Customers face delays in service provision • Non compliance with statutory duties - indirectly • Threat to life - indirectly • Time to recover power and IT Services could be between 6 & 8 weeks • Loss of information • Loss of productivity • Increased cost of resurrecting services (only partially insurable) • Wasted resources & staff duplication in recovery phase • Cost of additional data storage capacity 	<ul style="list-style-type: none"> • Corporate Incident Management Procedures incorporate Business Continuity • Training has been delivered to local service plan leaders • A corporate service resilience group has been formed and meet periodically • Directors of Resources have been appointed as Departmental contact leads • Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services • H & F Bridge Partnership have submitted a Local Service Recovery, a major incident process has been established by HFBB as part of Data recovery is insured under the councils corporate insurance package (but limited) • the Service Desk Manual • A threat assessment has been compiled • Some ITC service has been moved to East London • The Business Continuity (BC) project now involves provision of IT BC for approximately 30 First Order applications as identified by H&F. The data is 	<p>HFBB</p> <p>The Royal Borough of Kensington & Chelsea Internal Audit</p> <p>H&F Audit Pensions and Standards Committee</p> <p>The Royal Borough of Kensington & Chelsea Audit Committee</p> <p>Service Resilience Group</p> <p>ELRS DMT</p> <p>Substantial Assurance report 2011/12</p> <p>Emergency Planning</p> <p>H&F Substantial Assurance Business Continuity Audit report 2011 2012</p>	3	4	12	Medium	 <p>Lyn Carpenter (Corporate Business Continuity) ELRS Bi Borough with the Royal Borough of Kensington and Chelsea</p> <p>Jane West (Insurance & H F Bridge Partnership contract monitoring)</p> <p>Jackie Hudson Tri Borough Information and Communications Technology Lead Advisor</p>	Review August 2012

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					<ul style="list-style-type: none"> replicated from the primary data centre at East London to the secondary site at HTH. Additionally, there is local network switch resilience within HTH; resilience for the infrastructure elements such as profiles, home folders and printing; plus annual tests of parts of the BC solution. 	<p>Data storage & back up audit Audit report 2009/10 (Substantial assurance)</p>						
			<p>Contractor Liquidity</p>	<ul style="list-style-type: none"> Delays/ interruption to the service as a replacement is found Cost and time of re-procuring the service 	<ul style="list-style-type: none"> Creditsafe Financial checks Corporate Finance credit checking Contractor Business Continuity Planning 	<p>Bi Borough Procurement Strategy Board</p>						
			<p>2012 Olympics delivery risks to H & F</p>	<ul style="list-style-type: none"> Delays/ interruption to public transport system due to investment programmes in infrastructure Skills and resource shortage leading to commencement of the games Potential threat of a terrorist attack 	<ul style="list-style-type: none"> LBHF Olympic coordination team between the 25th July and the 14th September. The team, which will be operating an Olympic Control Room at the Town Hall, the hub for all LBHF Olympic issues, will be responsible for coordinating any Olympic related incidents and compiling regular situation reports. LBHF Olympic Operations and Resilience Group Borough Emergency Control centre 	<p>Cabinet Office COBRA</p>						
			<p>Terrorist attack/Civil disturbance</p>	<ul style="list-style-type: none"> Service interruption Property loss or damage Injury or harm 	<ul style="list-style-type: none"> Terrorism insurance cover Tri Borough councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy Prevent aims to stop people from becoming terrorists or supporting terrorism by 							

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					<p>focusing on supporting and protecting those who might be vulnerable to radicalisation. The two and a half hour workshops are targeted at front line staff working primarily in Adult Social Care, Children's Services, Housing and Community Safety and will help them to use their expertise and professional judgement to recognise individuals who may need support and knowing where to refer their concerns to.</p> <p>NOTE Please refer to BCP Risk Assessment for highlighted risks and controls</p>							
7.	Operational	Sovereign	<p>Managing statutory duty</p> <p>Sub-risks Non-compliance with laws and regulations</p> <p>Breach of duty of care</p>	<ul style="list-style-type: none"> • Non compliance may result in prosecution or a Corporate Manslaughter charge • Financial compensation may be claimed • Injury or death to a member of the public or employee • A breach of information security protocols may result in fines, harm to reputation and personal liability of Executive Directors • Inadequate level of service • Poor satisfaction with statutory services • Potential claims involving failures in Social Care (Stamford House) 	<ul style="list-style-type: none"> • Nigel Pallace appointed lead Sponsor on HFBB for Health & Safety • Pro-active Health, Safety and Welfare culture across the council • TriBorough - The TotalFM contractor will manage a number of statutory and regulatory Health & Safety procedural, record and management processes • TriBorough Health & Safety protocols are being discussed and established • Contractors are managed within CHAS regime • Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims • Legislative changes are adopted and reflected in amendment to 	<p>H&F Health & Safety Internal Audit planned in 2012/13</p> <p>Accommodation Gas Safety Audit 2012/13 Substantial Assurance</p> <p>Annual Assurance process</p> <p>Assurance required that actions are being taken to ensure compliance with the law and regulations</p> <p>HFBB,</p>	3	4	12	Medium	Derek Myers	Review July 2012



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					<p>the council's constitution, budget allocation through MTFS (Now unified business & financial planning process)</p> <ul style="list-style-type: none"> • Training and guidance packages and newly agreed performance management indicators • Periodic reporting to HFBB • Health & Safety campaign on slips, trips and falls • Health & Safety guidelines have been reviewed, refreshed and communicated • Promotion of the Occupational Health Service and Workplace Options Employee Assistance Scheme • Housing and Regeneration have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training 	<p>Audit Pensions and Standards Committee</p> <p>Education & Childrens Services Select Committee</p> <p>H&F Safety Committee</p> <p>TriBorough Safety Committees CHS and ASC</p> <p>Internal Audit 2012 2013 Review of Health & Safety Statutory & Regulatory compliance</p> <p>FSB, Executive Director of Finance and Corporate Governance, Chief Executive and Leader of the Council</p> <p>Local Safeguarding Childrens Board, Unannounced Safeguarding Inspection, Ofsted , Local and London Child Protection Procedures</p>							
			<p>Departmental assurances</p>	<ul style="list-style-type: none"> • The Executive, Hammersmith & Fulham Business Board, Executive Directors and Management Teams may not have been appraised of significant controls weaknesses that appear in the service area. 	<ul style="list-style-type: none"> • FSB reviewed and approved a process to harmonise the Management Assurance process at Director and Divisional level with that of RBKC. 								
			<p>Corporate Parenting</p>	<ul style="list-style-type: none"> • Harm to reputation, potential harm or injury to individual 	<ul style="list-style-type: none"> • All child protection cases have remained allocated to a social worker despite of the high demand. • A detailed action plan has been implemented in response to the increased numbers of children with child protection plans, to safely manage the demand and reduce activity in line with that of our statistical neighbours. 								


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			<p>Carbon reduction commitment</p> <p>Equalities (public sector equality duty or 'PSED') and Human Rights (a budget challenge could be in whole terms or of a single line)</p>	<ul style="list-style-type: none"> • The Climate Change Act 2008 sets a statutory carbon reduction target of at least 80% by 2050 for the UK • Passporting of National fines to Local Councils • Increased complaints, Ombudsman involvement, judicial review which can result in quashing order, prohibiting order, mandatory order, declaration, injunction, damages, potential further challenge to a budget. 	<ul style="list-style-type: none"> • The number of qualified social workers delivering a child protection service has increased by two over the past year. • Carbon reduction manager • Staff energy survey • Travel survey • Parking survey • Procurement policy • Advice on sustainable planning applications • EIA's or Equality Statement (where applicable) must accompany all Cabinet, Full Council and Key Decision reports, KPI's • EIA's and Equality Statements address Human Rights where applicable • HFBB signed off actions that included a Policy for completion of Service Delivery EIA's (April 2012) and guidance for equality impacts of budget proposals to be drawn up and disseminated. 	<p>Carbon Reduction Management Project Board Substantial Assurance report 2010/11 Carbon Reduction Commitment</p> <p>Limited Assurance report April 2012 H&F Application of the Equality Act 2010</p> <p>Officer Working Group</p>						
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ational	Sovereign	<p>Successful partnerships & Major Contracts</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability, governance or liability in the event of service failure Plans to remodel the delivery of health services through GP's as per the White Paper – Liberating the NHS Local Housing Company 	<ul style="list-style-type: none"> Joint objectives are not met Community expectations are not met Relationship deteriorates Threat of overspends and underspend 	<ul style="list-style-type: none"> Governance arrangements are in place Performance monitoring reports reported to Select Cttee's H & F Bridge Performance Monitoring Financial creditworthiness checks at BiBorough Procurement Strategy Board (RBKC & H&F) 	<p>H & F Bridge Partnership Assurance process</p> <p>Internal Audit Substantial Assurance report 2011/12 Partnership Governance</p> <p>BiBorough Procurement Strategy Board (RBKC & H&F)</p> <p>HFBB, Audit Pensions and Standards Committee</p>	4	3	12	Medium 	Derek Myers	Review July 2012
ational	Sovereign	<p>Maintaining reputation and service standards</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Multiplicity of external forces and initiatives Breach of Officer or Member code of conduct Information Management and Governance 	<ul style="list-style-type: none"> Threat to the status of the council Failure to deliver plans & savings. Ability to effectively lead and resource the transformation agenda is diminished Service delivery deteriorates Potential adverse media reporting 	<ul style="list-style-type: none"> The Annual Residents Survey A review of the corporate governance arrangements has been conducted by Internal Audit Annual Complaints review report April 2010 to March 2011 produced to Committee Combined Finance & Service Planning processes Information governance forms part of the TriBorough ITC Programme 	<p>Cabinet Ofsted, Care Quality Commission, Annual Audit letter</p> <p>HFBB, Audit Pensions and Standards Committee, Overview and Scrutiny Board</p> <p>TriBorough</p>	4	3	12	Medium 	All Executive Directors	Review July 2012

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		<ul style="list-style-type: none"> Inappropriate Data released Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties. Auto forwarding of information (Information control and threat of leakage) Local information interconnectivity and data storage 	<ul style="list-style-type: none"> Potential fines or action from the Information Commissioner Quality and integrity of data held in support of Performance Management & Financial systems leads to under or over estimation Data management 'without boundaries' could be more sensitive to local, national or geographical service interruption, theft, loss or duplication 	<ul style="list-style-type: none"> New Information Management Security Protocols published on the Intranet Regular reporting on Security Incidents by the Information Management Team Performance statistics are scrutinised by Select Committee's, HFBB & DMT's Corvu Performance Management System is able to pick up anomalies Data Quality E-Learning module has been released From Wednesday 1st August 2012, the Council is introducing a new contractor(industry specialists) for the collection and destruction of confidential waste from all Council offices in the H&F. Webmail has now been banned across H&F 	Information Management Project Board ITSOG Management Letter has been issued (based on comparison to requirements under the Data Protection Act)						
ational	Sovereign (TriBorough) (from April 2013)	<p>Managing fraud (Internal & External)</p> <p>Sub-risks Misappropriation of assets Appointeeship/custodian or guardian</p> <p>Contracting Gifts & Benefits Manipulation of performance data, collusion, billing, non-compliance with Financial and or Contract Standing Orders</p> <p>*Misrepresentation of Personal or Commercial</p>	<ul style="list-style-type: none"> Loss of reputation Financial loss Loss of asset Loss of revenue Adverse regulatory /audit report 	<ul style="list-style-type: none"> Corporate Services review includes the Corporate Fraud Service. The Aim of the project is to develop an adaptable Tri-Borough corporate fraud function which responds through a single professional and effective team to the challenging and changing range of fraud, both internally and externally executed. Corporate Anti Fraud Service has been established CAFS team now use a risk assessment to assist in targeting and workload prioritisation New model being piloted to 	Corporate Services Programme Board The Royal Borough of Kensington & Chelsea Internal Audit Audit Pensions and Standards Committee receive quarterly reports on Fraud Deloitte Fraud	4	3	12	High 	TriBorough Nicholas Holgate RBKC Town Clerk and Executive Director of Finance and Business Lead, Internal Audit H&F Jane West lead – All Executive Directors WCC Barbara	Review July 2012


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		<p>Circumstances</p> <p>Payroll</p> <p>Cheque</p> <p>Imprests or petty cash</p> <p>Grant award</p> <p>Treasury</p> <p>Tenancy or Benefit</p>		<p>collate information from fraud cases and disseminate the recommendations through risk & assurance registers</p> <ul style="list-style-type: none"> Literature and training has been delivered to all levels of the authority Information and guidance has been published on the corporate intranet Level of fraud is being tracked through FSB Close working relationship is established with the Police Bribery Act Policy and Risk Register 	<p>Survey 2008</p> <p>Substantial Assurance report 2010/11 Personal Budgets, Housing Benefits</p> <p>Substantial Assurance reports 2010/11 Contract Management, Management & Monitoring of Contractors(Env.)</p> <p>HFBB</p>					Moorhouse	
STRATEGY RISKS											
Age	TriBorough	<p>Merging of education services with Westminster Council and the Royal Borough of Kensington and Chelsea</p>	<p>Savings due to removal of duplication across the councils</p> <p>Of the pieces of work currently identified, a number of projects have been prioritised for their potential to deliver significant savings and service improvements. These include:</p> <ul style="list-style-type: none"> Statutory services for Special Educational Needs; Our work with looked after children; Services for Children with Disabilities; the development of a 'single front door' for access to social care; A number of key procurements across the department. 	<ul style="list-style-type: none"> TriBorough Childrens Services Briefing July 2012 to Select Committee Tri Borough Mandate approved for Childrens Services at Cabinet 05-12-11 Combined Senior Management Team A single education commissioning function responsible for raising standards A single commissioning function responsible for arranging services for early years, children, young people, social care, health, disability and workforce development. Three Borough-based delivery units with responsibility for protecting children, supporting families and delivering early help in the most efficient manner possible. However, where appropriate, specialist 	<p>Cabinet</p> <p>Transformation Board</p> <p>Education & Childrens Services Select Committee</p> <p>External Audit (review 2012)</p> <p>Ofsted</p> <p>The Royal Borough of Kensington & Chelsea Internal Audit</p> <p>TriBorough Childrens Services Portfolio Board</p> <p>TriBorough</p>	2	4	8	Low	Andrew Christie	<p>Review</p> <p>July 2012</p>


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		<p>Sub-risks</p> <p>Social enterprise</p>	<ul style="list-style-type: none"> • The procurement for an ISP to help establish and support a employee-led mutual is highly innovative, and is being supported by the Cabinet Office as a national pilot. • The Council will have a contractual arrangement with the Employee- Led Mutual ELM for it to provide some of the services, supplies and works for a period of not less than four years. • As a commercial organisation the ELM will also offer its services to non-maintained schools, such as Academies and Free schools. The services, supplies and works to the relevant educational facilities will include either direct provision by the ELM or the sub-contracting to other providers 	<p>services will be combined to share overheads and expertise (e.g. the Youth Offending Service).</p> <ul style="list-style-type: none"> • Shortlisting of potential partners has commenced through a) a moderated procedure and b) Competitive Dialogue • The councils have published a Prior Information Notice (PIN) in the Official Journal of the European Union (OJEU) for an independent partner company to set up and support the employee-led mutual. The PIN also invited bidders to participate in a “Meet the Buyers” event. The proposal is the first nationally to develop a strategy to meet European procurement rules to establish an employee-led mutual. • It is envisaged that the ISP will provide support and assistance for the creation and operation of the Employee- Led Mutual (ELM), which is currently anticipated will be structured as a joint venture company with the share holding shared between the ISP and the employees (held on the employees’ behalf in an employee benefit trust). • Under a joint venture 	<p>Headteachers Executive Board</p> <p>Local Safeguarding Childrens Board</p> <p>BiBorough Procurement Strategy Board (RBKC & H&F)</p>						
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				structure, the maximum holding for any independent sector partner will be capped to balance ownership in favour of employee ownership.							
ige	TriBorough	<p>Merging of services with Westminster & RB Kensington and Chelsea</p> <p>Sub-risks</p> <p>ICT provision is developing to ensure a seamless transition to TriBorough working in support of services</p> <p>Appropriate accessible information and data security and governance</p> <p>Co-ordinated procurement strategies in readiness for commissioning of services</p> <p>Programme Management</p>	Savings due to removal of duplication across the council	<ul style="list-style-type: none"> Developing and delivering Tri-borough financial and non financial benefits update to July Overview and Scrutiny Board Medium Term Financial Strategy Savings for TriBorough Tri Borough Mandates for Adult Social Services and Libraries approved by Cabinet 05-12-11 Monthly Tri Borough Portfolio risks and issues summary report Review of opportunities with contracts Risk Registers compiled and presented to the Programme Management Office Portfolios, Tri-borough Portfolio Director appointed Programmes being managed consistently from the Royal Borough PMO including the ICT Programme TriBorough Portfolio Management Office responsibilities established including the lead programme contacts. TriBorough Programme Management Officer Appointed Terms of reference produced for the Members Steering Group Senior Officer appointments 	<p>Cabinet</p> <p>Overview & Scrutiny Board</p> <p>External Audit (Audit Commission review 2012)</p> <p>Westminster City Council Audit Committee, The Royal Borough of Kensington and Chelsea Audit Committee, H&F Audit, Pensions and Standards Committee</p>	2	4	8	Low 	Derek Myers, Mike More, All Executive Directors	July 2012

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				<p>made on a Bi Borough and/or Tri Borough basis</p> <ul style="list-style-type: none"> • TriBorough Managed Services Programme (Corporate Services - Review of corporate and back office functions) 							
ige	Sovereign	<p>Regeneration of King Street and Civic Offices</p> <p>Sub-risks</p> <p>GLA do not approve the proposals</p>	<p>The Town Hall extension has come to the end of its life and needs to either be demolished or refurbished. An estimated cost of around £18m in temporarily accommodating staff through a relocation to facilitate repairs</p> <p>New office accommodation at no cost is being provided in exchange for land</p> <p>A new modern building is also expected to save around £150,000 in energy costs</p> <p>Jobs will be created in King Street</p> <p>A new community-sized supermarket and a range of new restaurants and other retailers, alongside a council 'One Stop Shop', will draw more people down King Street and encourage more investment in the area</p> <p>Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2 million a year.</p>	<p>The Leader of the Council has announced revised proposals regarding the height of buildings in the residential blocks.</p> <p>King Street Development will be reviewing the scheme over the coming months and a further consultation with residents' and amenity groups will follow later in the year.</p> <p>Hammersmith & Fulham Council has agreed to work with the GLA on a further independent rigorous assessment on viability</p> <p>Exhibition of 3 bid schemes 2007</p> <p>Statement of Community Involvement – Two public consultation exercises Private meetings with residents Stakeholder Forums Flyer to 15,000 homes Pre application meetings with GLA and local amenity groups 1800 letters sent to individual properties in the wider area.</p> <p>Consultation with statutory groups; GLA, HAFAD, Port of London Authority, LFEPA, Metropolitan Police, English Heritage & Archaeology, Natural England,CAA, BAA Airports, Thames Water, Environment</p>	<p>Cabinet</p> <p>Planning Applications Committee</p> <p>Mayor of London</p> <p>Greater London Authority</p> <p>Port of London Authority</p> <p>English Heritage</p>	3	4	12	Medium 	Nigel Pallace	July 2012

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				<p>Agency, TfL</p> <p>Residents Groups & Landowners; Thomas Pocklington Trust, Tesco, Quakers, Amenity Groups, Brackenbury Residents Assoc. The Georgian Group, HAMRA, the Hammersmith Soc. H & F Historic Buildings Group, Ravenscourt Action Group, Ashchurch Residents Assoc. Old Chiswick Protection Soc. Digby Mansions 39-58a Residents Assoc. For further detail please refer to Planning Applications Committee Agenda 30-11-11</p> <p>Submitted by the Planning Applicant; Environmental Statement, Energy Statement, Flood Risk Assessment, Air Quality Assessment, Environmental Noise Assessment, Lighting Strategy</p> <p>Phase 1 Habitat Survey & ecological database search</p> <p>Telecommunications assessment</p>							
ige	Sovereign	<p>Earls Court regeneration</p> <p>Sub-risks</p> <p>GLA do not approve the proposals</p>	<ul style="list-style-type: none"> Comprehensive redevelopment allows existing housing stock to be replaced on a "new for old" basis and 16% of existing tenants who are overcrowded can be re-housed in homes with enough bedrooms to meet their need. The comprehensive regeneration of three land 	<ul style="list-style-type: none"> Earls Court Regeneration Team comprising Project Manager and Policy Officers Workshops in August 2012 to cover procurement, risk, finance, housing redevelopment, planning, legal and communications. Proposed guarantees for tenants and leaseholders include; 	<p>Cabinet</p> <p>Housing, Health And Adult Social Care Select Committee</p> <p>Planning Applications Committee</p> <p>The Royal Borough Major Planning</p>	3	4	12	Medium 	Mel Barrett	August 2012

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			<p>holdings, Transport for London (freeholder of the Lillie Bridge Depot and Earls Court) - Capital & Counties (CapCo) leaseholders of Earls Court 1 and 2 and freehold owners of Seagrave Road Car Park - H&F, freehold owners of the West Kensington and Gibbs</p> <ul style="list-style-type: none"> Green housing estates. offers the opportunity for the council to secure major estate renewal across the West Kensington and Gibbs Green estates as well as offering the opportunity to deliver substantial benefits for local residents and the wider community. This includes securing new modern homes for all existing residents of the West Kensington and Gibbs Green estates, new efficient schools, leisure and health facilities, new open and play space and a significant increase in job opportunities. 	<ul style="list-style-type: none"> - Brand new replacement homes, one move only within the local area. - Tenants remain secure Council tenants and continue to pay Council rents – there is no stock transfer and therefore no requirement for a ballot. - Phased approach allows communities to be moved together. - The compensation package for tenants covering statutory home loss payment, disturbance payment to cover moving costs and additional new white goods, carpets and curtains - Resident leaseholders/ freeholders receive Market Value plus 10% statutory disturbance plus a further 10% early purchase discount on replacement property, i.e. two payments - Service charges capped for 5 years and agreed by the Council beyond that. The Opportunity Area is identified in the Core Strategy (2011) for potential major residential-led mixed use regeneration. The core development area lies between Warwick Road and the West London Line to the east, West Cromwell Road (A4) to the north, North End Road to the west and Old Brompton Road/Lillie Road 	<p>Development Committee</p> <p>The Royal Borough Planning Applications Committee</p> <p>Housing & regeneration DMT</p>						
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				<p>to the south and covers the Earl’s Court Exhibition Centres (owned on long lease by Capital and Counties), the TFL Depot (freehold of TfL), the Empress State building (freehold of Capital and Counties) and the West Kensington and Gibbs Green estates (freehold of LBHF). Seagrave Road car park (owned on long lease by Capital and Counties) is also within the Opportunity Area, situated south of Lillie Road and bounded by Seagrave Road and the West London Line</p> <ul style="list-style-type: none"> • H&F’s Core Strategy (2011) indicates the potential for an indicative 2,900 additional homes and 5,000 to 6,000 new jobs in LBHF. • The London Plan (2011) indicates the potential for 4,000 additional homes and 7,000 new jobs across both H&F and RBKC. • The council is in discussions with other landowners (Transport for London and Capital & Counties) regarding the potential redevelopment of Earl’s Court after 2012. This is intended to bring substantial benefits to the wider area, including more and better 						
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				<p>quality homes, new jobs and improved open spaces. The plans could include the West Kensington and Gibbs Green Estate and a key concern for the Council is that any scheme must provide 760 new homes for the residents.</p> <ul style="list-style-type: none"> • The council recently received £15m from Capital and Counties (CapCo) for signing an exclusivity agreement relating to the Earl's Court Regeneration site. Of this receipt, £10m is refundable should a conditional land sale agreement (CLSA) not be possible; the remaining £5m is not refundable under any circumstances. • Establishment of a formal West Kensington and Gibbs Green Steering Group, established by residents of the West Kensington and Gibbs Green estates, constituted by establishing a non-profit Company Limited by Guarantee to allow them to deliver their agreed objectives. • Earls Court project risk register initially compiled in 2009 • Development specification, Parameter plans, Community engagement report, Design 							
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				<ul style="list-style-type: none"> and access statement, Design guidelines • Planning statement • Environmental Statement • Transport assessment • Retail and leisure assessment • Office assessment • Housing statement • Sustainability strategy • Energy strategy • Waste strategy • Utilities and services infrastructure strategy • Cultural strategy • Estate management strategy 						
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Note 1. All key risks have been extracted from(but not limited to) a number of sources for analysis by the Hammersmith & Fulham Business Board . The sources include;

- i. Previous Corporate Risk & Assurance Register
- ii. World Economic Forum Global risks 2012
- iii. Information identified from Tri Borough Programme, Departmental Risk & Assurance Registers
- iv. Officers Knowledge and experience
- v. Tri-Borough & H&F Portfolio Summary reports
- vi. Procurement exercises
- vii. Significant Weaknesses established from the Annual Assurance process
- viii. Audit & Fraud Reports
- ix. Knowledge and experience of public sector risks from the Principal Risk Consultant
- x. Data Quality and Integrity
- xi. Cabinet, Scrutiny and Public Domain reports.
- xii. WCC and RBKC Risk knowledge pooled information
- xiii. Zurich Municipal, Grant Thornton and Price Waterhouse Coopers reports

Note 2. Categorized under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with BS31100/ ALARM/IRM/CIPFA best practice.

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Score	Key
16-25	 RED - High and very high risk - immediate management action required
11-15	 AMBER - Medium risk - review of controls
6-10	 GREEN - Low risk - monitor and if escalates quickly check controls
1-5	 YELLOW - Very low risk - monitor periodically

Proposed H&F Key Risk Performance Indicators

APPENDIX 2

1. Insurance – Status (H&F IT claims system is moving to LACHS as part of the TriBorough Insurance programme)

Total insurance spend £'s (Premia and Provision)
 Total number of insurance claims made per policy year
 Total number of insurance claims per policy type
 Total number and cost of insurance claims per department

2. Business Continuity & Emergency Planning – Status (To be confirmed with the Business Continuity and Emergency Planning teams as part of the Tri-Bi Borough work)

Loss / denial of building (Accommodation)
 Loss / denial of information – eg. Loss one /other of the data centres / are all the important 1st order applications captured / loss of locally held information i.e. hard copies not backed up in various services.
 Loss / denial of communication - loss of telephony / loss of openscape (Although a critical system)
 Loss of plant and and equipment -
 Loss of suppliers / 3rd parties/ Procurement
 Process changes - Business transformation issues (ICT transformation).
 Loss of People (HR)
 Total number of plans required and in place

3. Health & Safety – Status (In place and reporting through HFBB)

Adult Social Care KPI

Activity Related

Action plans have been reviewed within the last 12 months	% Suitable Risk Assessments in place	% Risk assessment Reviewed (12 month rolling period)	% of risk assessment control measures implemented	Representation at Safety Committee
85% Approx.	50% Approx.	50% Approx.	50% Approx	No
% of training undertaken in accordance with plan	% New staff (inc agency) completed E-Learning	10% Control of Contractors Performance Checks		
Unknown	Agency (1/20:5%) Staff (2/8: 25%)	Unknown		

Building Related

% legionella risk assessments completed to programme	% legionella risk assessments actions completed to programme	% Gas safety checks completed to programme	% of asbestos management completed to programme
100%	Current 100% :5 raised all	100%	Appointed person still

			completed to programme				to be recruited. Contractor instructed to undertake Cat 1 asbestos management plans
		Backlog	15 outstanding: Sept completion				
% fire risk assessments (FRA) completed to programme		% FRA actions implemented to programme		Control of Contractors Performance Checks			
	100%		100%		Under development		

**Children's Services
KPI**

Activity Related

Action plans have been reviewed within the last 12 months	% Suitable Risk Assessments in place	% Risk assessment Reviewed (12 month rolling period)	% of risk assessment control measures implemented	Representation at Safety Committee
	100%	80% approx	Information not currently available	100%
% of training undertaken in accordance with plan	% New staff (inc agency) completed E-Learning	10% Control of Contractors Performance Checks		
Information not currently available	Agency (1/12: 8.3%) Staff (2/10: 20%)	Information not currently available		











Building Related

% legionella risk assessments completed to programme	% legionella risk assessments actions completed to programme	% Gas safety checks completed to programme	% of asbestos management completed to programme
	Current 100% :2 raised all completed to programme		100%
	Backlog 11 outstanding: Sept completion		Appointed person still to be recruited. Contractor instructed to undertake Cat 1 asbestos management plans
% fire risk assessments (FRA) completed to programme	% FRA actions implemented to programme	Control of Contractors Performance Checks	







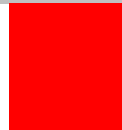


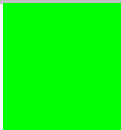
	100%		100%		Under development		
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**Schools
KPI**

Management/Activity Related

School Action Plan reviewed within the last 12 months	Community Schools subject to compliance review in last 12 months	Other schools subject to compliance review in last 12 months	% Community schools with H&S Policy	% Community schools with H&S Committee
 April 2012	 33	 11	 94%	 91%
% Community schools with suitable fire risk assessment	% Community schools with suitable Fire Emergency Plan	% Community schools with Asbestos Management Plan	% Community schools with suitable premises risk assessment	% community schools completing classroom checklists
 45%	 73%	 3% (See matters of notes)	 30% (See matters of notes)	 27% (See matters of notes)

Building Related (Maintenance)

Fire detection and alarm	Fire emergency lighting	Fire fighting equipment	Water hygiene & Legionella	Gas main boilers
 94%	 94%	 94%	 85%	 94%
Gas ancillary	Gas site managers house	Electrical fixed installation	Electrical portable appliances	Play equipment (gym and outdoor)
 42% (of 32 community schools)	 28% (of 23 schools with houses)	 95%	 98%	 95%

**Environment Leisure & Residents Services
KPI**

Activity Related

Action plans have been reviewed within the last 12 months	% Suitable Risk Assessments in place	% Risk assessment Reviewed (12 month rolling period)	% of risk assessment control measures implemented	Representation at Safety Committee
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		80% 25/31		100% 31/31	Investigation ongoing by Safety Champion & Corp Safety		100%
% of training undertaken in accordance with plan	% New staff (inc agency) completed E-Learning		10% Control of Contractors Performance Checks				
To be investigated by Safety Champion & Corp Safety		0/0		66% 2/3 (1 monitoring to be formalised with assistance from Corp Safety)			

Building Related – H&F

% legionella risk assessments completed to programme		% legionella risk assessments actions completed to programme		% Gas safety checks completed to programme		% of asbestos management completed to programme	
	100%		Current 66% :2/3 Linford Christie Outstanding; programmed for August BPM		100%		Appointed person to be recruited. Contractor instructed to undertake Cat 1 asbestos management plans
			Backlog 15 outstanding: Sept completion				
% fire risk assessments (FRA) completed to programme		% FRA actions implemented to programme		Control of Contractors Performance Checks			
	100%		100%		Under development		

**Finance & Corporate Services
KPI**

Activity Related

Action plans have been reviewed within the last 12 months		% Suitable Risk Assessments in place		% Risk assessment Reviewed (12 month rolling period)		% of risk assessment control measures implemented		Representation at Safety Committee	
	100% As Q4		100% As Q3		Incomplete data		Incomplete data		100% As Q4
% of training		% New staff		10% Control of					

undertaken in accordance with plan	(inc agency) completed E-Learning	Contractors Performance Checks
85% Approx.	Agency (7/12 – 58%) Staff (2/7 – 28%)	Data not available

Housing & Regeneration Department KPI

Activity Related

Action plans have been reviewed within the last 12 months	% Suitable Risk Assessments in place	% Risk assessment Reviewed (12 month rolling period)	% of risk assessment control measures implemented	Representation at Safety Committee
Yes - Estate Services	100%	100%	100%	100%
% of training undertaken in accordance with plan	% New staff (inc agency) completed E-Learning			
85	100% 2 out of 2			

Building Related

% legionella risk assessments completed to programme	% legionella risk assessments actions completed to programme	% Gas safety checks completed to programme	% of asbestos management completed to programme				
94% for blocks 31/33; 100% for street based	<table border="1"> <tr> <td>Current</td> <td>75% delays with contractor</td> </tr> <tr> <td>Backlog</td> <td>3 outstanding: Sept completion (BPM responsible)</td> </tr> </table>	Current	75% delays with contractor	Backlog	3 outstanding: Sept completion (BPM responsible)	100%	100%
Current	75% delays with contractor						
Backlog	3 outstanding: Sept completion (BPM responsible)						
% fire risk assessments (FRA) completed to programme	% FRA actions implemented to programme	Control of Contractors Performance Checks					
100% [700 street based homes outstanding]	Policy in place but no system to monitor that recommendations are undertaken or check standard of work	water hygiene & lift engineers outstanding					

4.Procurement - Status (BiBorough Procurement Strategy Board have discussed and agreed a set of risks from which a couple of indicators will be monitored. This has been referred to the Head of Procurement in RBKC and also Agilisys for comment and input)

5. Information Management – Status (In place and reporting through HFBB)

Information security incidents

A security incident is an event that has actual or potential adverse effect(s) on computer, network or user resources or is a compromise, damage or loss of such equipment or data. Each incident is allocated a sequential number, summary description and current status.

Statistical summary of incidents

Total Incidents per year (by incident type)

Department	2009			2010			2011			2012		
	Incident	Loss	Dept Total	Incident	Loss	Dept Total	Incident	Loss	Dept Total	Incident	Loss	Dept Total
CHS	1	8	9	6	12	18	3	2	5	2	7	9
ASC	4	4	8	1	1	2	1	2	3	1	1	2
T&TS	0	1	1	0	2	2	0	1	1	0	2	2
FCS	6	5	11	7	1	8	4	0	4	4	0	4
HRD	1	1	2	0	0	0	5	2	7	0	0	0
HFBP	0	1	1	0	0	0	0	0	0	2	1	3
ELRS	1	1	2	0	0	0	0	0	0	0	0	0
Cross Dept	0	0	0	4	0	4	2	1	3	1	0	1
Unknown	0	2	2	0	0	0	0	0	0	0	0	0
Yearly Total	13	23	36	18	16	34	15	8	23	10	11	21

Note:

- The figures above indicate the number of incidents logged in each year by type and department.
- Incidents are only counted once, therefore if an incident was a ‘Cross Department’ incident it will only be counted in this row and will not also appear against the individual department’s totals.
- **Cross Department** = This includes incidents which occurred across all departments (e.g. a malware attack on the H&F network) or where an incident occurred across more than one department (e.g. incident occurred in CSD and CHS).
- **Loss** = This includes incidents which occurred as a result of a loss or a theft
- **Incident** = This includes all incidents which have not occurred as a result of a loss or theft. This would include for example confidentiality breaches, personal data leaks, Information Security Policy breaches, Government Connect breaches.

Incidents Monitored in 2012

Department	Closed	Contained	Live	Total
CHS	4	5	4	13
ASC	0	2	1	3
T&TS	1	1	0	2
FCS	1	3	1	5
HRD	1	1	0	2
HFBP	1	2	0	3
ELRS	0	0	0	0
Cross Dept	2	1	0	3
Total (to date)	10	15	6	31

Note:

- The figures above include all active cases (Live and Contained) from previous years which have been carried over to 2012 for monitoring.
- The figures are updated each month to reflect new incidents which have been logged during 2012
- Incidents are only counted once, therefore if an incident was a ‘Cross Department’ incident it will only be counted in this row and will not also appear against the individual department’s totals.
- **Live** = Active incidents with priority tasks still outstanding
- **Contained** = Active incidents with priority tasks completed, residual risks being monitored

Ends



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 April to 30 June 2012**

**WARDS
All**

RECOMMENDATION:

To note the contents of this report

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1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2012 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 16 audit reports were finalised in the first quarter of 2012/2013 (see **Appendix A**). In addition 3 management letters were issued.
- 2.3 In addition to follow-up audits of limited and nil assurance reports, Internal Audit also seeks to verify the implementation of all other priority 1 recommendations. No follow ups were completed in this period but a number of follow ups are underway and will be reported to in the next Committee meeting.
- 2.4 Five audit reports issued in this period received limited assurance. The Creditors audit raised 6 recommendations all of which have been reported as implemented. The Mobile Phones audit made seven recommendations (3 P1 and 4 P2), 4 of which have been reported as implemented leaving 3 P2 recommendations to be implemented. The Cedar Application audit raised 8 recommendations, all of which have been reported as implemented. The application of the Equality Act audit, made 4 recommendations, all of which have been reported as implemented. Full copies of these reports have been made available to members. The NNDR report made fifteen recommendations (3 P1, 10 P2 and 2 P3) none of which have yet been reported as implemented, although this report was only agreed very recently.
- 2.5 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.

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 30 June and these are listed in **Appendix B** for information.

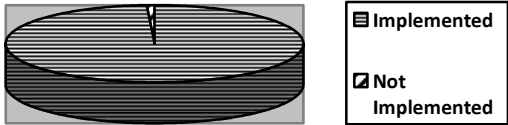
All these five outstanding reports relate to Schools. We are very pleased to report that there are no reports outstanding for the other departments.

2.6 There are now 2 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 none outstanding as reported at the end of the previous quarter and represents a deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding. Both recommendations relate to Corporate Services. We are very pleased to note that there are no recommendations outstanding for Children’s Services, Adult Social Care, Transport and Technical Services, Environment, Leisure and Resident Services or Housing and Regeneration.

2.7 None of the 2 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 relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

2.8 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 and in 2010/11 have been implemented

<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.26%</p>	<p>269 recommendations implemented out of a total of 271</p> <p>2 recommendations outstanding</p>	
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3 Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been a structural change to the operation of the internal audit service with the departure of the Audit Manager in September. The in-house team now consists of the Chief Internal Auditor (CIA), along with Deloitte Public Sector Internal Audit Ltd who carry 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 April to 30 June 2012 are shown below.

Performance Indicators 2012/13

Ref	Performance Indicator	Target	Pro rata target	At end of June	Variance	Comments
1	% of deliverables completed (2011/12)	95%	23.75%	12%	Not achieved (-11.75%)	12 reports delivered out of a total plan of 97 (accounting for audits carried forward)
2	% of planned audit days delivered (2011/12)	95%	23.75%	21%	Not achieved (-2.75%)	195 days delivered out of a total plan of 934 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	25.75%	100%	Achieved +5%	6 out of 6 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	25.75%	100%	Achieved +5%	9 out of 9 draft reports issued within 10 working days of exit meeting.

- 3.3 We can confirm that 99% of the 2011/12 plan has been completed, we had in our last report expected 100% however one report from the plan is currently outstanding (Council Website).

4 Audit Planning

- 4.1 Further to the plan agreed by the Committee at its last meeting, we have continued to liaise with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council and have revised the audit plan to incorporate coverage within the developing tri and bi-borough environment. Amendments that have been made to the 2012/13 Internal Audit Plan have been shown in Appendix C.
- 4.2 We are also working with our tri-borough colleagues on the way in which Internal Audit, anti-Fraud and Risk Management services will be delivered in the future as single tri-borough services.

**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	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

Audit reports Issued 1 April to 30 June 2012

We have finalised a total of 16 audit reports for the period to 1 April to 30 June 2012. In addition, we have issued a further 3 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	2010/11	iTrent Application Audit	Jane West	Substantial
2	2011/12	Henry Compton School	Andrew Christie	Substantial
3	2011/12	Fulham Cross Girls School	Andrew Christie	Substantial
4	2011/12	Early Years	Andrew Christie	Substantial
5	2011/12	Creditors	Jane West	Limited
6	2011/12	ITIL Gap Analysis	Jane West	N/A
7	2011/12	Mobile Phones	Jane West	Limited
8	2011/12	Cedar Application Audit	Jane West	Limited
9	2011/12	Risk Management - Departmental Review	Jane West	Substantial
10	2011/12	Application of the Equality Act	Jane West	Limited
11	2011/12	Vertical - Linford Christie Stadium	Nigel Pallace	Substantial
12	2011/12	Vertical - Melcome Primary School	Nigel Pallace	Substantial
13	2011/12	Vertical - Miles Coverdale Primary School	Nigel Pallace	Substantial
14	2012/12	Out of Hours Service Contract Management	Jane West	Substantial
15	2012/13	Accommodation Services Gas Safety	Melbourne Barrett	Substantial
16	2012/13	NNDR	Jane West	Limited

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
17	2012/13	Schools Year End Summary Report	Andrew Christie
18	2011/12	Information Sharing in Partnerships	Jane West
19	2011/12	Maintenance Orders	Melbourne Barrett

APPENDIX B

Internal Audit reports in issue more than two weeks as at 30 June 2012

No	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2012/13	Children's Services	Andrew Christie	Pope John Catholic Primary School	Substantial	30/05/2012	Headteacher	13/06/2012	Auditee and Director
2	2012/13	Children's Services	Andrew Christie	New Kings Primary School	Substantial	01/06/2012	Headteacher	15/06/2012	Auditee and Director
3	2012/13	Children's Services	Andrew Christie	Brackenbury Primary School	Substantial	01/06/2012	Headteacher	15/06/2012	Auditee and Director
4	2011/12	Children's Services	Andrew Christie	Wormholt Park Primary School	Substantial	01/06/2012	Headteacher	15/06/2012	Auditee and Director
5	2012/13	Children's Services	Andrew Christie	Avonmore Primary School	Substantial	07/06/2012	Headteacher	21/06/2012	Auditee and Director

Amendments to 2012/13 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate Services	Key Financial Preliminary Testing	Removed	No longer required by External Auditors
2	Corporate Services	Key Financial – Other Systems	Removed	No longer required by External Auditors
3	Children's Services	Third Sector Contracts	Removed	RSM Tenon
4	Children's Services	Leaving Care Service	Removed	RSM Tenon
5	Housing and Regeneration	Edward Woods Project	Added	Previously listed under "Regeneration Projects"
6	Housing and Regeneration	Earls Court Project	Added	Previously listed under "Regeneration Projects"
7	Housing and Regeneration	S106 Economic Regeneration	Added	Previously listed under "Regeneration Projects"



AUDIT, PENSIONS AND STANDARDS COMMITTEE

27 September 2012

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Final Internal Audit report for NNDR

WARDS

All

RECOMMENDATION:

To note the contents of this report


Final Internal Audit Report 2012/13

London Borough of Hammersmith and Fulham National Non-Domestic Rates (NNDR) September 2012

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

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Introduction	<p>As part of the 2012/13 Internal Audit Plan, agreed by the Audit and Pensions Committee on 15 March 2012, we have undertaken an internal audit of National Non-Domestic Rates.</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 3 July 2012.</p>
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Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Policies and Procedures			1	0	0
NNDR Transactions and Records			0	3	0
Valuation			0	0	0
NNDR Multiplier			0	0	0
Liability			1	2	1
Billing			0	0	1
Collection			0	1	0
Refunds			0	1	0
Debt Recovery and Enforcement			1	3	0
NNDR Finance			0	0	0
Financial and Performance Management Reporting			0	0	0

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Background and Key Statistics
<ul style="list-style-type: none"> • Although an Academy system user guide is available, there is currently no comprehensive procedural guidance available for staff to be followed for all aspects of the NNDR function; • The NNDR Team have recently begun undertaking a monthly review of amendments to data in ratepayer accounts; • A number of reliefs granted were not supported by sufficient evidence. Furthermore, the level of evidence required to grant retrospective Empty Property Rate Relief (EPRR) at the time of the audit was not considered sufficient. From a sample of 135 reliefs tested evidence to support granting the relief was not available in 31 out of 106 applicable cases. In a further 48 cases we did not consider the evidence required to support granting relief to be sufficient; • No authorisation is required in order to grant retrospective relief. From the sample of cases tested, a number of cases were identified where reliefs had been granted several years after the property was empty and no supporting evidence was retained; • There is currently no monitoring of outstanding property inspections to confirm that inspections are being completed promptly. Furthermore, there was no formal or systematic monitoring of the quality of inspection records or cancelled inspections; • The Cedar to Academy year end reconciliation is not yet balanced and, although a monthly reconciliation process has recently been adopted, at the time of the audit, monthly reconciliations have not been completed since April 2012; 	<ul style="list-style-type: none"> • Non-domestic rates, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services; • The Council received approximately £174.9m in NNDR payments during 2011/12 against an estimated collectable debit of £182.8m, and estimates to receive £171.96m in 2012/13; • As at 31 March 2012, NNDR arrears were estimated at £21.24m; • There are 9,283 live properties on the Valuation Office Agency (VOA) list. 3,643 of these properties pay using direct debit; and • 28.18% of the 2012/13 collection target had been collected at the time of audit, compared to 28.27% at this point in 2011/12 and 28.57% in 2010/11.

- In two cases tested, refunds were not authorised by an officer with the required delegated level of authority;
- A review of the top 250 NNDR debtors has recently been undertaken; however, this is not a regular process and no further monitoring of outstanding debt is currently undertaken;
- Stopped bills or suppressed accounts can be identified by a system report; however, this report is not reviewed on a regular basis and was last reviewed in 2011; and
- From a sample of 20 write offs tested, a write off request form could not be located in one case.

Summary of Findings**Policies and Procedures**

There is currently no comprehensive procedural guidance available for staff. A user guide is available for the Academy NNDR database but this only describes how to use Academy and does not describe the policies or procedures that staff should follow. Shortly before our audit visit, guidance on granting exempt and empty property reliefs was developed. We were advised that staff had been informed verbally of this change to procedures and the updated procedure was emailed to all staff on 16 July 2012. The Capita year-end procedure notes dated January 2012 were also obtained.

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

NNDR Transactions and Records

Following implementation of the Active Directory, access to the Academy NNDR database is now controlled through the user's network login. Until May 2012, separate logins were required to access the network and the NNDR database.

A list of Academy users was obtained. Through examination of this list, we did not identify any active users that had left the Council. The account of the predecessor of the current Recovery Manager, who recently left the Council, had been made dormant on the system. Accounts of leavers are made dormant on the system, meaning that their access is removed, but the user is not removed from the system entirely. Users are required remain on the system to retain an audit trail of previous activity.

Access rights provided to users are in line with the request received from the relevant senior manager. Access rights granted are dependent on the specific staff member's role. Reviews of access rights to the Academy system are undertaken, however we were informed that these do not take place on a regular basis and there has not been a review since the move to the Active Directory.

Management have recently introduced a periodic review of amendments to rate payer accounts. A list of transactions between 1 June and 22 June 2012 had been produced and was in the process of being reviewed by the NNDR Database Manager at the time of the audit. 25 transactions per staff member are to be reviewed, with the Recovery Manager reviewing 25 transactions completed by the NNDR Database Manager. At the time of the audit, only five transactions had been reviewed. The NNDR Database Manager annotates each transaction reviewed with a status and details of the transaction. All transactions reviewed to this point were deemed 'ok'. During the audit we also identified that the Systems Support Team have access to amend data on Academy. There are currently no management checks of amendments made by the Systems Support Team to confirm they are appropriate.

Reconciliations are conducted between the cash posting files from Capita Access, and the Academy NNDR system. These are conducted on a daily basis in general, although sometimes these are completed every other day. The amount sent to the Academy NNDR system from Capita Access is copied from the cash file, which includes all the payments received for that day, to a reconciliation spreadsheet. This amount is checked against Academy details, and details of unallocated payments on Academy are sent to Financial Control for further detail to assist the Systems Support Team in correctly allocating the payments to accounts.

The process for reconciliations between the cash file and the Academy NNDR system was observed while a daily reconciliation was completed by the Systems Support Officer. The reconciliation spreadsheet, complete with notes, confirmed the regular completion of this exercise throughout 2012/13.

On the 16th of each month, direct debits will run. Prior to this run, an NNDR submission form is completed, which reconciles the direct debits to be completed against the details of direct debits due as per the Academy system. Reconciliations between April and June 2012 were obtained.

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

Valuation

Reconciliations are undertaken between the Valuation Office Agency (VOA) schedule and the NNDR system on a weekly or fortnightly basis as and when schedules are received. As well as these regular schedules, full reconciliations to the list published by the VOA are undertaken three times per year. The VOA provides lists to the Council, detailing all rated properties in the Borough which is then reconciled with the NNDR database. The last time a full reconciliation was completed was in November 2011, although following completion of the audit fieldwork, evidence was obtained to show the July 2012 full reconciliation being completed.

The VOA provides a full valuation lists every five years. We were informed that the VOA uses different reference numbers to the Council, which has often caused reconciling difficulties. Discrepancies are identified, which are each investigated to establish the cause of the issue. This may involve either communication with the VOA to rectify discrepancies in their records, or amending data on the NNDR system. The Head of Assessments produces a list of discrepancies that have been identified through the reconciliation between the VOA lists and the NNDR database.

The Council sends through periodic lists of recommended amendments and items to consider to the VOA. This is completed every three to four weeks. This job is run on the NNDR system and an electronic file is sent to the VOA showing items requiring amendment.

NNDR Multiplier

The Department of Communities and Local Government provides the Council with the confirmed NNDR multiplier to be input into the system; this information was last published on 14 February 2012.

The NNDR multipliers input to the system cannot be changed after the year-end process is completed. This input process includes the Head of Assessment checking parameters and multipliers by test running bills for each type of ratepayer. Tests are completed on each of the types of bill / ratepayer using a copy of the system, prior to live billing.

Liability

Relief and discounts awarded should be supported by corresponding evidence to confirm eligibility for the relief. We were advised that, although this requirement is not documented, the evidence required is based on Audit Commission guidance and is as follows:

- An application form for Small Business Rate Relief;
- Checking the Charity Commission's website for Mandatory Charitable Relief;
- Inspections of empty properties for Empty Property Rate Relief (EPRR); and
- Notification from the rate payer or landlord for retrospective EPRR.

A sample of 135 reliefs was selected from April 2011 to date. Reliefs tested included Empty Property Relief, Small Business Rate Relief and Mandatory Charitable Relief. It should be noted that from the report of reliefs provided, it was not possible to differentiate between reliefs granted by the NNDR Team and system amendments processed by the Systems Support Team that automatically give rise to a relief. Therefore some of the cases selected were not applicable for the purposes of our testing.

From the 106 applicable reliefs tested, no evidence related to the relief was available on the EDRMS system account notes, e-mails or inspectors' files in 31 cases, with the majority of these attributed to one individual. In a further 48 cases, although evidence was available, we did not consider the evidence required to support granting relief to be sufficient. For example, in some cases retrospective EPRR was granted based on an e-mail request from the ratepayer with no further evidence provided.

There is no system enforced segregation of duties or system of authorisation when granting reliefs or exemptions. However a spot check of changes made to ratepayer accounts has recently been introduced as described above. Where retrospective EPRR is granted, confirming that the property was empty is more complex as an inspection cannot be undertaken and therefore the risk of granting fraudulent reliefs is increased. We have therefore recommended that all reliefs awarded retrospectively should be reviewed and approved by a senior member of staff.

Property inspections are completed by the Council's Inspector, who uses inspection reports generated by the system to inform his inspections. Empty property relief is checked by inspectors as part of a targeted four month rolling plan. The Council aims to inspect all properties within the Borough inside four months, although the completion time is currently around six months.

We confirmed through discussion with the Head of Assessments that the process for inspections is in the process of changing. In order to deal with the volume of inspections generated, all inspections are now forwarded to the bailiffs for completion, who feed back the information to the Council. We obtained copies of the lists of properties for inspection for the North and South parts of the Borough that were forwarded to the bailiffs in July.

There is currently no formal monitoring of inspections to confirm they are being undertaken promptly. We were advised that the performance of the Inspector and Bailiffs will be monitored going forward. Furthermore, although an inspection is automatically raised when Empty Property Relief is granted, there is an option to cancel these inspections. There is no monitoring of cancelled inspections to confirm that cancellation was appropriate.

There is no formal or systematic monitoring of the quality of inspection records. During the audit, we observed inspectors contacting premises by telephone to confirm whether they are empty. However, it is acknowledged that there may be cases where the inspector is unable to gain unannounced access to the property.

Where someone applies for EPRR, and the inspection reveals that the property is occupied, the inspector completes a report, which is logged onto EDRMS. The NNDR Team then update the system based on the report. The report will stay in the NNDR in tray until it is marked as actioned.

Discussions established that Small Business Rate Relief continues indefinitely until advised by the business that it is no longer eligible. There is no periodic check of continuing eligibility for relief.

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

Billing

Each year, prior to live billing, a reconciliation is completed between the debits raised and the number of bills produced. Evidence of this was obtained, which was signed off by the Head of Assessments. There was no evidence of independent review of this reconciliation and a recommendation has been raised under 'NNDR Transactions and Records'.

As part of the year end process, a copy of the NNDR system is used to confirm that multipliers and parameters have been input correctly by testing a sample of each bill type prior to live billing. A sample of each bill checked was held electronically, in a folder entitled "20.03.2012"; however no further evidence was available to confirm that these bills had been reviewed and were accurate.

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

Collection

The Council matches income received (through cheques, cash, direct debits and online payments) to the correct account through reconciliations between the bank account and Cedar (the Council's Finance System), and between Cedar and Academy.

A full bank reconciliation for all Council funds is completed and therefore no specific reconciliation is completed between NNDR records and bank statements. However, a reconciliation is completed between Cedar and Academy (NNDR System). Historically, the reconciliation between Cedar and Academy has been an annual one, but is to be completed monthly going forward. A reconciliation of funds received up to the end of June was still being completed at the time of the audit and we were advised that the exact reconciliation process is still to be agreed in order to facilitate an effective monthly reconciliation.

A suspense account spreadsheet for NNDR is maintained by the Finance Team, and is cleared as part of the Team's daily job responsibilities. A number of items are yet to be cleared in the 11/12 suspense account, although this is being addressed as part of the year end reconciliation process and therefore no recommendation has been raised in relation to this specific issue.

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

Refunds

The Corporate Services Department Scheme of Delegation details the delegated authority for authorising refunds. The Academy System enforces these authorisation limits for those staff that have access to the system. For high value refunds where authorising officers do not have access to Academy, a separate refund authorisation form is used.

From a sample of 20 refunds tested, in two cases refunds were not authorised by an officer with the correct delegated level of authority. According to the Scheme of Delegation these should have been authorised by the “Assistant Director of Finance”, but had been signed by the Head of Assessments who is only authorised to approve refunds of up to £50,000 and the Director of H&F Direct who does not appear on the Scheme of Delegation. Further discussions with management established that the Scheme of Delegation may not be correct.

Furthermore, refunds processed on Academy are not reconciled to refund request forms to confirm that all refunds processed are supported by an authorised form.

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

Debt Recovery and Enforcement

The 2012/13 Recovery Timetable was obtained from the Recovery Manager, and is held in electronic format. It includes court hearing dates upon which the timings of Council’s recovery actions are based.

The Systems Support Team produces a list of reminders and summonses that are due to be sent out prior to release. This list is reviewed by the NNDR Database Manager before the reminders and summonses are issued. We confirmed through discussion with the NNDR Database Manager that not all summonses were reviewed before issue early in the year due to time constraints.

Where bills are disputed, accounts are suppressed to stop any further recovery action. An end date can be applied or these can be open ended. A report can be generated to show all accounts currently suppressed and we were advised that this report was last run in 2011. An example of this report was obtained for the purposes of the audit and showed approximately 180 suppressed accounts with many of these being duplicate account names.

A review of the top 250 NNDR debtors is currently underway; however, this has not been conducted before. Although the reasons for debts have been recorded, action required or already taken has not been recorded. Furthermore, no regular aged debt analysis of all NNDR income due to the Council is currently undertaken.

The write off of any irrecoverable debts should be approved by a member of staff with the required delegated authority as per the department’s Scheme of Delegation. A transaction list identifying all write offs for NNDR that have been made since April 2012 was obtained and a sample of 20 write offs was selected for testing. A write off authorisation form could not be located in one case. Of the remaining 19, all had been authorised by an officer with the correct level of delegated authority.

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

NNDR Finance

An estimation of contributions is forwarded to Central Government after being verified by the Executive Director of Finance and Corporate Governance. This had been completed for the 2012/13 financial year, and the unaudited outturn for 2011/12 was also obtained.

Progress against collection targets is also reported through the Corporate Services Departmental Management Team's (CS DMT) Monthly Performance Indicators report, provided to management each month. This shows collection rates for the year to date against the collection target. The March, April and May reports were obtained.

The 2012/13 Schedule of Payments was obtained, which is available to staff and shows the contributions to be made for 2012/13.

Financial and Performance Management Reporting

Monthly updates are provided regarding progress against collection targets. A Monthly Performance Indicators report, including collection rates, is provided to the CS DMT for review. As well as the current year target, these reports detail actual outturn for the previous year, the previous three months and the year-to-date.

Performance of the NNDR Team is discussed as part of the DMT meetings and any problems or issues would be discussed here, and action points allocated accordingly. An example of this was obtained in the CS DMT minutes for 16 February 2012.

NNDR statistics are also included in the H&F Direct Vital Statistics report, an example of which was obtained.

Acknowledgement

We would like to thank the management and staff from the service areas contacted for their time and co-operation during the course of the internal audit.

1. NNDR Procedures

Priority	Issue	Risk	Recommendation	
1	<p>There is currently no comprehensive procedural guidance available for staff.</p> <p>A user guide is available for the Academy NNDR database, but this does not describe the procedures that staff should follow.</p> <p>Shortly before our audit visit, guidance on granting exempt and empty property reliefs was developed.</p>	<p>Where comprehensive procedural guidance is not available to staff, there is a risk that processes may not be undertaken in an efficient and effective manner in line with management requirements. Furthermore, there is a risk that it may not be possible to hold staff to account for failing to comply with management requirements.</p>	<p>Procedural guidance should be developed for the NNDR function. This should document the procedures to be followed for all aspects of the NNDR function including but not limited to:</p> <ul style="list-style-type: none"> • NNDR setting / end of year processes; • Set up and maintenance of accounts; • Granting reliefs; • Processing refunds and write offs; • Debt recovery; • System reconciliations; and • Management oversight and reporting. <p>This guide should clearly define the procedures and control processes to be followed, supporting documentation to be prepared or obtained and the location of where this information should be retained.</p> <p>Procedures should be subject to approval by senior management, communicated to staff and reviewed on a periodic basis.</p> <p>An officer should be appointed responsibility for maintaining the procedural guidance and ensuring it remains up to date.</p>	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessment	31/03/13

2. Periodic Review of Access Rights

Priority	Issue	Risk	Recommendation	
2	<p>We were advised that periodic reviews of access rights to the Academy system are undertaken, although this has not been undertaken recently.</p> <p>It should be noted that, through the course of our work, we did not identify any active users that should not have access to the system.</p>	<p>Where access rights to the Academy system are not reviewed periodically, there is a risk that:</p> <ul style="list-style-type: none"> • Staff that have left the Council may still have access; • Staff may have a level of access that they no longer require; or • Individuals have gained inappropriate access to the system. <p>This may lead to data security breaches.</p>	<p>A review of user access rights to the Academy system should be undertaken periodically (such as on a quarterly basis) to confirm that user access rights are appropriate and that access has been disabled for all staff that no longer require it.</p> <p>Evidence of this check should be retained.</p>	
Management Response			Responsible Officer	Deadline
Agreed			Head of Assessments	01/10/12

3. Review of Amendments to Data in Ratepayer Accounts

Priority	Issue	Risk	Recommendation	
2	<p>The NNDR team have recently begun undertaking a monthly review of amendments to data in ratepayer accounts. A sample of 25 changes per staff member is being tested to confirm they are appropriate and have been processed correctly. At the time of the audit, the first check had not yet been completed.</p> <p>We also identified during the audit that the Systems Support Team have access to amend data on Academy. There are currently no management checks of amendments made by the Systems Support Team to confirm they are appropriate.</p>	Where there is no regular process to review changes to standing data, there is a risk that inappropriate or incorrect amendments to accounts may not be identified.	<p>The review of amendments to data in ratepayer accounts should be completed on a monthly basis and be expanded to include members of the System Support Team. This requirement should be included in the NNDR procedural guidance referred to in recommendation 1.</p> <p>The review should seek to cover the issues identified within this report to gain assurance that staff are acting in line with management requirements.</p>	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

4. Independent Review of Reconciliations

Priority	Issue	Risk	Recommendation	
2	<p>There was no evidence that the following reconciliations had been reviewed by a second officer:</p> <ul style="list-style-type: none"> Reconciliations between direct debits and the Academy system; Reconciliation between cash posted and Academy system; and Reconciliation between debits raised and bills produced, prior to the main annual billing. 	<p>Where reconciliations are not reviewed and certified by a second officer, there is a risk that these reconciliations may be completed incorrectly, late, or not at all. This may lead to errors and anomalies not being promptly identified, investigated and resolved.</p>	<p>The following reconciliations should be reviewed by a second officer independent of the reconciliation process:</p> <ul style="list-style-type: none"> Direct debits and the Academy system; Cash posting files and the Academy system; and Debits raised and bills produced, prior to the main annual billing. <p>Reconciliations should be certified by the officer undertaking the reconciliation and the reviewing officer as evidence of review.</p>	
Management Response			Responsible Officer	Deadline
Agreed			Head of Assessments	01/10/12

5. Retaining Evidence to Support Reliefs Granted

Priority	Issue	Risk	Recommendation
1	<p>We were advised that, although management's requirements in order to grant relief are not documented, these are based on the Audit Commission's guidance and are as follows:</p> <ul style="list-style-type: none"> • An application for Small Business Rate Relief; • Checking the Charity Commission's website for Mandatory Charitable Relief; • Inspections of empty properties for Empty Property Rate Relief (EPRR); and • Notification from the rate payer or landlord for retrospective EPRR. <p>A sample of 135 reliefs was selected for testing. From the report of reliefs provided it was not possible to differentiate between reliefs granted by the NNDR team and system amendments that automatically give rise to a relief. Therefore 29 of the sample selected were not applicable.</p> <p>From the 106 applicable cases tested, evidence to support granting the relief was not available in 31 cases. In a further 48 cases we did not consider the evidence required to support granting relief to be sufficient. For example, in some cases retrospective EPRR was granted based on an e-mail request from</p>	<p>Where reliefs are granted without obtaining sufficient evidence from an independent or reliable source, there is a risk that reliefs are granted where the business is not eligible leading to financial loss.</p>	<p>Management should define the level of evidence required to support granting each type of relief. For example:</p> <ul style="list-style-type: none"> • Small Business Rate relief may be supported by an SBRR application form from the business; • Charitable Relief may be supported by evidence of a check on the charitable status of the organisation; and • Empty Property Rate Relief maybe supported by an inspection report confirming the property is currently empty or evidence from a credible independent source that the property is empty in the case of relief granted retrospectively. This evidence should be obtained before the exemption is granted for retrospective reliefs. <p>Procedure notes should define the acceptable forms of evidence for each relief and where this evidence should be retained.</p> <p>Staff should be instructed that reliefs should only be granted where sufficient evidence has been provided.</p>

	<p>the ratepayer with no further evidence provided. It should be noted that EPRR provides an exemption from NNDR for a period of three (non industrial) or six (industrial) months, after which 100% is due.</p>			
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

6. Approval of Retrospective Empty Property Rate Relief (EPRR)

Priority	Issue	Risk	Recommendation	
2	Discussions established that Empty Property Rate Relief (EPRR) can be granted by an officer without any independent check or approval. From the sample of cases tested, a number of cases were identified where reliefs had been granted several years after the property was empty and no supporting evidence was retained. EPRR is normally applied for a period of three (non industrial) or six (industrial) months, after which 100% is due.	When retrospective EPRR is granted, confirming that the property was empty is more complex as an inspection cannot be undertaken. Where retrospective reliefs are granted without any form of independent check, there is a risk that inappropriate or fraudulent retrospective reliefs may not be detected.	All reliefs awarded retrospectively should be reviewed and approved by a senior member of staff. Where this is not possible at the time the relief is granted, a report detailing all reliefs granted retrospectively, should be run on a monthly basis, and reviewed by an officer independent of the process.	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

7. Empty Property Inspections

Priority	Issue	Risk	Recommendation	
2	<p>There is currently no monitoring of outstanding property inspections to confirm that inspections are being completed promptly.</p> <p>Furthermore, although an inspection is automatically raised when Empty Property Relief is granted, there is an option to cancel these inspections. There is no monitoring of cancelled inspections to confirm that the cancellation was appropriate.</p> <p>There is no systematic monitoring of the quality of inspection records.</p> <p>During the audit, we also observed inspectors contacting premises by telephone to confirm whether they are empty. However, it is acknowledged that there may be cases where the inspector is unable to gain unannounced access to the property.</p> <p>It should be noted that EPRR provides an exemption from NNDR for a period of three (non industrial) or six (industrial) months, after which 100% is due.</p>	<p>Where completion of inspections is not monitored, there is a risk that inspections may not be completed promptly or at all.</p> <p>Failing to inspect properties promptly or not gaining sufficient evidence may lead to fraudulent claims for Empty Property Rate Relief not being identified.</p>	<p>The completion of inspections (including cancellations) should be monitored on a regular basis. Inspectors should be reminded to either conduct site visits or obtain evidence from an independent and credible source in order to confirm that properties are empty.</p> <p>Spot checks should be taken on inspection records to confirm they are of a sufficient quality.</p> <p>Procedural guidance should be updated to define the procedure for undertaking inspections.</p>	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

8. Review of Ongoing Eligibility for Small Business Rate Relief

Priority	Issue	Risk	Recommendation	
3	Discussions established that Small Business Rate Relief continues indefinitely until advised by the business that it is no longer eligible. There is no periodic check of continuing eligibility for relief.	Where eligibility for Small Business Rate Relief is not checked periodically, there is a risk that organisations may be claiming that are not longer eligible.	Consideration should be given to the benefit of implementing a programme of review of Small Business Rate Relief to confirm that the ratepayer is still eligible for relief.	
Management Response			Responsible Officer	Deadline
Management have considered this recommendation & think that the number of businesses who are no longer eligible are likely to be low. Ratepayers are only required to complete an initial application form since SI 20009/3175 & only have to notify the council if they obtain additional premises which take them above the rateable value threshold. In view of the fact that these are likely to be low in number & value a sample check of 20 cases will be undertaken each year prior to annual billing.			Head of Assessments	01/02/13

9. Authorisation of Checked Bills

Priority	Issue	Risk	Recommendation	
3	<p>As part of the year end process, a copy of the NNDR system is used to confirm that multipliers and parameters have been input correctly by testing a sample of each bill type prior to live billing.</p> <p>A sample of each bill checked was held electronically, in a folder entitled "20.03.2012"; however no further evidence was available to confirm that these bills had been reviewed and were accurate.</p>	Where there is no evidence that bills have been checked for accuracy prior to issue, there is a risk that incorrect bills may be issued, leading to financial loss and reputational damage.	The process of sample checking NNDR bills prior to the main billing, should be recorded by the staff member undertaking the checks.	
Management Response			Responsible Officer	Deadline
Agreed			Head of Assessments	01/02/13

10. Cedar to Academy Reconciliation

Priority	Issue	Risk	Recommendation	
2	<p>The Cedar to Academy year end reconciliation discrepancies are not yet fully investigated, and no further reconciliations have been completed since the year end.</p> <p>Discussions established that monthly reconciliations are planned, but the process has not yet been completely defined.</p>	<p>Where reconciliations between Cedar and Academy are not undertaken on a monthly basis, there is a risk that problem areas and issues may not be identified promptly and may become more complex to resolve.</p>	<p>Reconciliations between Academy and Cedar should be undertaken on a monthly basis and the discrepancies identified in the year end reconciliation for 2011/12 should be investigated and cleared.</p> <p>The process for the reconciliation should be agreed and documented in the procedural guidance referred to in recommendation 1.</p>	
Management Response			Responsible Officer	Deadline
<p>Investigation into the discrepancies on the year end reconciliation are ongoing and will be resolved in part on completion of future monthly reconciliations which are in progress currently. We appreciate the need for monthly reconciliations and are working towards the implementation of monthly reconciliations early in 2012/13.</p>			Systems Accountant	31/12/12

11. Refund Authorisation

Priority	Issue	Risk	Recommendation	
2	<p>In two out of 20 cases tested, refunds were not authorised by an officer with the required delegated level of authority (Account references 32806379 and 3279069X for £120,319.39 and £267,797.20 respectively). According to the Scheme of Delegation these refunds should have been authorised by the Assistant Director of Finance, but had been authorised by the Head of Assessments who is authorised to approve refunds of up to £50,000 and the Director of H&F Direct who does not appear on the Scheme of Delegation.</p> <p>Furthermore, refunds processed on Academy are not reconciled to refund request forms to confirm that all refunds processed are supported by an authorised form.</p>	<p>Where refunds are not authorised by an officer with the required level of delegated authority, this may lead to inappropriate refunds being processed and financial loss.</p> <p>Where refunds processed are not reconciled to refund request forms, there is a risk that inappropriate refunds may not be identified.</p>	<p>All refunds processed should be authorised in line with the Scheme of Delegation.</p> <p>The Scheme of Delegation should be periodically reviewed and updated to ensure the list of authorised officers is correct.</p> <p>A reconciliation should be undertaken on a monthly basis between a report of refunds processed on Academy and refunds request forms to ensure that each refund is supported by an authorised form.</p>	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

12. Review of Outstanding Debt

Priority	Issue	Risk	Recommendation	
1	<p>A review of the top 250 NNDR debtors is currently underway; however, this is not a regular exercise and has not been conducted before. Although the reasons for debts have been recorded, action required or already taken has not been recorded.</p> <p>Furthermore, no regular aged debt analysis of all NNDR income due to the Council is currently undertaken.</p>	<p>Where comprehensive debt monitoring is not undertaken, there is a risk that longstanding debts or patterns in the level of outstanding debts may not be identified. This may lead to debt recovery action being poorly focussed on or ineffective.</p>	<p>The list of the top 250 outstanding debtors and aged debt analysis for all income due should be produced and reviewed every month. An action plan should be developed as a result of this review and should be monitored against.</p> <p>These requirements should be included in procedural guidance referred to in recommendation 1.</p>	
Management Response			Responsible Officer	Deadline
<p>Management agree this recommendation. The second part is however dependant on the bid for additional resources, see (1) above</p>			Recovery Manager	01/10/12

13. Review of Summonses

Priority	Issue	Risk	Recommendation	
2	<p>The Systems Support Team produces a list of reminders and summonses that are due to be issued prior to them being released. This list is reviewed by the NNDR Database Manager before the reminders / summonses are issued. We confirmed through discussion with the NNDR Database Manager that not all summonses were reviewed early in the year due to time constraints.</p> <p>We also identified that there is no monitoring or authorisation of the withdrawal of liability orders and summonses.</p>	<p>Where all summonses are not reviewed, there is a risk that they may be issued in error.</p> <p>Where summonses and liability orders are withdrawn inappropriately / incorrectly, the Council may experience financial loss and / or reputational damage.</p>	<p>All summonses should be reviewed prior to being issued.</p> <p>Liability orders and summonses that are withdrawn should be subject to independent review. Consideration should be given to requiring authorisation to withdraw liability orders and summonses.</p>	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Recovery Manager	31/03/13

14. Review of suppressed accounts

Priority	Issue	Risk	Recommendation	
2	<p>Stopped bills or suppressed accounts can be identified by a system report. Discussions with the NNDR Database Manager established that this report is not reviewed on a regular basis and was last reviewed in 2011.</p> <p>An example of this report was obtained for the purposes of the audit and showed approximately 180 suppressed accounts with many of these being duplicate account names.</p>	Where suppressed accounts are not reviewed on a regular basis, there is a risk that accounts may be intentionally or accidentally suppressed and this may not be identified. This may lead to bills and reminders not being issued and income not being recovered.	A report of all accounts currently suppressed should be reviewed on a regular basis. Evidence of this review should be retained.	
Management Response			Responsible Officer	Deadline
Agreed			Recovery Manager	01/11/12

15. Write Off Authorisation

Priority	Issue	Risk	Recommendation	
2	From a sample of 20 write offs tested, a write off request form could not be located in one case (ref: 3082561 for £493.49). Furthermore, write offs processed on Academy were not reconciled to write off forms to confirm that all write offs processed had been approved.	Where write off request forms are not completed and authorised for all write offs processed, there is a risk that inappropriate write offs may be made. Where write offs processed are not reconciled to write off request forms, there is a risk that inappropriate write offs may not be identified.	A write of request form should be completed and authorised for all write offs processed. A reconciliation should be undertaken on a monthly basis between a report of write offs processed on Academy and write off request forms to ensure that each write off is supported by an authorised form.	
Management Response			Responsible Officer	Deadline
Management agree this recommendation, subject to a bid for additional resources of £90,000			Head of Assessments	31/03/13

Statement of Responsibility

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

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

Deloitte & Touche Public Sector Internal Audit Limited
London
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