London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Thursday 26 September 2013
7.00 pm
COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	**Opposition**	**Co-optees**
Councillor Michael Adam (Chairman) Councillor Charlie Dewhirst Councillor Robert Iggulden Councillor Lucy Ivimy	Councillor Michael Cartwright Councillor PJ Murphy (Vice-Chairman)	Eugenie White

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

Reports on the open agenda are available on the Council's website:
http://www.lbhf.gov.uk/Directory/Council_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 2013

Audit, Pensions and Standards Committee
Agenda

26 September 2013

15. EXCLUSION OF THE PUBLIC AND PRESS

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 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. FRAUD RESPONSE ACTION PLAN

17. PARAMETERS FOR DECIDING ON PROSECUTIONS

18. STAFF DISCRETIONARY POWERS

London Borough of Hammersmith & Fulham

h&f the low tax borough

Audit, Pensions and Standards Committee

Minutes

Thursday 27 June 2013

PRESENT

Committee members: Councillors Michael Adam (Chairman), Robert Iggulden, Michael Cartwright, PJ Murphy (Vice-Chairman) and Charlie Dewhirst

P-Solve: John Conroy

Officers: Jane West (Executive Director of Finance and Corporate Governance), Hitesh Jolapara (Deputy Director of Finance), Geoff Drake (Chief Internal Auditor), Moyra McGarvey (BiBorough Director of Audit), Michael Sloniowski (BiBorough Risk Manager), George Lepine (HR Consultant), Andrew Hyatt (BiBorough Head of Fraud) and Craig Bowdery (Principal Committee Coordinator).

71. MINUTES OF THE PREVIOUS MEETING

RESOLVED –
That the minutes of the meetings held on 14th February 2013 and 20th May 2013 be agreed as a true and correct record.

72. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Ivimy and Sheela Selvajothy.

73. DECLARATIONS OF INTEREST

There were no declarations of interest.

74. MEMBERSHIP AND TERMS OF REFERENCE

A report outlining the membership and Terms of Reference of the Committee was noted.

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.

75. APPOINTMENT OF VICE-CHAIRMAN

RESOLVED –
That Cllr PJ Murphy be appointed as Vice-Chairman for the duration of the municipal year.

76. APPOINTMENT OF CO-OPTED MEMBER

The Committee noted that the report contained an error in paragraph 1.3 and that the appointment of the co-opted member of the Committee was for 2013/14. The Committee voted on the recommendation that Eugenie White be re-appointed with two Members voting for and two against, with the Chairman's casting vote supporting the recommendation.

RESOLVED –
That Eugenie White be reappointed as a co-opted member of the Committee for 2013/14.

77. PENSION VALUE AND INVESTMENT PERFORMANCE

John Conroy, P-Solve, presented a report detailing the performance and market value of the Council's pension fund investments for the quarter ending 31st March 2013. It was noted that quarter one had seen good performance, with most markets seeing a rise in value. The anticipated change in RPI did not occur, which had had a negative impact on the liability benchmark.

The Committee observed that the data presented was unclear in so much as it presented data on performance from 'inception', without clarifying when inception was. Similarly data on the funds' performance over five years had not been included. Officers undertook to include this information on future reports.

The Committee discussed the performance of the fund's investments and noted that the wider economy continued to be volatile. It was suggested that the market paradigm had shifted with the country having more debt than ever before and an expectation of a decade of low interest rates. For example officers explained that in quarter one, liabilities had risen, with assets up even more. Then in quarter two liability had decreased and assets had decreased less. This equated to two good quarters of performance, but for different reasons. It was argued that the Council's investment strategy was proving beneficial in such a climate as it was able to benefit from a range of different scenarios while shielding the fund from too much exposure in any one market.

RESOLVED –
That the report be noted.

78. ANNUAL REVIEW OF RETIREMENTS 2012-13

Jane West, Executive Director of Finance and Corporate Governance, presented a report outlining the Local Government Pension Scheme retirements that occurred in 2012/13 and the number and value of redundancy payments made in the same year. It was noted that the Council had paid a higher than usual amount in redundancy payments, which was reflected in reduction in staff numbers during this period.

RESOLVED –
That the report be noted.

79. HMRC USE OF CONSULTANTS AND INTERIMS - END OF PROJECT EVALUATION

George Lepine, HR Consultant, presented a report on the end of project evaluation for the use of consultants and interims and drew the Committee's attention to the three recommendations contained within the report.

The Committee questioned whether the Council might have any opportunity to reclaim any funds from the individuals in question, on the grounds that they may have made false declarations when they commenced their employment. Officers explained that it was unlikely as it was important to distinguish between Personal Service Companies (PSCs) (supplying an employee to the Council) and sole traders (individuals who were self-employed, but not set up as companies). PSCs were responsible for the payment of any tax and National Insurance Contribution on salaries paid to their employees and indemnified the Council against any claims from the authorities in respect of such payments. With sole traders the decision about employment status was one which was made by the Council and not by the individual. This was something that had not been well enough understood by managers. Therefore whilst the Council had been overly-reliant on what the employees had stated, it could not be said that the employees made any sort of false declaration.

Some Members expressed their surprise that the report did not include the admission that the Council had been careless with public money and they emphasised that this had been an expensive mistake for the authority. The Chair highlighted that 'careless' was a technical term used by HMRC and was the least serious level of error under their criteria. Officers also informed the Committee that HMRC were clear that 'careless' was judged to be a mistake, as distinguished from deliberately concealing practises.

Members argued that given the quantity of money handled by the organisation, it was imperative that the Council had the proper procedures in place. Officers agreed and explained that new procedures had been implemented. For example any new consultant required a business case and a formal sign-off from HR and an Executive Director to ensure all appropriate procedures had been followed. An internal audit of the new procedures was one of the recommendations made in the report. Geoff Drake, Chief Internal Auditor, confirmed that such an audit was already included on the Internal Audit plan.

RESOLVED –
That the report be noted.

80. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT

The Committee received a report presented by Geoff Drake, Chief Internal Auditor, which summarised the anti-fraud work that had been undertaken by the Council's Corporate Anti Fraud Service (CAFS) during 2012/13. Members were informed that the service would move to a Bi-Borough arrangement on 1st July 2013 to be managed by the new Bi-Borough Head of Fraud, Andy Hyatt.

Members noted from the report that the team had identified fraud valuing in excess of £8million and that over £5.2million was recoverable by the Council. It was asked whether the full amount could or would be recovered. Officers explained that it was unlikely the full amount would be recovered but that the Council sought to recover as much as possible. Any money recovered from fraud activity was unlikely to be recovered in the same financial year as it would often come via payment plans spread over a number of years and months or from prosecutions. It was anticipated that around a further £1million from fraud in 2012/13 would be recovered beyond the £510,000 that had already been recovered this year, some of which related to fraud activity in previous years.

The Committee discussed the staffing levels in the CAFS and noted that two vacant posts had not been filled. It was also noted that a significant number of cases were not investigated due to insufficient resources. Members therefore asked whether the service was under-resourced and enquired if it was meeting its targets. Officers explained that whilst it was meeting and exceeding its targets, some cases were being rejected due to insufficient resources. However this was common in most authorities and every fraud team had to choose how to prioritise referrals to make best use of the available resources. With the service moving to the Bi-Borough arrangement, it was expected that the service would improve by operating with greater efficiency and reduced management overheads, which would allow more resources to be allocated to investigators.

The Committee noted the training being undertaken by fraud officers to give them a greater exposure and familiarity with different types of fraud. It was asked whether the recent case of Care Quality Commission investigators failing to detect poor performance at a Cumbrian hospital actually suggested that rather than making investigators more generic, the Council should be preserving their specialist knowledge to ensure more thorough investigations. Officers explained that by extending the skill-set of officers, the Council was able to investigate more cases and the service could be more flexible. It was also highlighted that the specialist skills of individual investigators still existed, only now they were being shared with colleagues and being applied to different fields.

Members highlighted that the Committee had made several recommendations at its previous meeting relating to the investigation and prosecution of officers involved in corporate fraud, and asked for confirmation that they were being implemented. Officers confirmed that the recommendations were being progressed and that all necessary internal audit activity was in the current work programme.

The Committee sought clarification on how the Bi-Borough fraud service would operate. Officers explained that at its inception, the service would operate under a single head of service but as two teams. It was however expected that this would change over time as and when the service required it to.

RESOLVED –
That the report be noted.

81. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2012/13 YEAR

Geoff Drake, Chief Internal Auditor, presented a report providing a summary of all audit work undertaken in 2012/13. The report also provided assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. Members noted that the levels of assurances given remained unchanged from the previous year, but that there were some weaknesses in the internal control environment, including the audit of NNDR (National Non Domestic Rates), four schools and the project management of the Edward Woods Regeneration Project.

Members noted the identified weakness in the Edward Woods Regeneration Project and that the Cabinet report on the project had been repeatedly deferred. It was asked why the report was being delayed and whether the identified weakness related to any over-expenditure. The Chief Internal Auditor explained that not being involved in the project, he did not know why the Cabinet report had been delayed. He also confirmed that the control weakness identified was not linked to over-spending but to a failure to use the agreed project management toolkit. The Executive Director of Finance and Corporate Governance undertook to investigate the reasons for the delayed Cabinet decision.

The Committee was also informed that from 1st July 2013 there would be a Bi-Borough internal audit service. Officers confirmed that this would not impact on the number of days' audit activity planned for the authority.

Some Members highlighted that as a Committee they had not appreciated the significance of the audit of NNDR when it was originally presented. It was therefore argued that such failures and other issues of concern should be included in the annual report to help the organisation learn from mistakes made and to prevent similar occurrences from being repeated.

It was noted that there was a range of transformation projects being undertaken to implement the Council's Medium Term Financial Strategy (MTFS) and asked how internal audit was being involved in their delivery. Officers explained that key projects were being identified and that internal audit would be involved where necessary. It was agreed that a full breakdown of the internal audit work being undertaken on transformation projects would be presented to the Committee at a later date.

The Committee noted that there were 60 days of auditing being carried forward into 2013/14 from the previous year as it had not been possible to audit IT. Some Members expressed concern that further progress on IT projects therefore could expose risks as they had not been fully audited. Officers explained that the Tri-Borough IT strategy had been delayed, which was why it was not audited. The auditing days had been carried forward to ensure the audit took place and the outstanding audit activity was a high priority. The delay in the project had occurred because of a number of factors so it was decided that the audit should also be delayed to ensure it could add as much value as possible.

RESOLVED –
That the report be noted.

82. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Bi Borough Risk Manager, presented a report updating the Committee on the risks, controls, assurances and management action oriented to manage Enterprise-wide risks.

The Committee asked whether the tri-borough services had become homogenised into one entity or if they were still distinct and ring-fenced, and whether there was any potential risk to the tri-borough services should any of the Councils wish to no longer proceed with the arrangement. Officers explained that it varied across the services and that in many instances the policies and frameworks for risk management were becoming more harmonised. On a wider level however it was highlighted that each Council retained sovereignty with the on-the-ground delivery catered to each authority's needs, albeit under a combined management. Members were also reassured that there were mechanisms in place to ensure that staff resources were split correctly and that any further integration could only be achieved with additional Member consent.

Members noted the risk regarding the HMRC VAT claims for partnering activities and the partial exemption benefit and asked for clarification. Officers explained that the Council has historically received a partial refund on the VAT it is liable for but that the new activities that it and many other councils are undertaking could potentially mean it is no longer eligible for the partial exemption. To mitigate the risk the Council was in close contact with the HMRC and was reviewing the situation monthly to ensure all correct procedures were being followed.

RESOLVED –
That the report be noted.

83. TRIBOROUGH RISK MANAGEMENT STRATEGY STATEMENT AND BIBOROUGH RISK MANAGEMENT SERVICE PROVISION

Michael Sloniowski, BiBorough Risk Manager, presented a report on the TriBorough Risk Management Strategy Statement and Policy Document for 2013-

16 and informed the Committee that a similar report had been approved by RBKC earlier that week.

The Chair requested that officers should return to a future meeting to illustrate to the Committee the work undertaken by the risk management service and to emphasise the exemplary work carried out.

RESOLVED –

i) That the Committee approve the approach outlined in the Strategy Statement and that effective risk management, undertaken on a collaborative basis, will improve strategic, operational and programme management through shared processes.

ii) That the Committee note the introduction of a BiBorough Risk Management service within a shared Audit service. This will be hosted by the Royal Borough of Kensington and Chelsea and will be under the leadership of the newly appointed Director of Audit, Moyra McGarvey. The anticipated date for the implementation of the new Internal Audit structure including Risk Management is 1 July 2013.

84. EXTERNAL AUDIT RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT ACTION PLAN

Geoff Drake, Chief Internal Auditor, presented a report summarising the progress made implementing the recommendations arising from the Audit Commission's 2011/12 Annual Governance Report, and the action plans relating to control weaknesses identified in the 2011/12 Annual Governance Statement.

RESOLVED –
That the report be noted.

85. INTERNAL AUDIT CHARTER AND STRATEGY STATEMENT 2013 2014

Geoff Drake, Chief Internal Auditor, presented a report on the Council's Internal Audit Charter and Strategy Statement for 2013/14.

RESOLVED –
That the report be noted.

86. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Chief Internal Auditor, presented a report summarising internal audit activity during 1st January 2013 and 31st March 2013.

RESOLVED –
That the report be noted.

87. 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 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.

88. EXEMPT MINUTES OF THE MEETING ON 20 MAY 2013

Cllr Iggulden highlighted that he did not express the view attributed to him in the 24th paragraph of the exempt minute 70 and the Committee agreed to amend the minutes accordingly.

RESOLVED –
That subject the to the amendment above, the exempt minutes of the meeting held on 20th May 2013 be agreed as a true and correct record.

89. EXEMPT RETIREMENTS AND REDUNDANCIES

RESOLVED –
That the exempt aspects of the report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.39 pm

Chairman ....

Contact officer: Owen Rees
Committee Co-ordinator
Governance and Scrutiny
☎: 020 8753 2088
E-mail: owen.rees@lbhf.gov.uk

the low tax borough	London Borough of Hammersmith & Fulham **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **26th September 2013**
LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2012/13	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification - For Information **Key Decision: No**	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	**Contact Details:** Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

1. EXECUTIVE SUMMARY

1.1. This report presents the London Borough of Hammersmith and Fulham's Statement of Accounts, including the Pension Fund, for 2012/13 and the external auditor's opinion on the accounts prior to the conclusion of their audit work.

1.2. The report also highlights the headline information from the Statement of Accounts and management's response to the auditor's final report.

2. RECOMMENDATIONS

2.1. To note the content of the Auditor's Report to those Charged with Governance (ISA260s) 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.

2.2. To note the Council's response to the Reports to those Charged with Governance (ISA260s).

2.3. To approve the management representation letter (as included within the ISA260s and attached as an appendix)

2.4. To approve the Statement of Accounts for 2012/13.

3. REASONS FOR DECISION

3.1. The Audit, Pensions and Standards Committee are required in accordance with the Accounts and Audit Regulations 2011 to approve the Council's audited year end Statement of Accounts before the end of September.

4. INTRODUCTION AND BACKGROUND

4.1. INTRODUCTION

4.1.1. KPMG's Report to those Charged with Governance (ISA260) for Hammersmith and Fulham 2012/13 Audit is attached to this report (Appendix 2). It sets out KPMG's findings from this year's audit relating to two main areas:

- Financial Statements
- Value for Money

4.1.2. This report gives a brief overview of the key points arising from the Statement of Accounts and summarises the issues included in the ISA260, 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.

4.1.3. KPMG produce a separate ISA260 for the Pension Fund (Appendix 3). This is discussed in section 4.4 of this report.

4.1.4. 2012/13 is the first year that the Statement of Accounts have been audited by KPMG.

4.1.5. It should be noted that these accounts remain "unaudited" until final sign-off by KPMG on 30 September 2013 and may therefore be subject to change until that point. However, no further changes are expected.

4.2. STATEMENT OF ACCOUNTS 2012/13

4.2.1. The Explanatory Foreword which starts on page 7 of the Statement of Accounts gives an outline of the Council's financial activity during 2012/13. In summary the key points are:

- A General Fund revenue account under-spend of £7.2m after departmental carry forwards of budgets to 2013/14 of £4.1m.
- A General Fund balance of £18.0m.

- A Housing Revenue Account (HRA) loss of £0.8m for the year, reducing its working balance by the same amount to £4.3m.
- Earmarked reserves at 31 March 2013 of £62.8m (compared to £52.4m at 31 March 2012).
- A stable balance sheet. Total net assets have decreased, but this is due substantially to the annually updated and volatile net pension liability.
- Capital expenditure totalled £57.4m.

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

4.3. REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA260)

4.3.1. The ISA260 (Appendix 2) summarises the findings from KPMG's 2012/13 audit. KPMG, as the appointed auditors, state that:

- they plan to issue an unqualified opinion; and
- they have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The auditor is required to identify specific risks and areas of judgment that they considered as part of the audit. The auditor has highlighted the headline information from the audit on page 3 of the report, with detailed findings commencing from page 5. The auditor's recommendations in these areas, together with the Council's comments are brought together in Appendix 1 of the ISA260 report.

4.3.2. The 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 ISA260.

4.4. **PENSION FUND**

4.4.1. KPMG is obliged to submit a separate Report to those Charged with Governance (ISA260) for the Pension Fund. This is attached as Appendix 3. KPMG state they intend to issue an unqualified opinion and no material adjustments were identified. The auditor's findings are detailed from page 5 of the Pension Fund ISA260. The Pension Fund accounts are included in the overall Statement of Accounts from Page 87 onwards.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1.1. 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.

9.1.2. KPMG are required to report the findings from their audits in a Report to those Charged with Governance (ISA260) to the Audit, Pensions and Standards Committee before their opinion on the accounts is issued.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	LBHF Statement of Accounts 2012/13 Code of Practice on Local Authority Accounting 2012 KPMG Reports to those Charged with Governance (ISA260s)	Christopher Harris, 020 8753 6440	Corporate Accountancy and Capital, 2nd Floor, Hammersmith Town Hall Extension

LIST OF APPENDICES:

Appendix 1 – Annual Statement of Accounts (including Pension Fund)
Appendix 2 – KPMG Report to those Charged with Governance (ISA260) (Main Financial Statements – including Management Representation Letter)
Appendix 3 – KPMG Report to those Charged with Governance (ISA260) (Pension Fund)

STATEMENT OF ACCOUNTS

2012/13

Hammersmith & Fulham Council

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

We have audited the financial statements of London Borough of Hammersmith and Fulham for the year ended 31 March 2013 on pages 7 to 115. 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 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Executive Director of Finance and Corporate Governance's Responsibilities, 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. Our 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 us 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 and the Pension 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, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 103 to 109 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

Conclusion on London Borough of Hammersmith and Fulham's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, London Borough of Hammersmith and Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of London Borough of Hammersmith and Fulham in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Michael McDonagh
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

CERTIFICATION BY CHAIRMAN OF THE AUDIT PENSIONS AND STANDARDS COMMITTEE

I confirm that these accounts were approved by the Audit, Pensions and Standards Committee on 26 September 2013

Councillor Michael Adam
26 September 2013

STATEMENT OF ACCOUNTS CONTENTS

The Council's Statement of Accounts for the Year Ended 31 March 2013 is set out on the following pages.

FOREWORD

INTRODUCTION

1 The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2012/13 and its Balance Sheet at 31 March 2013. This covers the General Fund, Collection Fund, Housing Revenue Account and the Pension 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 2013. 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 2013 (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 2012/13 includes:
• A General Fund under-spend of £7.2m million after departmental carry forwards of £4.1 million;
• General Fund and earmarked reserves at 31 March 2013 of £80 million; and
• A stable balance sheet (total net assets have decreased, but due substantially to the annually updated and volatile net pension liability).

2012/13 BUDGET

5 Annually, the Council sets the budget. In brief, the 2012/13 budgets included:
• A Council Tax reduction of 3.75%;
• Savings of nearly £23 million off-setting cost pressures and grant losses; which produced a revenue budget requirement of £200 million funded from Council Tax, Formula Grant and Core Grants from government within a gross budget of £690 million.

REVENUE SPENDING

6 The 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 £7.2m, reflecting a 1 per cent under-spending by departments after agreed carry forwards of budgets to 2013/14 of £4.1 million. The balance of the under-spend has been transferred to the Efficiency reserve, the Dilapidations reserve, the VAT reserve, the Temporary Accomodation reserve, the Support to Children Leaving Care reserve, the Managed Services Reserve and the Housing Benefit reserve.

8 The summary outturn position is as set out below:

Department	**Budget**	**Actual**	**Over/ (Under) Spend**
	£'000	**£'000**	**£'000**
Children's Services	62,866	62,638	(228)
Unaccompanied Asylum Seeking Children	1,519	1,519	-
Adult Social Care	76,106	74,974	(1,132)
Housing and Regeneration	8,284	7,647	(637)
Transport and Technical Services	20,023	20,023	-
Controlled Parking Account	(19,230)	(19,230)	-
Environment, Leisure and Residents Services	36,024	36,024	-
Finance and Corporate Services	18,552	18,354	(198)
Centrally Managed Budgets	27,282	22,232	(5,050)
Net Operating Expenditure	**231,426**	**224,181**	**(7,245)**
Contingencies Not Drawn Down	4,100	-	(4,100)
	235,526	**224,181**	**(11,345)**
Capital Financing and Accounting Adjustments	(28,453)	(28,453)	-
Net Contribution to Earmarked Reserves	(5,288)	5,494	10,782
Net Contribution to General Reserves	-	563	563
Total Net Expenditure	**201,785**	**201,785**	**-**
Funded by:			
Formula Grant	116,541	116,541	-
Core Grants	22,021	22,021	-
Council Tax	63,223	63,223	-
Total Funding	**201,785**	**201,785**	**-**
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 loss of £0.8 million and decreased its working balance by the same amount. Full details are set out in the Statement of Accounts.

31 MARCH 2013 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 2013 £m	31 March 2012 £m
Long Term Assets	1,428	1,482
Current Assets	310	211
Current Liabilities	(153)	(115)
Net Pension Liabilities	(503)	(420)
Other Long Term Liabilities	(281)	(318)
Net Assets	**801**	**840**
Represented by:		
Usable Reserves	(177)	(97)
Unusable reserves	(624)	(743)
Total Reserves	**(801)**	**(840)**

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

	2012/13 £m
General Fund Balance	(18)
General Fund Earmarked Reserves	(59)
HRA Balance and Earmarked Reserves	(8)
Schools Reserves	(19)
Capital Reserves (Receipts and Grants)*	(73)
Total	**(177)**

* Capital Reserves include £38m of DfE Basic Needs grant funding held for use on ongoing planned Schools projects.

CAPITAL SPENDING AND FUNDING

12 In 2012/13, the actual capital expenditure (outturn) totalled £57.393 million. The table below summarises capital expenditure by service area:

Department	**2012/13 £'000**
Adult Social Care	1,117
Children's Services	14,948
Environment, Leisure and Resident's Services	4,422
Finance and Corporate Services	-
Housing Revenue Account Programme	24,722
Housing and Regeneration (Decent Neighbourhoods Programme)**	3,979
Transport and Technical Services**	8,205
Total	**57,393**

** Programmes include expenditure on HRA assets: Decent Neighbourhoods: £1,089k; TTS: £37k

13 The financing of the capital expenditure incurred in 2012/13 is summarised in the table below:

Capital Financing	**£'000**
Capital receipts	19,899
Capital grants from central government departments	13,861
Major Repairs Reserve (MRR) / Major Repairs Allowance (MRA)	9,958
Grants and contributions from developers and from leaseholders, etc.	8,743
Capital funding from GLA bodies	3,237
Council reserves	553
Housing Revenue Account	539
Grants and contributions from non-departmental public bodies	520
Capital grants from the National Lottery	65
General Fund Revenue Account	18
Total	**57,393**

The Council remains committed to a strategy to reduce debt. No new borrowing was entered into in 2012/13 and no new borrowing is forecast for the next four years in line with the current Capital Programme. Debt reduction continues to be funded from capital receipts. The Capital Programme is largely funded from specific capital grants with a supporting element funded from capital receipts.

ACCOUNTING POLICIES

14 The 2012/13 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 2012/13 (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 18 to 33. These are substantially unchanged from 2011/12.

GROUP ACCOUNTS

16 As with the 2011/12 Statement of Accounts, Group Accounts have not been included in the 2012/13 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 an Associate. Details on the total 2012/13 net assets and profit and loss for HFBP (with 2011/12 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.

FUTURE OUTLOOK

17 For 2013/14 the Council has reduced its Council Tax by 3%. Funding reductions and cost pressures were matched by £21 million in budget reductions - bringing total budget reductions to £44 million over two years.

18 The national economic outlook remains challenging. The implications of the 2013 Government Spending Review will be assessed, once it has been announced, whilst the Council will carefully review how the new business rates retention scheme (introduced from 1st April 2013) impacts on it. Despite these challenges, the Council remains well positioned in a demanding environment.

19 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 £61 million in savings over the period 2013/14 to 2015/16, including £23.6 million in savings for 2014/15. 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.

20 The Council's 2013/14 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 £14m - £20m. The actual balances carried forward at the close of 2012/13 are £18m.

Jane West

Executive Director of Finance and Corporate Governance
26 September 2013

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 2013 and income and expenditure for the year for the financial year 2012/13.

Jane West

Jane West
Executive Director of Finance and Corporate Governance
26 September 2013

CORE FINANCIAL STATEMENTS

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
Balance at 31 March 2011		**(16,070)**	**(13,675)**	**(42,423)**	**(5,511)**	**(3,107)**	**-**	**(3,456)**	**(997)**	**(85,239)**	**(585,508)**	**(670,747)**
Movement in Reserves during 2011/12												
(Surplus) or Deficit on Provision of Services		(12,566)	-	-	-	(229,678)	-	-	-	(242,244)	-	(242,244)
Other Comprehensive Income and Expenditure		-	2,628	-	-	-	-	-	-	2,628	70,166	72,794
Total Comprehensive Income and Expenditure		**(12,566)**	**2,628**	**-**	**-**	**(229,678)**	**-**	**-**	**-**	**(239,616)**	**70,166**	**(169,450)**
Adjustments between accounting basis & funding basis under regulations	7	(8)	-	-	1,698	227,661	-	(1,705)	-	227,646	(227,647)	(1)
Net (Increase)/Decrease before Transfers to Earmarked Reserves		**(12,574)**	**2,628**	**-**	**1,698**	**(2,017)**	**-**	**(1,705)**	**-**	**(11,970)**	**(157,481)**	**(169,451)**
Transfers (to)/from Earmarked Reserves	8	11,206	(1,436)	(10,000)	30	94	-	-	117	11	(11)	-
(Increase)/Decrease in 2011/12		**(1,368)**	**1,192**	**(10,000)**	**1,728**	**(1,923)**	**-**	**(1,705)**	**117**	**(11,959)**	**(157,492)**	**(169,451)**
Balance at 31 March 2012		**(17,438)**	**(12,483)**	**(52,423)**	**(3,783)**	**(5,030)**	**-**	**(5,161)**	**(880)**	**(97,198)**	**(743,000)**	**(840,198)**
Movement in Reserves during 2012/13												
(Surplus) or Deficit on Provision of Services		(13,647)	-	-	-	(26,364)	-	-	-	(40,011)	-	(40,011)
Other Comprehensive Income and Expenditure		-	4,360	-	-	-	-	-	-	4,360	75,028	79,388
Total Comprehensive Income and Expenditure		**(13,647)**	**4,360**	**-**	**-**	**(26,364)**	**-**	**-**	**-**	**(35,651)**	**75,028**	**39,377**
Adjustments between accounting basis & funding basis under regulations	7	(5,296)	844	-	(42,436)	23,567	(5,707)	(15,333)	-	(44,361)	44,361	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		**(18,943)**	**5,204**	**-**	**(42,436)**	**(2,797)**	**(5,707)**	**(15,333)**	**-**	**(80,012)**	**119,389**	**39,377**
Transfers (to)/from Earmarked Reserves	8	18,381	(11,527)	(10,418)	-	3,564	-	-	-	0	-	0
(Increase)/Decrease in 2012/13		**(562)**	**(6,323)**	**(10,418)**	**(42,436)**	**767**	**(5,707)**	**(15,333)**	**-**	**(80,012)**	**119,389**	**39,377**
Balance at 31 March 2013 carried forward		**(18,000)**	**(18,806)**	**(62,841)**	**(46,219)**	**(4,263)**	**(5,707)**	**(20,494)**	**(880)**	**(177,210)**	**(623,611)**	**(800,821)**

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 2013			Year Ended 31 March 2012		
	Notes	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
		£000	£000	£000	£000	£000	£000
Central services to the public		26,492	(21,061)	5,431	27,770	(25,500)	2,270
Cultural and Related Services		14,356	(4,647)	9,709	14,398	(3,255)	11,143
Environment and Regulatory Services		35,624	(7,400)	28,224	32,375	(5,111)	27,264
Planning Services		14,312	(8,335)	5,977	12,115	(6,170)	5,945
Education and children's services		216,830	(163,700)	53,130	212,266	(145,477)	66,789
Highways and transport services		39,467	(36,081)	3,386	37,042	(35,081)	1,961
Local authority housing (HRA)		66,932	(80,217)	(13,285)	70,823	(83,905)	(13,082)
Other housing services		182,600	(171,881)	10,719	181,909	(167,333)	14,576
Adult social care		110,808	(28,986)	81,822	105,591	(27,170)	78,421
Corporate and democratic core		7,064	(203)	6,861	5,770	(131)	5,639
Non distributed costs - General		3,760	(1,894)	1,866	4,877	(1,834)	3,043
Cost of Services		**718,245**	**(524,405)**	**193,840**	**704,936**	**(500,967)**	**203,969**
Other Operating Expenditure	11	12,643	(1,903)	10,740	4,327	(36,877)	(32,550)
Financing and investment income and expenditure: Other	12	63,422	(38,904)	24,518	77,132	(62,753)	14,379
Financing and investment income and expenditure: HRA Self-Financing Settlement (Premium)	10/12	-	-	-	53,989	-	53,989
Taxation and non-specific grant income: Other	13	-	(269,109)	(269,109)	-	(230,688)	(230,688)
Taxation and non-specific grant income: HRA Self-Financing Settlement (Principal and Premium Credit)	10/13	-	-	-	-	(251,343)	(251,343)
(Surplus) or Deficit on Provision of Services				**(40,011)**			**(242,244)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets				(1,401)			(20,113)
Surplus or deficit on revaluation of available for sale financial assets				-			-
Actuarial gains/losses on pension assets / liabilities	34			76,429			90,279
Schools converted to Academy Status	10			4,360			2,628
Other Comprehensive Income and Expenditure				**79,388**			**72,794**
Total Comprehensive Income and Expenditure				**39,377**			**(169,450)**

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 2013**	**31 March 2012**	**1 April 2011**
		£000	£000	£000
Property, Plant and Equipment	14	1,346,657	1,393,132	1,391,526
Heritage Assets	17	8,023	8,023	8,023
Investment Property	15	70,227	77,520	62,448
Intangible Assets	16	931	1,194	1,398
Assets Held for Sale		-	-	-
Long Term Investments	27	100	100	2,816
Long Term Debtors	27	2,256	2,373	3,312
Long Term Assets		**1,428,194**	**1,482,342**	**1,469,523**
Assets Held for Sale	23	15,227	19,313	234
Short Term Investments	27	122,197	25,503	30,413
Short Term Debtors	21	67,038	65,371	62,055
Inventories		114	190	209
Cash and Cash Equivalents	22	104,946	101,016	58,600
Current Assets		**309,522**	**211,393**	**151,511**
Bank Overdraft	22	(8,394)	(849)	(4,329)
Short Term Borrowing	27	(15,513)	(3,891)	(21,855)
Short Term Creditors	24	(118,543)	(107,803)	(95,500)
Provisions	26	(3,593)	(865)	(590)
Grants and Contributions Receipts in Advance	37	(6,602)	(2,020)	(4,756)
Current Liabilities		**(152,645)**	**(115,428)**	**(127,030)**
Long Term Borrowing	27	(250,751)	(262,303)	(459,670)
Long Term Creditors	27	(100)	(100)	(100)
Provisions	26	(1,757)	(3,038)	(2,644)
Other Long Term Liabilities	25	(513,594)	(431,460)	(337,580)
Grants and Contributions Receipts in Advance	37	(18,048)	(41,208)	(23,263)
Long Term Liabilities		**(784,250)**	**(738,109)**	**(823,257)**
NET ASSETS		**800,821**	**840,198**	**670,747**
Usable Reserves	7	(177,210)	(97,198)	(85,239)
Unusable Reserves	7	(623,611)	(743,000)	(585,508)
TOTAL RESERVES		**(800,821)**	**(840,198)**	**(670,747)**

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 2013	31 March 2012
		£000	£000
Net surplus or (deficit) on the provision of services		40,011	242,244
Adjustments to net surplus or deficit on the provision of services for non-cash movements	29	58,533	(172,609)
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(54,970)	(47,691)
Net cash flows from Operating Activities	29	**43,574**	**21,944**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(43,521)	(55,130)
Purchase of short-term and long-term investments		(96,694)	-
Proceeds from sale of property, plant and equipment, investment property and intangible assets		54,970	47,691
Proceeds from short-term and long-term investments		-	7,626
Other receipts from investing activities		54,937	32,046
Net cash flows from Investing Activities		**(30,308)**	**32,233**
Financing Activities			
Cash receipts of short and long term borrowing		-	-
Other receipts from financing activities		256	10,089
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(1,947)	(885)
Repayments of short and long term borrowing		286	(17,485)
Other payments for financing activities		(15,477)	-
Net cash flows from Financing Activities		**(16,882)**	**(8,281)**
Net increase or (decrease) in cash and cash equivalents		**(3,616)**	**45,896**
Cash and cash equivalents at the beginning of the reporting period		100,167	54,271
Cash and cash equivalents at the end of the reporting period	22	**96,551**	**100,167**

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 2012/13 (the Code) and the Service Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013.

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 sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

• 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.

1. Statement of Accounting Policies (cont'd)

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.

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 2012/13 (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.

1. Statement of Accounting Policies (cont'd)

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.

vii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that 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).

1. Statement of Accounting Policies (cont'd)

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).

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).

1. Statement of Accounting Policies (cont'd)

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

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

• All Buildings (including Council dwellings) are depreciated over periods ranging from 5 to 60 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 2 to 25 years.
• Community Assets are generally depreciated over a 3 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.

1. Statement of Accounting Policies (cont'd)

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.

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). 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.

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.

1. Statement of Accounting Policies (cont'd)

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.

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).

1. Statement of Accounting Policies (cont'd)

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.

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.

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 the Council's existing PFI scheme (which provides services for vulnerable older people in the borough) the liability was written down by an initial capital contribution of £2.9m.

Non-current 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 8-17% 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.

1. Statement of Accounting Policies (cont'd)

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.

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.

1. Statement of Accounting Policies (cont'd)

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.

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 material 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.

1. Statement of Accounting Policies (cont'd)

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.

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. (Since 2011/12 this has included the former Hammersmith & Fulham Homes (HFH) Pension Fund).

• Also under the Local Government Pension Scheme: the London Pensions Fund Authority (LPFA) Pension Fund, administered by the LPFA.

• 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.

1. Statement of Accounting Policies (cont'd)

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 4.4% (5.5% in 2011/12). 2012/13 is based on the annualised yield at the 20 year point on the Merill Lynch AA rated corporate bond curve. This is updated from previous years when the indicative rate of return on high quality corporate bond iBoxx AA rated over 15 year corporate bond index was used, but remains consistent with IAS19 requirements.
• 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.
- **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.

1. Statement of Accounting Policies (cont'd)

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.

xviii. 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.

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.

1. Statement of Accounting Policies (cont'd)

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 2012/13. Companies in which the Council has an interest are detailed in Note 39 to the Core Financial Statements. Group Accounts have not been 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.

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.

1. Statement of Accounting Policies (cont'd)

xxiv. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial position.

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

The Code of Practice on Local Authority Accounting in the United Kingdom has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

• IAS1 Presentation of Financial Statements - The changes are presentational only and require authorities to disclose separately the gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services.
• IAS 12 Income Taxes - This change in the accounting policy relates to deferred tax. It is not considered that this change will affect the Statement of Accounts as the Council does not prepare Group Accounts.
• IFRS 7 Financial Instruments: Disclosures - The change in accounting policy is in relation to the offsetting of financial assets and liabilities. No significant changes are expected as the clarifications regarding the presentation of bank overdrafts does not impact the Council.

The adoption of the 2011 Amendments to IAS19 Employee Benefits by the Code will result in changes to the related accounting policies from 1 April 2013. The key changes affecting Local Government Pension Scheme (LGPS) employers relate to the charges to the Comprehensive Income and Expenditure account (CIES). In summary the main non-presentational changes are:
• removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate
• administration expenses are now accounted for within the CIES charge (previously this was deducted from the actual and expected returns on assets).
For 2012/13 this would have resulted in a £8.9m expense increase in the CIES and a £0.6m increase in the actual return on scheme assets. However, there would be no impact on the Council's overall balance sheet as these costs are met by the Pension Fund.

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:

Funding

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 as a result of a need to close facilities and reduce levels of service provision.

Joint-Working Arrangements

The Council is entering into joint working 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.

3. Critical Judgements in Applying Accounting Policies (cont'd)

Accounting for Schools - Balance Sheet Recognition of Schools

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.

Accounting for Schools - Transfer of Schools to Academy Status

When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced.

Accounting for Schools - Transfer of Capital Grants

When an unconditional capital grant is passed to a school within the Council's accounting boundary, and remains unspent at the year-end, the Council has taken a view to account for this within Schools' Reserves as opposed to Capital Grants Unapplied.

Capital Charges associated with HRA Non-Dwelling Assets

In 2012/13, as part of transitional funding arrangements in the Housing Revenue Account (HRA), the Department for Local Government and Communities (DCLG) determined that the depreciation of non-dwelling assets should impact on the HRA balance. This determination was later extended to cover revaluation losses. Previously, such costs were neutralised to the Capital Adjustment Account (CAA). The Council, in complying with this determination, has taken a view that, in order to apply it consistently, it should also apply to revaluation gains. Gains incurred on investment properties have been reserved in an earmarked reserve - seeing that no revaluation reserve is available - which will be held to mitigate against future potential losses. The Council has taken a view that the DCLG determination does not extend gains and losses incurred on disposal. The Council has not adjusted the CAA to remove any funding associated with non-dwellings which has been reserved there.

Investment Properties

Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.

Group Accounts

The group boundaries have been estimated using the criteria associated with the Code of Practice. In line with the Code the Council has not identified any companies within the group boundary that would require it to complete Group Accounts on grounds of materiality.

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 2013 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 2013/14 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 net book value of Council Dwellings (£88.6 million) would result in a reduction of the Revaluation Reserve of £2.8 million and a £85.9 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 £1.293 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 Reporting Period

The audited Statement of Accounts have been prepared up to 31 March 2013. They were authorised for issue by the Executive Director of Finance & Corporate Governance on 26 September 2013. There are no material adjusting or non-adjusting 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 SeRCOP. However, decisions about resource allocation are taken by the Council's Business Board 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 2012/13	**Children's Services (Including Unaccompanied Asylum Seekers Children) £000**	**Adult Social Care £000**	**Housing and Regeneration £000**	**Finance and Corporate Services £000**	**Centrally Managed Budgets £000**	**Transport and Technical Services (Including Controlled Parking Services) £000**	**Environment, Leisure & Residents' Services £000**	**Housing Revenue Account £000**	**Total £000**
Customer & Client Receipts	(3,674)	(1,174)	(11,909)	(2,049)	(836)	(40,744)	(8,692)	(78,030)	(147,108)
Government Grants	(129,959)	(361)	(3,518)	(916)	(164,786)	-	-	(5,437)	(304,977)
Internal Recharge Income	(591)	(1,942)	(287)	(4,501)	-	(8,752)	(3,016)	(96)	(19,185)
Other Reimbursements & Contributions	(24,134)	(23,600)	(1,293)	(1,315)	(14,426)	(4,005)	(2,910)	(1,194)	(72,877)
Total Income	**(158,358)**	**(27,077)**	**(17,007)**	**(8,781)**	**(180,048)**	**(53,501)**	**(14,618)**	**(84,757)**	**(544,147)**
Capital Charges	15,880	801	1,317	608	-	12,186	2,457	16,209	49,458
Employee Expenses	107,069	15,619	7,574	20,724	10,208	19,177	8,796	16,016	205,183
Other	-	1,287	-	127	5,378	30	972	14,939	22,733
Premises Related Expenditure	14,213	972	7,687	3	18	7,062	5,594	21,767	57,316
Supplies and Services	28,813	22,246	2,091	4,903	6,791	7,613	2,668	5,641	80,766
Support Services	9,058	4,525	1,951	(29,329)	3,459	(920)	4,457	6,430	(369)
Third Party Payments	31,208	46,675	1,516	21,016	-	8,779	23,549	416	133,159
Transfer Payments	3,322	9,002	2,500	9,052	176,425	1	-	322	200,624
Transport Related Expenditure	1,403	924	18	31	1	366	2,149	221	5,113
Use of Balances & Reserves	11,549	-	-	-	-	-	-	2,796	14,345
Total Expenditure	**222,515**	**102,051**	**24,654**	**27,135**	**202,280**	**54,294**	**50,642**	**84,757**	**768,328**
Net Expenditure	**64,157**	**74,974**	**7,647**	**18,354**	**22,232**	**793**	**36,024**	**-**	**224,181**

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

Department Income and Expenditure 2011/12	Children's Services (Including Unaccompanied Asylum Seekers Children) £000	Adult Social Care £000	Housing and Regeneration £000	Finance and Corporate Services £000	Centrally Managed Budgets £000	Transport and Technical Services (Including Controlled Parking Services) £000	Environment, Leisure & 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**

(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.

	2012/13 £000	2011/12 £000
Net expenditure in the Department Analysis	224,181	209,883
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	(321)	-
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(30,020)	(5,914)
Cost of Services in Comprehensive Income and Expenditure Statement	**193,840**	**203,969**

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.

2012/13	Department Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES Net Cost of Services £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
Customer & Client Receipts	(147,108)	-	-	2,922	-	(144,186)	(2,922)	(147,108)
Government Grants	(304,977)	-	-	5,392	-	(299,585)	(90,200)	(389,785)
Internal Recharge Income	(19,185)	-	-	2,579	-	(16,606)	(2,579)	(19,185)
Other Reimbursements & Contributions	(72,877)	-	-	730	-	(72,147)	(2,091)	(74,238)
Interest and Investment Income	-	-	-	-	-	-	(1,576)	(1,576)
Pension Expected Return on Assets	-	-	-	-	-	-	(35,921)	(35,921)
Other Operating Income	-	-	-	-	-	-	(14)	(14)
Income from Council Tax	-	-	-	-	-	-	(63,223)	(63,223)
Income from NNDR	-	-	-	-	-	-	(114,324)	(114,324)
Total Income	**(544,147)**	**-**	**-**	**11,623**	**-**	**(532,524)**	**(312,850)**	**(845,374)**
Capital Charges	49,458	-	4,836	(73)	-	54,221	73	54,294
Employee Expenses	205,183	-	(5,157)	(999)	-	199,027	999	200,026
Other	22,733	-	-	(22,733)	-	-	-	-
Premises Related Expenditure	57,316	-	-	(167)	-	57,149	167	57,316
Supplies and Services	80,766	-	-	(869)	-	79,897	869	80,766
Support Services	(369)	-	-	(886)	-	(1,255)	886	(369)
Third Party Payments	133,159	-	-	(1,436)	-	131,723	1,256	132,979
Transfer Payments	200,624	-	-	-	-	200,624	-	200,624
Transport Related Expenditure	5,113	-	-	(153)	-	4,960	153	5,113
Use of Balances & Reserves	14,345	-	-	(14,327)	-	18	-	18
Interest Payments	-	-	-	-	-	-	16,301	16,301
Precepts and Levies	-	-	-	-	-	-	2,361	2,361
Pension Interest Cost	-	-	-	-	-	-	47,121	47,121
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	1,825	1,825
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	8,396	8,396
Income and expenditure in relation to investment properties and changes in their fair value	-	-	-	-	-	-	(1,408)	(1,408)
Total Expenditure	**768,328**	**-**	**(321)**	**(41,643)**	**-**	**726,364**	**78,999**	**805,363**
Surplus or deficit on the provision of services	**224,181**	**-**	**(321)**	**(30,020)**	**-**	**193,840**	**(233,851)**	**(40,011)**

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

2011/12	Department Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES Net Cost of Services £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
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)**

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 2011/12	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	Capital Reserves £000	Total Usable Reserves £000
Balance at 1 April 2011	**(16,070)**	**(13,675)**	**(42,423)**	**(5,511)**	**(3,107)**	**-**	**(3,456)**	**(997)**	**(85,239)**
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 on Provision of Services	-	-	-	-	-	-	-	-	**-**
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	**-**
Actuarial gains or losses on pensions assets and liabilities	-	-	-	-	-	-	-	-	**-**
Schools converted to Academy Status	-	2,628	-	-	-	-	-	-	**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	-	(47,753)	-	**(847)**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(109)	-	-	-	(203)	-	312	-	**-**
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of	-	-	-	-	-	-	-	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(127)	-	**(127)**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (Deferred Costs)	(672)	-	-	-	(1,572)	-	-	-	**(2,244)**
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(1,915)	-	-	-	-	-	1,915	-	**-**
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	3,066	-	-	-	-	-	-	-	**3,066**
Voluntary repayment of debt (above Minimum Revenue Provision)	249	-	-	-	-	-	-	-	**249**
HRA Self-Financing Resettlement	-	-	-	-	197,354	-	-	-	**197,354**
Statutory provision for finance lease liabilities (including PFI)	888	-	-	-	-	-	-	-	**888**
Voluntary application of capital receipts	-	-	-	-	-	-	18,769	-	**18,769**
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	(27,894)	-	-	-	(1,055)	-	-	-	**(28,949)**
Employer's pensions contributions and direct payments to pensioners	20,999	-	-	-	1,646	-	-	-	**22,645**
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	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	208	-	-	-	198	-	-	-	**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**
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	136	-	-	-	(92)	-	-	-	**44**
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	**11**
(Increase)/Decrease in year	**(1,368)**	**1,192**	**(10,000)**	**1,728**	**(1,923)**	**-**	**(1,705)**	**117**	**(11,959)**
Balance at 31 March 2012 carried forward	**(17,438)**	**(12,483)**	**(52,423)**	**(3,783)**	**(5,030)**	**-**	**(5,161)**	**(880)**	**(97,198)**

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

Movement on Usable Reserves 2012/13

	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	Capital Reserves £000	Total Usable Reserves £000
Balance at 1 April 2012	**(17,438)**	**(12,483)**	**(52,423)**	**(3,783)**	**(5,030)**	**-**	**(5,161)**	**(880)**	**(97,198)**
Surplus or (deficit) on the provision of services	(13,647)	-	-	-	(26,364)	-	-	-	**(40,011)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	-	-	-	-	-	-	-	-	**-**
Impairment losses on non-current assets charged to the Revaluation Reserve	-	-	-	-	-	-	-	-	**-**
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	**-**
Actuarial gains or losses on pensions assets and liabilities	-	-	-	-	-	-	-	-	**-**
Schools converted to Academy Status	-	4,360	-	-	-	-	-	-	**4,360**
Total Comprehensive Income and Expenditure	**(13,647)**	**4,360**	**-**	**-**	**(26,364)**	**-**	**-**	**-**	**(35,651)**
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(19,464)	-	-	-	(395)	-	-	-	**(19,859)**
Amortisation of Intangible Assets	(253)	-	-	-	(48)	-	-	-	**(301)**
Dwelling Depreciation	-	-	-	-	15,350	(15,350)	-	-	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(15,034)	(315)	-	-	**(15,349)**
Impairment/Revaluation losses (charged to the CIES)	(5,908)	-	-	-	(356)	-	-	-	**(6,264)**
Revenue expenditure funded from capital under statute (REFCUS)	(12,460)	-	-	-	(60)	-	-	-	**(12,520)**
Movements in the market value of investment properties	1,103	-	-	-	(940)	-	-	-	**163**
Difference between fair value depreciation and historical cost depreciation	-	-	-	-	-	-	-	-	**-**
Capital grants and contributions applied	9,946	-	-	217	5,212	-	-	-	**15,375**
Capital grants and contributions applied (REFCUS)	10,660	-	-	76	-	-	-	-	**10,736**
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	19,898	-	**19,898**
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	**-**
Capital expenditure charged against the General Fund and HRA balances	583	844	-	-	-	-	-	-	**1,427**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	9,958	-	-	**9,958**
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	42,729	-	-	(42,729)	-	-	-	-	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(43,879)	-	-	-	(18,570)	-	-	-	**(62,449)**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	16,755	-	-	-	40,166	-	(57,890)	-	**(969)**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(431)	-	-	-	(440)	-	871	-	**-**
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	-	-	-	-	-	-	(81)	-	**(81)**
Deferred costs in respect of disposals transferred to the CAA	(472)	-	-	-	(1,526)	-	-	-	**(1,998)**
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	157	-	**157**
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(1,825)	-	-	-	-	-	1,825	-	**-**
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	2,260	-	-	-	-	-	-	-	**2,260**
Voluntary repayment of debt (above Minimum Revenue Provision)	141	-	-	-	-	-	-	-	**141**
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	**-**
Statutory provision for finance lease liabilities (including PFI)	1,216	-	-	-	-	-	-	-	**1,216**
Voluntary application of capital receipts	-	-	-	-	-	-	19,887	-	**19,887**
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	(25,266)	-	-	-	(1,838)	-	-	-	**(27,104)**
Employer's pensions contributions and direct payments to pensioners	18,365	-	-	-	1,943	-	-	-	**20,308**
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	**-**
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	208	-	-	-	5	-	-	-	**213**
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	648	-	-	-	-	-	-	-	**648**
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	48	-	-	-	98	-	-	-	**146**
Total Adjustments between accounting basis & funding basis under regulations	**(5,296)**	**844**	**-**	**(42,436)**	**23,567**	**(5,707)**	**(15,333)**	**-**	**(44,361)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(18,943)**	**5,204**	**-**	**(42,436)**	**(2,797)**	**(5,707)**	**(15,333)**	**-**	**(80,012)**
Transfers (to)/from Earmarked Reserves (Note 8)	18,381	(11,527)	(10,418)	-	3,564	-	-	-	**0**
(Increase)/Decrease in year	**(562)**	**(6,323)**	**(10,418)**	**(42,436)**	**767**	**(5,707)**	**(15,333)**	**-**	**(80,012)**
Balance at 31 March 2013 carried forward	**(18,000)**	**(18,806)**	**(62,841)**	**(46,219)**	**(4,263)**	**(5,707)**	**(20,494)**	**(880)**	**(177,210)**

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

Movement on Unusable Reserves 2011/12

	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**	**(585,508)**	**(85,239)**	**(670,747)**
Surplus or (deficit) on the provision of services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(242,244)	**(242,244)**
Upward revaluation of assets	(23,854)	-	-	-	-	-	-	(23,854)	-	**(23,854)**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	3,741	-	-	-	-	-	-	3,741	-	**3,741**
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	-	**-**
Actuarial 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	-	(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 REFCUS)	-	(25,179)	-	-	-	-	-	(25,179)	25,179	**-**
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-	**-**
Capital expenditure charged against the General Fund and HRA balances	-	(901)	-	-	-	-	-	(901)	901	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	(12,723)	-	-	-	-	-	(12,723)	12,723	**-**
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	-	11,777	-	-	-	-	-	11,777	(11,777)	**-**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	-	847	-	-	-	-	847	(847)	**-**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	-	-	-	-	-	-	-	-	-	**-**
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)	-	-	-	-	-	-	-	-	-	**-**
Statutory provision for the financing of capital investment (Minimum Revenue 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)	-	-	-	(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)	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 8)	-	(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)**

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

Movement on Unusable Reserves 2012/13

	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 2012	**(76,780)**	**(1,089,162)**	**(2,213)**	**420,244**	**1,389**	**(137)**	**3,659**	**(743,000)**	**(97,198)**	**(840,198)**
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	(40,011)	**(40,011)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(1,401)	-	-	-	-	-	-	(1,401)	-	**(1,401)**
Impairment losses on non-current assets charged to the Revaluation Reserve	-	-	-	-	-	-	-	-	-	**-**
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	-	**-**
Actuarial gains/losses on pension assets / liabilities	-	-	-	76,429	-	-	-	76,429	-	**76,429**
Schools converted to Academy Status	-	-	-	-	-	-	-	-	4,360	**4,360**
Total Comprehensive Income and Expenditure	**(1,401)**	**-**	**-**	**76,429**	**-**	**-**	**-**	**75,028**	**(35,651)**	**39,377**
Adjustments between accounting basis & funding basis under regulations										
Depreciation of Property, Plant and Equipment	-	19,859	-	-	-	-	-	19,859	(19,859)	-
Amortisation of Intangible Assets	-	301	-	-	-	-	-	301	(301)	**-**
Dwelling Depreciation	-	-	-	-	-	-	-	-	-	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	15,349	-	-	-	-	-	15,349	(15,349)	**-**
Impairment/Revaluation losses (charged to the CIES)	-	6,264	-	-	-	-	-	6,264	(6,264)	**-**
Revenue expenditure funded from capital under statute (REFCUS)	-	12,520	-	-	-	-	-	12,520	(12,520)	**-**
Movements in the market value of investment properties	-	(163)	-	-	-	-	-	(163)	163	**-**
Difference between fair value depreciation and historical cost depreciation	1,488	(1,488)	-	-	-	-	-	-	-	**-**
Capital grants and contributions applied	-	(15,375)	-	-	-	-	-	(15,375)	15,375	**-**
Capital grants and contributions applied (REFCUS)	-	(10,736)	-	-	-	-	-	(10,736)	10,736	**-**
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	(19,898)	-	-	-	-	-	(19,898)	19,898	**-**
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-	**-**
Capital expenditure charged against the General Fund and HRA balances	-	(1,427)	-	-	-	-	-	(1,427)	1,427	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	(9,958)	-	-	-	-	-	(9,958)	9,958	**-**
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	-	62,449	-	-	-	-	-	62,449	(62,449)	**-**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	969	-	-	-	-	-	969	(969)	**-**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	-	-	-	-	-	-	-	-	-	**-**
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of	4,695	(4,695)	-	-	-	-	-	-	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	81	-	-	-	-	81	(81)	**-**
Deferred costs in respect of disposals transferred to the CAA	-	1,998	-	-	-	-	-	1,998	(1,998)	**-**
Release of Deferred costs from CAA to UCR upon receipt of cash	-	(157)	-	-	-	-	-	(157)	157	**-**
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)	-	(2,260)	-	-	-	-	-	(2,260)	2,260	**-**
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(141)	-	-	-	-	-	(141)	141	**-**
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	-	**-**
Statutory provision for finance lease liabilities (including PFI)	-	(986)	(230)	-	-	-	-	(1,216)	1,216	**-**
Voluntary application of capital receipts	-	(19,887)	-	-	-	-	-	(19,887)	19,887	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 34)	-	-	-	27,104	-	-	-	27,104	(27,104)	**-**
Employer's pensions contributions and direct payments to pensioners	-	-	-	(20,308)	-	-	-	(20,308)	20,308	**-**
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	-	**-**
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	(213)	-	-	(213)	213	**-**
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	-	-	-	-	-	(648)	-	(648)	648	**-**
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	-	-	-	-	-	-	(146)	(146)	146	**-**
Total Adjustments between accounting basis & funding basis under regulations	**6,183**	**32,538**	**(149)**	**6,796**	**(213)**	**(648)**	**(146)**	**44,361**	**(44,361)**	**-**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**4,782**	**32,538**	**(149)**	**83,225**	**(213)**	**(648)**	**(146)**	**119,389**	**(80,012)**	**39,377**
Transfers (to)/from Earmarked Reserves (Note 8)	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	**4,782**	**32,538**	**(149)**	**83,225**	**(213)**	**(648)**	**(146)**	**119,389**	**(80,012)**	**39,377**
Balance at 31 March 2013 carried forward	**(71,998)**	**(1,056,624)**	**(2,362)**	**503,469**	**1,176**	**(785)**	**3,513**	**(623,611)**	**(177,210)**	**(800,821)**

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 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Movement Between Reserves 2011/12 £000	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Movement Between Reserves 2012/13 £000	Balance at 31 March 2013 £000
	General Fund									
1.	Insurance Fund	(7,615)	284	(388)	-	**(7,719)**	2,728	(2)	-	**(4,993)**
2.	Controlled Parking Fund	(553)	-	(802)	-	**(1,355)**	1,647	(700)	-	**(408)**
3.	Computer Replacement Fund	(916)	254	(89)	(445)	**(1,196)**	56	-	298	**(842)**
4.	IT Infrastructure	(490)	-	(2,323)	-	**(2,813)**	-	-	-	**(2,813)**
5.	Efficiency Projects Reserve	(4,294)	2,363	(3,536)	(213)	**(5,680)**	1,249	(3,230)	-	**(7,661)**
6.	Planned Maintenance	(192)	-	(44)	-	**(236)**	68	(142)	-	**(310)**
7.	Price Pressures	(742)	-	(676)	-	**(1,418)**	-	-	418	**(1,000)**
8.	Debtors/Creditors Review	(80)	-	-	(122)	**(202)**	103	(520)	-	**(619)**
9.	PCT Integration Reserve	(771)	-	(3,943)	-	**(4,714)**	4,714	-	-	**-**
10.	Dilapidations/Office Moves	(2,197)	20	-	-	**(2,177)**	107	(900)	-	**(2,970)**
11.	Housing Benefit	(1,402)	188	-	(15)	**(1,229)**	159	(1,000)	(521)	**(2,591)**
12.	Planning Inquiries	(39)	-	(1)	-	**(40)**	272	(45)	(460)	**(273)**
13.	LPFA Sub Fund	(1,069)	-	-	-	**(1,069)**	-	-	69	**(1,000)**
14.	Single Status	(1,746)	-	(128)	1,874	**-**	-	-	-	**-**
15.	Bishops Park	(1,200)	355	-	-	**(845)**	433	-	-	**(412)**
16.	Performance Reward Grant	(948)	948	-	-	**-**	-	-	-	**-**
17.	Imperial Wharf	(800)	-	-	-	**(800)**	-	-	-	**(800)**
18.	King Street Regeneration	(907)	102	-	-	**(805)**	106	-	-	**(699)**
19.	PFI Reserve	(133)	-	-	-	**(133)**	-	-	-	**(133)**
20.	Temporary Accommodation	(541)	-	-	-	**(541)**	-	(2,965)	-	**(3,506)**
21.	Preventative Services & Early Intervention	(350)	58	-	-	**(292)**	46	-	-	**(246)**
22.	Pressures & Demands	(2,729)	1,794	(2,396)	-	**(3,331)**	969	(1,000)	969	**(2,393)**
23.	Community Safety Reserve	-	-	(22)	-	**(22)**	-	(145)	-	**(167)**
24.	Local Lead Flood Authority	-	-	(123)	-	**(123)**	-	(271)	-	**(394)**
25.	Contribution to Local Election	-	-	(75)	-	**(75)**	-	(75)	-	**(150)**
26.	Temp Accom Health & Safety Implementation	-	-	(196)	-	**(196)**	78	-	-	**(118)**
27.	Human Resources Reserve	-	-	-	(1,874)	**(1,874)**	300	-	574	**(1,000)**
28.	Capital Reserves	-	-	(400)	-	**(400)**	-	-	-	**(400)**
29.	White City Neighbourhood	-	-	(730)	-	**(730)**	394	(200)	-	**(536)**
30.	Supporting People Programme	-	-	-	-	**-**	-	-	(1,989)	**(1,989)**
31.	CHS Pressures and Demands	-	-	-	-	**-**	-	(1,861)	-	**(1,861)**
32.	CHS Triborough Integration	-	-	-	-	**-**	-	(280)	-	**(280)**
33.	CHS Education Excellence	-	-	-	-	**-**	-	(250)	-	**(250)**
34.	MTFS Delivery Risk	-	-	-	-	**-**	-	(994)	(4,887)	**(5,881)**
35.	Legal Fees Reserve	-	-	-	-	**-**	-	(275)	-	**(275)**
36.	Managed Services	-	-	-	-	**-**	-	(1,800)	-	**(1,800)**
37.	VAT Reserve	-	-	-	-	**-**	-	(2,000)	-	**(2,000)**
38.	Support to Children Leaving Care	-	-	-	-	**-**	-	(100)	-	**(100)**
39.	Business Board Reserve	(386)	-	(185)	-	**(571)**	-	-	-	**(571)**
40.	Redundancy Reserves	(1,326)	34	(964)	-	**(2,256)**	-	(651)	408	**(2,499)**
41.	Other Funds	(6,079)	2,139	(761)	734	**(3,967)**	610	(201)	2,159	**(1,399)**
	General Fund Sub-Total	**(37,505)**	**8,539**	**(17,782)**	**(61)**	**(46,809)**	**14,039**	**(19,607)**	**(2,962)**	**(55,339)**
	HRA									
42.	HRA - Regeneration Projects	-	-	(46)	-	**(46)**	46	-	-	**-**
43.	HRA IT Recharges Reserve	-	-	(115)	-	**(115)**	15	(62)	-	**(162)**
44.	HRA Past Service Pension Cost	-	-	-	-	**-**	-	(209)	-	**(209)**
45.	HRA Pay Increase	-	-	-	-	**-**	-	(161)	-	**(161)**
46.	HRA Efficiency Reserve	-	-	-	-	**-**	-	(320)	-	**(320)**
47.	HRA Human Resources Reserve	-	-	-	-	**-**	-	(83)	-	**(83)**
48.	HRA Non-dwellings Impairment Reserve	-	-	-	-	**-**	-	(1,244)	-	**(1,244)**
49.	HRA Strategic Regeneration and Housing Development	-	-	-	-	**-**	-	(1,246)	-	**(1,246)**
50.	HRA Utilities Reserve	-	-	-	-	**-**	-	(300)	-	**(300)**
	HRA Sub-Total	**-**	**-**	**(161)**	**-**	**(161)**	**61**	**(3,625)**	**-**	**(3,725)**
	Revenue Grants									
51.	Migrant Impact Fund	(271)	-	-	-	**(271)**	10	-	-	**(261)**
52.	TFL Street Management	(129)	-	-	-	**(129)**	-	-	-	**(129)**
53.	Supporting People	(1,833)	-	(1,059)	-	**(2,892)**	3	-	2,889	**-**
54.	Homelessness Grant	(577)	360	(129)	1	**(345)**	232	-	-	**(113)**
55.	S106 - Revenue Schemes	(1,405)	56	(102)	-	**(1,451)**	61	(1,365)	-	**(2,755)**
56.	ALSS SFA 2011/12 Allocation	-	-	-	-	-	-	(235)	-	**(235)**
57.	Other Revenue Grants	(703)	427	(149)	60	**(365)**	52	(44)	73	**(284)**
	Sub-Total	**(4,918)**	**843**	**(1,439)**	**61**	**(5,453)**	**358**	**(1,644)**	**2,962**	**(3,777)**
	Total	**(42,423)**	**9,382**	**(19,382)**	**-**	**(52,423)**	**14,458**	**(24,876)**	**-**	**(62,841)**

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

8. 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.	Efficiency Projects Reserve	- this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
6.	Planned Maintenance	- this reserve is an underspend on revenue planned maintenance.
7.	Price Pressures	- to meet unbudgeted pay and price increases
8.	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.
9.	PCT Integration Reserve	- this reserve was set up to fund any potential costs of the integration of the Hammersmith & Fulham PCT.
10.	Dilapidations/Office Moves	- this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
11.	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.
12.	Planning Inquiries	- this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
13.	LPFA Sub Fund	- this reserve has been set aside to cover a potential pensions liability to the LPFA.
14.	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.
15.	Bishops Park	- this reserve has been set aside as part of the Bishops Park lottery funded development scheme.
16.	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.
17.	Imperial Wharf	- this reserve has been set up to under write the construction of Imperial Wharf Overground station.
18.	King Street Regeneration	- this reserve is to meet the preliminary costs that are emerging in connection with the King Street Regeneration.
19.	PFI Reserve	- this reserve has been set up to meet the future indexations costs of the Council's Private Finance Initiative.
20.	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.
21.	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.
22.	Pressures & Demands	- this reserve is to address non-recurring new financial pressures.
23.	Community Safety Reserve	- this is for funding the Integrated Offender Management Support Programme.
24.	Local Lead Flood Authority	- DEFRA grant monies given under the Flood & Water Management Act 2010.
25.	Contribution to Local Election	- funds set aside to fund next local election in 2014.
26.	Temp Accom Health & Safety Implementation	- this reserve is to help fund any budgetary requirements in Temporary Accomodation.
27.	Human Resources Reserve	- this is a reserve to fund any requirements in relation to Human Resources.
28.	Capital Reserve	- this is to facilitate the revenue cost of capital disposals.
29.	White City Neighbourhood	- this reserve is to fund the White City Community Budgets.
30.	Supporting People Programme	- this reserve has been set up to enable the Supporting People programme to be managed over a rolling 3 year cycle in line with the contracts let with service suppliers.
31.	CHS Pressures and Demands	- this reserve is to address non-recurring new financial pressures.
32.	CHS Triborough Integration	- this reserve is to address one off costs arising from tri borough intergration projects
33.	CHS Education Excellence	- this reserve has been set up to cover one off costs related to delivering Education Excellnce
34.	MTFS Delivery Risk	- this reserve has been created to mitigate the risks associated with the implementation of new Medium Term Financial Strategy (MTFS) projects
35.	Legal Fees Reserve	- this reserve has been created to cover future one off legal costs relating to planning and environmental health.
36.	Managed Services	- this reserve has been set up to fund one off costs relating to the implementation of managed services
37.	VAT Reserve	- this reserve is to cover costs incurred as a result of VAT related changes
38.	Support to Children Leaving Care	- this reserve is to fund one off contributions in relation to corporate parenting
39.	Business Board Reserve	- this reserve is to fund projects approved by the HF Business Board
40.	Redundancy Reserves	- these reserves were set up to cover any redundancy costs.
41.	Other Funds	- these comprise a number of other reserves held by various departments of the Council.
42.	HRA - Regeneration Projects	- this is a reserve to fund any costs of disposals exceeding the national cap.
43.	HRA IT Recharges Reserve	- this reserve is to fund any budgetary pressures with IT charges.
44.	HRA Past Service Pension Cost	- this reserve is to provide for adjustments to the HRA past service cost liability
45.	HRA Pay Increase	- this reserve has been established to cover the potential pay inflation
46.	HRA Efficiency Reserve	- this reserve is to provide funding for the one off costs associated with implementing the MTFS transformation programme
47.	HRA Human Resources Reserve	- this is a reserve to fund any requirements in relation to HRA Human Resources.
48.	HRA Non-dwellings Impairment Reserve	- this reserve is to smooth the future impact of non-dwellings impairments on the HRA following the introduction of HRA self-financing.
49.	HRA Strategic Regeneration and Housing Development	- this reserve is to provide for the risk associated the council's strategy and regeneration and housing development initiatives.
50.	HRA Utilities Reserve	- this reserve is to cover the potential impact of applying OFWAT "Water resale order" under which water charges to tenants must be set to equal expenditure incurred by LBHF on a property by property basis.
51.-57.	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 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 2012/13.
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 receipts.
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	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: • 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. 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.
2.	Capital Adjustment Account	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. 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.
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 2012/13

Three local authority maintained schools converted to Academy status in year, resulting in the transfer of land and buildings with a net book value of £34.5m. These transfers have been reflected as disposals in the Council's accounts and have been set out in more detail below.

	2012/13 £'000
Henry Compton Secondary School	16,381
Fulham Cross Secondary School	16,041
Bentworth School	2,097
Total	**34,519**

Transactions in 2011/12

On 28 March 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.

11. Other Operating Expenditure

	2012/13 £000	2011/12 £000
Levies	2,361	2,412
Payments to the Government Housing Capital Receipts Pool	1,825	1,915
Gains/losses on the disposal of non-current assets	8,396	(32,574)
Trading Operations [See Below]	(1,903)	(1,514)
Other Operating Income	61	(2,789)
	10,740	**(32,550)**

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.

	2012/13			2011/12		
	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000
Catering	-	-	-	(9)	53	44
Construction & Property Related Services	(487)	664	177	(637)	1,442	805
Highways Division	(725)	654	(71)	(1,171)	1,090	(81)
Industrial Estates and Misc Properties	(2,406)	276	(2,130)	(2,737)	292	(2,445)
Other	(34)	155	121	(104)	267	163
Net surplus on trading operations	**(3,652)**	**1,749**	**(1,903)**	**(4,658)**	**3,144**	**(1,514)**

12. Financing and Investment Income and Expenditure

	2012/13 £000	2011/12 £000
Interest payable and similar charges	16,301	28,755
Pensions interest cost	47,121	48,377
Expected return on pensions assets	(35,921)	(37,967)
Interest receivable and similar income	(1,575)	(1,705)
Income and expenditure in relation to investment properties and changes in their fair value	(1,408)	(23,081)
	24,518	14,379
HRA Self-Financing Settlement (Premium)	-	53,989
	24,518	**68,368**

13. Taxation and non-specific grant income

	2012/13	2011/12
	£000	£000
Council Tax Income	(63,223)	(65,117)
Non domestic rates	(114,324)	(95,111)
Non-ringfenced government grants	(25,599)	(49,757)
Capital grants and contributions	(65,963)	(20,703)
	(269,109)	(230,688)
HRA Self-Financing Settlement (Principal and Premium Credit)	-	(251,343)
	(269,109)	**(482,031)**

14. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2012/13

	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 2012	897,170	355,383	173,665	29,732	18,552	11,462	-	**1,485,964**	20,150
Additions	25,261	5,154	6,078	309	4,247	1,513	392	**42,954**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	408	362	-	-	-	-	-	**770**	(165)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(13,585)	(5)	-	-	-	(5,908)	-	**(19,498)**	-
Derecognition – disposals	(16,637)	(35,444)	-	-	-	(1,632)	-	**(53,713)**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Assets reclassified (to)/from Held for Sale	(2,097)	(1,053)	-	-	-	(322)	-	**(3,472)**	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	6,059	-	**6,059**	-
Other reclassifications	(3,513)	-	-	-	-	3,513	-	**-**	-
Other movements in cost or valuation	(525)	-	-	-	-	-	-	**(525)**	-
At 31 March 2013	**886,482**	**324,397**	**179,743**	**30,041**	**22,799**	**14,685**	**392**	**1,458,539**	**19,985**
Accumulated Depreciation and Impairment									
At 1 April 2012	-	(5,438)	(62,903)	(21,928)	(2,564)	-	-	**(92,833)**	-
Depreciation charge	(15,350)	(6,630)	(9,744)	(2,148)	(1,337)	-	-	**(35,209)**	(316)
Revaluation	13,838	27	-	-	-	-	-	**13,865**	-
Derecognition – disposals	845	924	-	-	-	-	-	**1,769**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	525	-	-	-	-	-	-	**525**	-
At 31 March 2013	**(142)**	**(11,117)**	**(72,647)**	**(24,076)**	**(3,901)**	**-**	**-**	**(111,883)**	**(316)**
Net Book Value									
at 31 March 2013	**886,340**	**313,280**	**107,096**	**5,965**	**18,898**	**14,685**	**392**	**1,346,656**	**19,669**

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

Movements in 2011/12

	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 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	-	-	(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**

(ii) Depreciation and Useful life

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

Council Dwellings	5 - 60 years
Other Land and Buildings	10 - 60 years
Infrastructure	3 - 40 years
Vehicles, Plant, Furniture & Equipment	2 - 25 years
Community Assets	3 - 73 years

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

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

The amount charged to services in 2012/13 was:	£000
Central Services to the Public	110
Cultural & Related Services	2,449
Environmental & Regulatory Services	969
Planning Services	874
Education and Children's Services	5,316
Highways and Transport Services	8,523
HRA	15,744
Other Housing Services	95
Adult Social Care	1,030
Non-Distributed Costs	26
Corporate & Democratic Core	-
Trading Operations	73
	35,209

(iii) Effect of Changes in Estimates

In 2012/13 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 2012.

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	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	1,355,275	351,106	107,096	5,965	18,898	12,131	392	**1,850,863**
Carried at Historical Cost	-	-	107,096	5,965	18,898	-	392	**132,351**
Valued at fair value as at:								
31 March 2013	886,340	1,597	-	-	-	9,841	-	**897,778**
31 March 2012	-	170,319	-	-	-	4,134	-	**174,453**
31 March 2011	-	141,089	-	-	-	710	-	**141,799**
31 March 2010	-	-	-	-	-	-	-	**-**
31 March 2009	-	276	-	-	-	-	-	**276**
	886,340	**313,281**	**107,096**	**5,965**	**18,898**	**14,685**	**392**	**1,346,657**

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

(iv) Revaluation continued.

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 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 2012 was commissioned by the Council, and completed by the external Valuer. A proportion of the assets were revalued downwards and revaluation losses in excess of the Revaluation Reserve balances were debited to the Surplus or Deficit on the Provision of Services.

(v) Impairment and Valuation Losses

A review of fixed assets was carried out for 2012/13 and there were no cases of impairment of assets to report.

CIPFA confirmed in April 2013, that impairment and valuation losses not covered by Revaluation Reserve in relation to HRA dwellings - are charged to the HRA Income & Expenditure Statement but during the 5-year transition period (following HRA Self-Financing) will be reversible through a transfer to the Capital Adjustment Account (CAA) via the Movement in Reserves Statement (MIRS).

For impairment and valuation losses not covered by Revaluation Reserve in relation to HRA non-dwellings - no provision exists to reverse the charges (both during and after transition).

The CIPFA Code and associated Guidance Notes for Practitioners require the Council to treat the 2012/13 revaluation loss (net total loss of -£1.2m) by firstly drawing down on any existing revaluation reserve balances (+£2.6m) for the revaluation losses. Secondly, the remaining revaluation loss (-£1.4m) will be charged directly to the Comprehensive Income and Expenditure account, to the Surplus or Deficit on the Provision of Services.

Revaluation Loss - PPE

	2012/13	2011/12
	£000	£000
Revaluation Reserve	2,612	18,902
Comprehensive Income and Expenditure account, Surplus or Deficit on the Provision of Services	(1,428)	(24,801)
Net Total	**1,184**	**(5,899)**

(vi) Capital Commitments

	2012/13	2011/12
Service Department	£000	£000
Children's Services	13,871	-
Environment, Leisure & Resident Services	-	3,038
Housing Revenue Account	-	8,700
Housing and Regeneration	1,608	2,200
	15,479	**13,938**

Capital commitments on major schemes at 31 March 2013 total £15.5m across the Council. The Housing and Regeneration Service commitment relates to Edward Woods estate regeneration - Tower Block Overcladding £1.6m. The Housing Revenue Account contractual commitment for Decent Homes Programme - Partnering framework is less than £1m so no disclosure is made for 2012/13. Within Children's Service, the Lyric Theatre has contractual commitments of £13.9m.

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:

	2012/13	2011/12
	£000	£000
Rental income from investment property	(5,427)	(6,200)
Direct operating expenses (including repairs and maintenance) arising from investment properties	129	176
Net (gain)/loss	**(5,298)**	**(6,024)**

15. Investment Properties (cont'd)

(i) Revaluation
In 2012/13 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 2013. 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 2013 £000	31 March 2012 £000
Balance at start of the year	77,520	62,448
Additions:		
• Purchases	-	-
• Construction	-	-
• Subsequent expenditure	291	772
Disposals	(2,027)	(3,320)
Net gains/losses from fair value adjustments	2,348	23,080
Transfers:	-	-
• to/from Inventories	-	-
• to/from Property, Plant and Equipment	(6,059)	2,574
• to/from Assets Held for Sale	(1,846)	(8,050)
Other changes	-	16
Balance at end of the year	**70,227**	**77,520**

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 is not accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both internally generated and purchased assets.

(i) Movements on Balances

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

	2012/13			2011/12		
	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	-	3,728	3,728	-	3,666	3,666
• Accumulated amortisation	-	(2,534)	(2,534)	-	(2,268)	(2,268)
Net carrying amount at start of year	**-**	**1,194**	**1,194**	**-**	**1,398**	**1,398**
Additions:						
• Internal development	31	-	31	-	-	-
• Purchases	-	7	7	-	97	97
Amortisation for the period	-	(301)	(301)	-	(269)	(269)
Amortisation transferred to/(from) PPE	-	-	-	-	4	4
Other changes	-	-	-	-	(36)	(36)
Net carrying amount at end of year	**31**	**900**	**931**	**-**	**1,194**	**1,194**
Comprising:						
• Gross carrying amounts	31	3,735	3,766	-	3,728	3,728
• Accumulated amortisation	-	(2,835)	(2,835)	-	(2,534)	(2,534)
	31	**900**	**931**	**-**	**1,194**	**1,194**

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

16. Intangible Assets (cont'd)

(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 amount charged to services in 2012/13 was:

	£000
Central Services to the Public	-
Cultural & Related Services	23
Environmental & Regulatory Services	28
Planning Services	39
Education and Children's Services	59
Highways and Transport Services	30
HRA	48
Other Housing Services	21
Adult Social Care	53
Non-Distributed Costs	-
Corporate & Democratic Core	-
Trading Operations	-
	301

(iii) Effect of Changes in Estimates

In 2012/13 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 2012	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 2013	**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, which includes works by J W Waterhouse and E C Burne-Jones. 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.

17. Heritage Assets (cont'd)

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, and 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.

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 was reported for 2011/12. Since a valuation of the heritage assets was carried out in 2011/12 it has not been necessary to carry out a valuation for 2012/13 mainly due to economic cost reasons.

(ii) Further analysis

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

	Art Collections (i) £000	Books & Printed Materials (ii) £000	Ceramics & Glass (iii) £000	Other Heritage Assets (iv) £000	Total £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 2013	**7,688**	**131**	**118**	**86**	**8,023**

i 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.

ii 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.

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

iv 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.

17. Heritage Assets (cont'd)

Mylne Bequest

This is a collection of mainly silver dinnerware, plated objects and manuscripts bequeathed by a Jessy Mylne and located in the Lillia 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. This is 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.

Other Information

There were no heritage assets donations made during 2012/13, of significant monetary value. Small donations to the archives comprise of printed paper items including statutory and other Council records from the community. The contents of the asset portfolio now include these small donations. There have been no disposals of heritage assets in 2012/13. The main Cecil French bequest has not suffered impairment in value; it remains in storage but is currently available for public viewings at Leighton House, Kensington. Some external requests have been received for asset loans to other organisations, usually of significant master paintings. These loans have been kept to a minimum with the appropriate insurance considerations reviewed prior to any loan outside of the host place of exhibition or storage.

18. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), 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.

	2012/13 £000	2011/12 £000
Opening Capital Financing Requirement	333,236	551,109
Capital Investment		
Property, Plant and Equipment	42,968	57,916
Investment Properties	292	772
Intangible Assets	38	98
Revenue Expenditure Funded from Capital under Statute	12,520	5,555
Capital Funding of third-party capital loans	1,575	-
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(19,898)	(25,179)
Government grants and other contributions	(36,078)	(38,054)
Sums set aside from revenue:		
Direct revenue contributions	(1,416)	(901)
MRP/loans fund principal	(3,386)	(4,200)
Voluntary application of Capital Receipts	(19,887)	(18,769)
Deferred costs of capital disposals	1,840	2,243
Debt Resettlement (HRA)	-	(197,354)
Closing Capital Financing Requirement	**311,804**	**333,236**
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(3,245)	(3,744)
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(141)	(249)
Debt Resettlement (HRA)	-	(197,354)
Voluntary application of Capital Receipts to repay debt	(19,887)	(18,769)
Deferred costs of capital disposals	1,840	2,243
Assets acquired under finance leases	-	-
Assets acquired under PFI/PPP contracts	-	-
Increase/(decrease) in Capital Financing Requirement	**(21,433)**	**(217,873)**

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 2013 £000	31 March 2012 £000
Other Land and Buildings	221	326
Vehicles, Plant, Furniture and Equipment	1,821	2,507
	2,042	**2,833**

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 2013 £000	31 March 2012 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	938	856
• non-current	1,390	2,328
Finance costs payable in future years	452	766
Minimum lease payments	**2,780**	**3,950**

The lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Not later than one year	1,169	1,169	938	856
Later than one year and not later than five years	1,611	2,781	1,390	2,328
Later than five years	-	-		-
	2,780	**3,950**	**2,328**	**3,184**

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 these non-cancellable leases in future years are:

	31 March 2013 £000	31 March 2012 £000
Not later than one year	1,521	1,390
Later than one year and not later than five years	2,683	3,151
Later than five years	5,226	5,812
	9,430	**10,353**

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

The Council has sub-let some of the accommodation and equipment held under these leases. At 31st March 2013 the minimum income expected to be received under non-cancellable sub-leases was £333,000 (£422,000 at 31st March 2012).

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

	31 March 2013 £000	31 March 2012 £000
Minimum lease payments	1,742	2,246
Contingent rents	749	774
Sublease payments receivable	(100)	(118)
	2,391	**2,902**

Council as Lessor

Finance Leases

The Council has one property let on a long term commercial lease which qualify as a finance lease. The Council has a gross investment in the 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. The gross investment is made up of the following amounts:

	31 March 2013 £000	31 March 2012 £000
Investment in Lease		
• current	1	1
• non-current	1,327	1,327
Unearned finance income	10,122	10,255
Unguaranteed residual value of property	890	890
Gross investment in the lease	**12,340**	**12,473**

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

	Gross Investment in the Lease		Minimum Lease Payments (Net Present Values)	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Not later than one year	134	134	126	126
Later than one year and not later than five years	534	534	437	437
Later than five years	11,672	11,805	1,655	1,655
	12,340	**12,473**	**2,218**	**2,218**

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 2012/13 £310,000 contingent rents were receivable by the council (£415,000 in 2011/12).

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

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

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

	31 March 2013 £000	31 March 2012 £000
Not later than one year	1,511	2,275
Later than one year and not later than five years	5,185	7,553
Later than five years	10,240	24,652
	16,936	**34,480**

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 2012/13 £75,000 contingent rents were receivable by the Council (2011/12 £320,000).

20. Private Finance Initiative

2012/13 was the eighth year of a 25-year Private Finance Initative (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. (On 1 April 2013 Hammersmith & Fulham PCT were disbanded and replaced by Hammersmith & Fulham Clinical Commissioning Group in the agreement).

At the end of the contract ownership of the homes reverts to the Council. There have been no variations made to the contract in 2012/13. 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 2013 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment for Services £000	Liability £000	Interest £000	Total £000
Payable in 2013/14	5,312	146	1,270	6,728
Payable within two to five years	21,645	802	4,863	27,310
Payable within six to ten years	29,644	1,786	5,294	36,724
Payable within eleven to fifteen years	32,982	3,442	3,639	40,063
Payable within sixteen to twenty years	16,810	2,704	754	20,268
	106,393	**8,880**	**15,820**	**131,093**

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:

	2012/13 £000	2011/12 £000
Balance outstanding at start of year	9,009	9,123
Payments during the year	(129)	(114)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	**8,880**	**9,009**

21. Debtors

	31 March 2013 £000	31 March 2012 £000
Central government bodies	15,689	14,573
Other local authorities	12,441	2,352
NHS bodies	1,932	3,519
Public corporations and trading funds	20	12
Other entities and individuals	36,956	44,915
Total	**67,038**	**65,371**

22. Cash and Cash Equivalents

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

	Current Assets	
	31 March 2013 £000	31 March 2012 £000
Cash held by the Council	50	534
Bank current accounts	1,723	2,560
School bank accounts	18,655	13,622
Short-term deposits	84,518	84,300
Total	**104,946**	**101,016**

	Current Liabilities	
	31 March 2013 £000	31 March 2012 £000
Bank overdraft*	(8,394)	(849)
	(8,394)	**(849)**
Net Cash and Cash Equivalents	**96,552**	**100,167**

*The year-end bank overdraft reflects the bank position including all outstanding and unpresented items, LBHF do not operate a physical bank overdraft as part of its cash management policy. This presentation is a technical requirement under IFRS.

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 2013 £000	31 March 2012 £000
Balance outstanding at start of year	19,313	234
Assets newly classified as held for sale:		
• Property, Plant and Equipment	3,486	11,263
• Investment Properties	1,846	8,050
Assets sold	(9,418)	(234)
Balance outstanding at year-end	**15,227**	**19,313**

24. Creditors

	31 March 2013 £000	31 March 2012 £000
Central government bodies	(17,558)	(19,604)
Other local authorities	(7,407)	(9,346)
NHS bodies	(8,511)	(635)
Public corporations and trading funds	-	(35)
Other entities and individuals	(85,067)	(78,183)
Total	**(118,543)**	**(107,803)**

25. Other Long Term Liabilities

	31 March 2013 £000	31 March 2012 £000
Net Pensions Liability	(503,470)	(420,245)
Long Term Lease Liability	(10,124)	(11,208)
Deferred Liabilities	-	(7)
TOTAL	**(513,594)**	**(431,460)**

26. Provisions

	Insurance £000	Other Provisions £000	Total £000
Balance at 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 discounting	-	-	-
Balance at 31 March 2012	**(865)**	**(3,038)**	**(3,903)**
Additional provisions	(2,728)	(1,049)	(3,777)
Amounts used	-	370	370
Unused amounts reversed	-	1,960	1,960
Unwinding of discounting	-	-	-
Balance at 31 March 2013	**(3,593)**	**(1,757)**	**(5,350)**
Of which:			
Next twelve months	(3,593)	-	(3,593)
Over twelve months	-	(1,757)	(1,757)
Balance at 31 March 2013	**(3,593)**	**(1,757)**	**(5,350)**

Insurance

The Council has increased the insurance provision to £3.593m (held for known future insurance claims resulting from the Authority's self-insurance of liability risks and fire damage) as a result of a full actuarial assessment of the Insurance Fund position as at 31 March 2013. The updated provision is based on figures from the actuarial report and reflects claims they have currently received for which they expect payment in the next 12 months.

During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. This Insurance provision includes £0.430m for an expected levy in 2013/14 in respect of this arrangement.

Other Provisions comprise:

- £1.309m is held in respect of the PFI inflation rate which the Council is negotiating with the contractor.
- £0.175m to cover potential shortfalls in funding for Specific Childcare
- £0.158m for legal fees and disbursements regarding disrepair cases
- £0.115m for other 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 2013 £000	31 March 2012 £000 (Restated)	31 March 2013 £000	31 March 2012 £000 (Restated)
Financial Assets: Loans and Receivables				
Investments	100	100	122,197	25,503
Cash & cash equivalents	-	-	104,946	101,016
Long Term Debtors	2,256	2,372	-	-
Trade Debtors	-	-	59,055	60,081
Total	**2,356**	**2,472**	**286,198**	**186,600**
Financial Liabilities : Measured at amortised cost				
Borrowings	(250,751)	(262,302)	(15,513)	(3,891)
Bank overdraft	-	-	(8,394)	(849)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(18,594)	(22,429)
Total	**(250,851)**	**(262,402)**	**(42,501)**	**(27,169)**
Other Liabilities				
PFI & Finance Lease liabilities	**(10,124)**	**(11,208)**	**(1,084)**	**(985)**

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 allowance for bad debts, see paragraph on Credit Risk in Note 28 below, but excluding outstanding balances to/from Government Departments, debts arising from taxation demands and monies received or paid in advance. Further analysis of PFI and Finance Lease liabilities is given in Notes 19 and 20.

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2012/13 or previous years.

(iii) Income, Expense, Gains and Losses

	2012/13			2011/12		
	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	16,301	-	16,301	26,646	-	26,646
Losses on derecognition	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**16,301**	**-**	**16,301**	**26,646**	**-**	**26,646**
Interest income	-	(1,576)	(1,576)	-	(1,705)	(1,705)
Increases in fair value	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-
Fee income	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	**-**	**(1,576)**	**(1,576)**	**-**	**(1,705)**	**(1,705)**
Net gain/(loss) for the year	**16,301**	**(1,576)**	**14,725**	**26,646**	**(1,705)**	**24,941**

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 standard new loan rates published by the Debt Management Office (DMO) on 31st March 2013.
- 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 31/3/2013 includes outstanding mortgages of £145k (£278k 31/3/2012) and a long term debtor of £2,092k (£2,094k at 31/3/2012) in respect of the Council's finance leases where the Council is the lessor. 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. Therefore any difference between carrying and fair value on long term debtors would be insignificant.

£100k of the Long Term investment at 31/3/2013 (£100k 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 (excluding any Cash or Cash Equivalents) are as follows:

	31 March 2013		31 March 2012	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PWLB Debt	(262,067)	(296,564)	(262,067)	(291,736)
Total	**(262,067)**	**(296,564)**	**(262,067)**	**(291,736)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	122,197	122,197	25,503	25,503
Money market loans greater than one year	-	-	-	-
Total	**122,197**	**122,197**	**25,503**	**25,503**

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 authority 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 repayment rate were to be used the fair value would be £341,758,935 at 31 March 2013.

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

27. Financial Instruments (cont'd)

At 31st March 2013, 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 (Credit Default Swaps) 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
Fitch	A-	F2
Moody's	A3	P-2
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 banks 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 2013 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 £32.89 million at 31/3/2013 (£32.65 million at 31/3/2012). 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 2013 £000	31 March 2012 £000
Less than three months	37,263	27,397
Three to six months	2,381	6,049
Six months to one year	3,642	6,805
More than one year	15,769	19,830
	59,055	**60,081**

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 2013 £000	31 March 2012 £000 (Restated)
Less than one year	(15,513)	(3,891)
Between one and two years	(2,912)	(11,556)
Between two and five years	(30,193)	(25,689)
Between five and ten years	(25,673)	(33,090)
More than ten years	(191,833)	(191,832)
Total	**(266,124)**	**(266,058)**

The maturity analysis of financial assets is as follows:

	31 March 2013 £000	31 March 2012 £000 (Restated)
Less than one year	122,197	25,503
Between one and two years	-	-
Between two and three years	-	-
More than three years	2,356	2,472
Total	**124,553**	**27,975**

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.

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 access 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.

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

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.

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	(1,685)
Impact on the CIES	(1,685)
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)	27,071

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

	2012/13	2011/12
	£000	£000
Adjustment for items included elsewhere in the Cash Flow Statement		
Capital Grants	(54,937)	(32,046)
Adjustment for 'non-cash' items included in the Comprehensive Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	35,514	34,687
Impairments and revaluations	3,916	(3,116)
Value of non-current assets derecognised on disposal	53,971	11,539
Assets transferred to 'Assets Held for Sale'	5,318	19,316
(Increase)/decrease in Capital Debtors	180	(204)
Increase/(decrease) in Capital Creditors	54	(3,451)
(Increase)/decrease in Long-term Debtors	117	939
Net adjustment made in respect of IAS 19 (Pensions)	6,796	5,470
Transfer of assets on the conversion of schools to Academy status	(4,360)	(2,628)
Amortisation of Premia and Discounts	(216)	(493)
Impairment of Financial Instruments	-	-
HRA Debt Resettlement	-	(197,354)
Adjustment for Collection Fund Debtors and Creditors	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors	8,734	(7,783)
Increase/(decrease) in short-term Creditors	16,416	5,696
(Increase)/decrease in 'Assets Held for Sale'	4,086	(19,079)
(Increase)/decrease in Inventories	76	19
Increase/(decrease) in Provisions	1,447	669
Increase/(decrease) in Grants and Contributions Receipts in Advance	(18,578)	15,209
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**58,533**	**(172,609)**

29b. Cash Flow Statement - Operating Activities

The cash inflows/(outflows) for operating activities include the following:

	2012/13	2011/12
	£000	£000
Interest Received	1,531	1,545
Interest Paid	(14,524)	(28,098)

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 Comprehensive Income and Expenditure Statement, since it is not incurred as part of the authority's normal responsibilities. However, a deficit of £510,000 has been made in relation to Thames Water, for whom collection from tenants is carried out. The deficit is included in the Housing Revenue Account Net Cost of Service.

	2012/13	2011/12
	£000	£000
Capital Ambition - Revenue	2,786	3,078
Capital Ambition - Capital	1,706	646
Joint Improvement Programme	961	1,787
Thames Water - Collection from Tenants	4,921	3,974
External Schools - Payroll	5,933	275
Total	**16,307**	**9,760**

31. Members' Allowances

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

	2012/13	2011/12
	£000	£000
Members' Allowances	**809**	**870**

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 are as follows:

	Notes		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
Geoff Alltimes - Chief Executive	1	2012/13	-	-	-	-	-	-
		2011/12	108,945	-	-	-	18,218	127,163
Jane West - Executive Director of Finance & Corporate Governance		2012/13	158,620	18,811	-	-	-	177,431
		2011/12	154,552	13,910	-	-	-	168,462
Nigel Pallace - Bi-borough Executive Director Transportation & Technical Services	2	2012/13	154,098	12,429	-	-	22,616	189,143
		2011/12	149,610	11,221	-	-	39,725	200,556
James Reilly - Chief Executive of CLCH	3	2012/13	100,066	-	-	-	13,509	113,575
		2011/12	166,545	-	-	-	41,137	207,682
Andrew Christie - Tri-borough Executive Director of Children's Services	4	2012/13	-	-	-	-	-	-
		2011/12	62,338	-	323	-	15,397	78,058
Lyn Carpenter - Bi-borough Executive Director Environment, Leisure & Residents Services	5	2012/13	149,643	11,223	-	-	21,742	182,608
		2011/12	146,709	9,879	-	-	38,677	195,265
Melbourne Barrett - Executive Director of Housing & Regeneration		2012/13	126,000	8,820	-	-	18,382	153,202
		2011/12	121,290	7,200	-	-	26,667	155,157
Michael Cogher - Director of Legal Services	6	2012/13	-	-	-	-	-	-
		2011/12	114,803	13,020	17	-	31,572	159,412
Tasnim Shawkat - Bi-Borough Director of Law	7	2012/13	52,402	4,192	29	-	8,110	64,733
		2011/12	-	-	-	-	-	-
Andrew Webster - Tri-Borough Executive Director of Adult Social Care	8	2012/13	140,000	5,600	131	-	20,283	166,014
		2011/12	46,667	-	-	-	11,527	58,194
Philip Cross - Executive Headteacher, Hurlingham and Chelsea School	9	2012/13	112,181	-	39,491	-	21,386	173,058
		2011/12	111,834	-	27,787	-	19,687	159,308

Note 1 - Geoff Alltimes left LBHF on 31 October 2011. 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 2012/13 of £236,290 (£266,991 in 2011/12). The proportion of these costs met by LBHF in 2012/13 was £118,856 (£71,822 in 2011/12).

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 2012/13 the proportion of this cost met by RBKC was £39,405 (£9,370 in 2011/12).

Note 3 - James Reilly was previously the Director of Adult Social Care. Since February 2011 he has been the Chief Executive of the Central London Community Healthcare NHS Trust (CLCH). Until his employment was transferred to CLCH on 1 November 2012, the salary incurred by LBHF was fully recharged to the CLCH.

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 £201,953 (£183,832 in 2011/12). In 2012/13 the proportion of the cost met by LBHF was £67,766. The amount shown in the table above for 2011/12 (£78,058) was the cost borne by LBHF prior to the Tri-Borough arrangement. The remaining £105,774 for 2011/12 was 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 in 2011/12, LBHF 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 2012/13 the proportion of this cost met by RBKC was £96,787 (£23,012 in 2011/12)

Note 6 - Micheal Cogher left LBHF on 31 March 2012. His full salary in 2011/12 is given above. A job sharing arrangement with the RBKC was in place from June 2009. In 2011/12 £75,450 was received from RBKC in respect of this arrangement.

Note 7 - Tasnim Shawkat was appointed Bi-Borough Director of Law on 1 October 2012. £22,486 was received from RBKC in 2012/13 in respect of this arrangement.

Note 8 - Andrew Webster was appointed Tri-Borough Executive Director of Adult Social Care on 1 December 2011. In 2012/13 £36,991 (£13,160 in 2011/12) was received from RBKC and £58,128 (£20,175 in 2011/12) from WCC in respect of this arrangement.

Note 9 - Pay decisions for the head teachers disclosed above rest with the School Governing Body and not the Council.

Note 10 - The above remuneration disclosure does not include payments for returning officer duties.

32. Officers' Remuneration (cont'd)

Including Redundancies

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions and including redundancy payments) were paid the following amounts:

(These numbers do not include senior employees shown above)

Excluding Redundancies

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions and excluding redundancy payments) were paid the following amounts:

(These numbers do not include senior employees shown above)

	Including Redundancies		Excluding Redundancies	
Remuneration Band	**2012/13 Number of Employees**	**2011/12 Number of Employees**	**2012/13 Number of Employees**	**2011/12 Number of Employees**
£145,000 - £149,999	0	0	0	0
£140,000 - £144,999	0	0	0	0
£135,000 - £139,999	0	1	0	1
£130,000 - £134,999	0	0	0	0
£125,000 - £129,999	3	0	3	0
£120,000 - £124,999	0	1	0	1
£115,000 - £119,999	1	2	1	1
£110,000 - £114,999	4	0	4	0
£105,000 - £109,999	6	5	6	5
£100,000 - £104,999	6	10	6	10
£95,000 - £99,999	7	5	7	5
£90,000 - £94,999	5	14	5	11
£85,000 - £89,999	8	3	8	3
£80,000 - £84,999	10	15	9	13
£75,000 - £79,999	15	14	15	14
£70,000 - £74,999	24	27	24	25
£65,000 - £69,999	32	34	31	31
£60,000 - £64,999	26	37	24	38
£55,000 - £59,999	46	50	45	50
£50,000 - £54,999	110	131	106	128
Total	**303**	**349**	**294**	**336**

Of the 303 employees listed above in 2012/13, 143 (47%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2011/12 was 161 (46%).

Of the 294 employees listed above in 2012/13, 141 (48%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2011/12 was 157 (47%).

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**	
	2012/13	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**
£0 - £20,000	69	231	48	3	117	234	1,069,326	1,333,573
£20,001 - £40,000	7	18	19	1	26	19	689,592	560,290
£40,001 - £60,000	-	1	2	-	2	1	99,955	43,352
£60,001 - £80,000	-	-	1	-	1	-	66,200	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
Over £100,001	-	-	-	-	-	-	-	-
Total	**76**	**250**	**70**	**4**	**146**	**254**	**1,925,073**	**1,937,215**

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 2012/13, the Council paid £5.11 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £5.70 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 2012/13 the costs arising from additional benefits amounted to £348.2k (2011/12: £338.1k).

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 the following 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 former Hammersmith & Fulham Homes Local Government Government Pension Scheme (HFH LGPS) was brought into the London Borough of Hammersmith and Fulham Pension Scheme and local administration in 2011/12. The HFH LGPS element of the fund will continue to be reported separately for the purposes of IAS19 until 2013/14 when the next full triennial actuarial valuation is implemented.

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**	
	2012/13 £000	**2011/12 £000**	**2012/13 £000**	**2011/12 £000**	**2012/13 £000**	**2011/12 £000**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• current service costs	18,403	16,068	300	316	1,833	1,755
• past service gains	-	-	-	-	-	-
• settlements and curtailments	(2,795)	860	6	34	402	491
Financing and Investment Income and Expenditure						
• interest cost	42,018	43,141	1,858	2,056	3,245	3,180
• expected return on scheme assets	(30,393)	(32,134)	(1,551)	(1,805)	(3,977)	(4,028)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**27,233**	**27,935**	**613**	**601**	**1,503**	**1,398**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
• actuarial gains and losses	70,605	81,671	4,765	1,886	1,059	6,722
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**97,838**	**109,606**	**5,378**	**2,487**	**2,562**	**8,120**
Movement in Reserves Statement						
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,904)	(6,472)	(82)	(75)	190	244
Actual amount charged against the General Fund Balance for pensions in the year:						
• employers' contributions payable to scheme	18,123	19,049	492	517	1,693	1,639

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	
	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000
Opening balance 1 April	(910,912)	(789,559)	(40,619)	(38,285)	(69,131)	(56,895)
Current service cost	(18,403)	(16,068)	(300)	(316)	(1,833)	(1,755)
Interest cost	(42,018)	(43,141)	(1,858)	(2,056)	(3,245)	(3,180)
Contributions by Scheme participants	(5,047)	(5,454)	(71)	(84)	(497)	(580)
Actuarial gains and losses	(103,646)	(87,976)	(6,169)	(2,086)	(5,307)	(7,511)
Benefits paid	35,606	29,112	2,219	2,209	992	1,281
Past service gain	-	-	-	-	-	-
Unfunded pension payments	2,206	2,207	39	33	-	-
Curtailments	(765)	(992)	(6)	(34)	(402)	(491)
Settlements	4,204	959	-	-	-	-
Closing balance at 31 March	**(1,038,775)**	**(910,912)**	**(46,765)**	**(40,619)**	**(79,423)**	**(69,131)**
Funded liabilities	(1,011,522)	(884,671)	(46,416)	(40,346)	(79,243)	(69,131)
Unfunded liabilities	(27,253)	(26,241)	(349)	(273)	(180)	-

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

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme	
	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000
Opening balance 1 April	500,428	467,218	36,503	36,130	63,486	57,728
Expected rate of return	30,393	32,134	1,551	1,805	3,977	4,028
Actuarial gains and losses	33,041	6,305	1,404	200	4,248	789
Employer contributions	20,329	21,463	531	526	1,693	1,642
Contributions by scheme participants	5,047	5,454	71	84	497	580
Benefits paid	(37,812)	(31,319)	(2,258)	(2,242)	(992)	(1,281)
Entity combinations	-	-	-	-	-	-
Settlements	(644)	(827)	-		-	-
Closing balance at 31 March	**550,782**	**500,428**	**37,802**	**36,503**	**72,909**	**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 £63.433m (2011/12 £38.438m) for the LBHF Local Government Pension Scheme, £2.955m (2011/12 £2.005m) for the LPFA Local Government Pension Scheme and £8.224m (2011/12 £4.818m) for the HFH Local Government Pension Scheme.

Scheme History

	2008/09	2009/10	2010/11	2011/12	2012/13
Present Value of Liabilities					
LBHF Local Government Pension Scheme	(651,744)	(988,478)	(789,559)	(910,912)	(1,038,775)
LPFA Local Government Pension Scheme	(34,576)	(50,981)	(38,285)	(40,619)	(46,765)
HFH Local Government Pension Scheme	-	-	-	(69,131)	(79,423)
Fair Value of Assets					
LBHF Local Government Pension Scheme	357,372	463,379	467,218	500,428	550,782
LPFA Local Government Pension Scheme	27,825	29,345	36,130	36,503	37,802
HFH Local Government Pension Scheme	-	-	-	63,486	72,909
Surplus/(deficit) in the scheme					
LBHF Local Government Pension Scheme	(294,372)	(525,099)	(322,341)	(410,484)	(487,993)
LPFA Local Government Pension Scheme	(6,751)	(21,636)	(2,155)	(4,116)	(8,963)
LPFA Local Government Pension Scheme	-	-	-	(5,645)	(6,514)
Total	**(301,123)**	**(546,735)**	**(324,496)**	**(420,245)**	**(503,470)**

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £503.47m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a negative overall balance of £503.47m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

• the deficits on both local government schemes will be made good by increased contributions 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 2014 is £20.507m to the LBHF Local Government Pension Scheme (including the HFH Local Government Pension Scheme) and £0.479m to the LPFA Local Government Pension Scheme.

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 former HFH Local Government Pension Scheme element of the LBHF 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 2010.

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme	
	2012/13	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**
Mortality Assumptions						
Life expectancy from age 65 - retiring today:						
Men	20.1	20.0	20.0	19.9	20.1	20.0
Women	24.1	24.0	23.4	23.3	24.1	24.0
Life expectancy from age 65 - retiring in 20 years:						
Men	22.1	22.0	22.1	22.0	22.1	22.0
Women	26.0	25.9	25.3	25.2	26.0	25.9
Financial Assumptions						
Rate of Inflation - RPI	3.4%	3.2%	3.1%	3.2%	3.4%	3.2%
Rate of Inflation - CPI	2.6%	2.4%	2.3%	2.4%	2.6%	2.4%
Rate of Increase in Salaries	4.8%	4.6%	4.0%	4.1%	4.8%	4.6%
Rate of Increase in Pensions	2.6%	2.4%	2.3%	2.4%	2.6%	2.4%
Expected Return on Assets*	6.2%	6.2%	4.3%	4.3%	6.2%	6.2%
Discount Rate	4.4%	4.7%	3.5%	4.7%	4.6%	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%

* Note that there is no longer a requirement to disclose an expected return assumption for the next year end (that is, 31 March 2014) unlike previous years. For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost which will effectively set the expected return equal to the IAS19 discount rate.

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

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme		HFH Local Government Pension Scheme	
	2012/13	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**
Equities	55.0%	57.0%	14.0%	13.0%	55.0%	57.0%
Gilts	3.0%	2.0%	-	-	3.0%	2.0%
Cash	1.0%	1.0%	1.0%	2.0%	1.0%	1.0%
Cashflow matching	-	-	29.0%	31.0%	-	-
Alternative Assets	19.0%	40.0%	-	-	19.0%	40.0%
Other Bonds	22.0%	-	-	-	22.0%	-
Target Return Portfolio	-	-	56.0%	54.0%	-	-
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09 %	**2009/10** %	**2010/11** %	**2011/12** %	**2012/13** %
Differences between the expected and actual return on assets					
LBHF Local Government Pension Scheme	-18.30	20.10	-6.80	1.30	6.0
LPFA Local Government Pension Scheme	-16.50	6.90	20.30	0.50	3.7
HFH Local Government Pension Scheme	n/a	n/a	n/a	1.20	5.8
Experience gains and losses on liabilities					
LBHF Local Government Pension Scheme	-	0.70	11.60	-0.30	-0.1
LPFA Local Government Pension Scheme	0.03	-	9.40	0.40	-0.2
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:

	2012/13 £000	2011/12 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	216	360
Fees payable to the current External Auditor for the certification of grant claims and returns for the year	35	91
Fees payable to previous External Auditors for the certification of grant claims and returns for prior years	51	-
Audit and IFRS rebates	-	(29)
Total	**302**	**422**

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). An element of DSG is recouped to by the Department to fund academy schools in the council's area. 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 2011. The Schools Budget includes elements for a range of educational services provided on an authority-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 2012/13 are as follows:

	Central Expenditure £000	*ISB £000*	Total £000
Final DSG for 2012/13 before Academy recoupment			114,042
Academy figure recouped for 2012/13			(13,096)
Total DSG after Academy recoupment for 2012/13			100,946
Brought forward from 2011/12			2,168
Carry-forward to 2013/14 agreed in advance			-
Agreed initial budgeted distribution in 2012/13	*13,885*	*89,229*	103,114
In-year adjustments	-	-	-
Final budgeted distribution for 2012/13	*13,885*	*89,229*	103,114
Less actual central expenditure	*(10,110)*		(10,110)
Less actual ISB deployed to schools		*(89,229)*	(89,229)
Plus local authority contribution for 2012/13	-	-	-
Carry forward to 2013/14	***3,775***	***-***	**3,775**

37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2012/13 £000	2011/12 (Restated) £000
Credited to Taxation and Non Specific Grant Income		
Council Tax Income	(63,223)	(65,117)
Non domestic rates	(114,324)	(95,111)
Non-ringfenced government grants	(25,599)	(49,757)
Capital grants and contributions*	(65,963)	(20,703)
Total	**(269,109)**	**(230,688)**
Credited to Services		
Housing & Council Tax Benefit Subsidy	(164,786)	(162,491)
Dedicated Schools Grant	(99,339)	(108,264)
Housing subsidy	-	(10,953)
DfE Capital Grants*	(9,837)	-
Sixth Form Grant	(7,665)	(8,391)
Pupil Premium Grant	(4,214)	(2,688)
Adult Learning	(1,721)	(1,622)
Transport for London / Surface Transport	(1,073)	(1,313)
Social Work Grants	(510)	(1,230)
Supporting People	-	(1,098)
Further Education	(1,381)	(994)
NNDR Cost of Collection Allowance	(613)	(603)
Section 106	(1,189)	(291)
Other grants and contributions	(4,590)	(3,978)
Total	**(296,918)**	**(303,916)**

*51.5m of DfE Basic Needs Capital Grant Income was recognised in the CIES in 2012/13, £46.3m was credited to Taxation and Non Specific Grant Income and £5.2m was Credited to Services. £38.4m of this capital grant income was not applied in 2012/13 and is held as a Capital Grant Unapplied in the Council's Usable Reserves.

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 2013 £000	31 March 2012 (Restated) £000
Grants and Contributions Receipts in Advance (Current)		
Dedicated Schools Grant	(3,775)	(2,168)
Social Work Grants	(980)	(753)
Learning & Skills Council - revenue	(814)	(558)
Social Care Reform - revenue	(238)	(251)
Other grants - revenue	(795)	(458)
Total	**(6,602)**	**(4,188)**

	31 March 2013 £000	31 March 2012 (Restated) £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(12,703)	(12,543)
DfE Capital Grants	-	(20,838)
Sure Start - capital	-	(677)
Lyric Theatre	(2,846)	(2,912)
Capital Investment Comm Grant	-	(475)
Major Works Income	(1,260)	(2,229)
TfL	(276)	(450)
Other revenue grants	(35)	103
Other capital grants	(928)	(1,187)
Total	**(18,048)**	**(41,208)**

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 2013 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 2012/13 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 2012/13, 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 £808k. The most significant transactions are to charitable organisations (£793k), and environmental concerns (15k).

In addition to the above, many Members have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship, but with which the Council has a financial or influential relationship. These include Western Riverside Waste Authority and schools.

Other Public Bodies

The Council is the administering authority of the Pension Fund. The Council owed the Pension Fund £520k at the year end. The Pension Fund paid the Council £4,127 of interest on the cash deposited with the Council. The Council charged the Fund £586k 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.

Tri-Borough

The Council has entered into joint working 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 or bi-borough and the majority of these arrangements have been implemented since 1 April 2012. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

39. Interest in Companies

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

39. Interest in Companies (cont'd)

(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 a funding agreement to enable the company to carry out its charitable objectives. The revenue contributions by the Council were £240,000 in 2012/13. The latest audited accounts available, those relating to 2011/12, show net assets of £4,408,122 (£4,034,464 restated in 2010/11) and a profit on its activities in that year of £373,658 (£1,157,447 restated in 2010/11). 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.

Since 2011 the Council, as the major leaseholder, has taken the procurement lead in the Lyric Theatre Redevelopment Project. The Council is one of a number of significant funders of the project which will provide an extension of the community hub and broader cultural offer as well as an enhanced education offer following conclusion of the project.

(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 contributions by the Council were £24,100 in 2012/13. The charity's latest audited accounts available, those relating to 2011/12 show net assets worth £68,270 (£67,442 in 2010/11). A net surplus of £828 has been reported for 2011/12 (£804 in 2010/11). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) Hammersmith & Fulham Bridge Partnership (HFBP)

HFBP is a joint venture between Agilisys (80.1%) and the council (19.9%). 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 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 management accounts for the year 2012/13 showed total net assets of £0.63million (£0.55million net assets in 2011/12 audited accounts) with a profit before tax of £0.086m (£1.47 million in 2011/12 audited accounts) 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.

40. Contingent Assets and Contingent Liabilities

Contingent Assets

<u>Discounted Market Sale Units</u>

The Council has negotiated various Section 106 agreements that will deliver affordable housing. These agreements allow the Council to retain an equity share of 30% or more on properties that are being sold at a discount at various sites in the borough. The total number of such properties currently stands at 296 units with an estimated valuation of £66m. This represents a potential asset to the Council of £25m, however, this is subject to market fluctuations. The owners of such properties can request to buy the retained equity share from the Council, 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.

40. Contingent Assets and Contingent Liabilities (cont'd)

Contingent Liabilities

Litigations

The council has a number of litigations that were ongoing as at the 31st March 2013 but their outcome is not yet determined.

	2012/13 £'000
	950
Total Litigations	**950**

The council is involved in a number of claims. These cases remain as Contingent Liabilities. If the council is unsuccessful in these claims, then the council may be liable to pay damages, interest and costs. 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:

	2012/13 £000	2011/12 £000
Balance at 1st April	**(5,571)**	**(5,679)**
Income	(546)	(579)
Sub total	**(6,117)**	**(6,258)**
Less:		
Expenditure and Transfers	718	687
Balance at 31 March	**(5,399)**	**(5,571)**

42. Acquired and Discontinued Operations

The Council has not acquired or discontinued any operations in the year to 31 March 2013.

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.

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	2012/13 £000	2011/12 £000
Income			
Council Tax	1	(73,635)	(75,032)
Transfers from the General Fund:			
Council Tax Benefits		(15,481)	(16,333)
Income collectable from business ratepayers	2	(173,334)	(183,695)
		(262,450)	**(275,060)**
Expenditure			
Precepts and Demands	3	87,139	89,502
Business rate:			
Payment to the national pool	2	167,139	176,779
Costs of collection		579	568
Business Rate Supplement			
Payment to the Greater London Authority	2	5,587	6,316
Costs of collection		30	32
Impairment of debts/appeals:			
Write-offs of uncollectable amounts		2,085	1,081
Allowance for impairment		(1,013)	315
Distribution/Recovery of previous year's estimated surplus/(deficit)		-	-
		261,546	**274,593**
Movement on Fund balance		(904)	(467)
(Surplus)/Deficit as at 1 April		(190)	277
(Surplus)/Deficit as at 31 March	4	**(1,094)**	**(190)**

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 2012/13 it was calculated as follows:

Band	Estimated number of taxable properties after discounts and exemptions	Ratio to Band D	Band D equivalent dwellings
A	2692	6/9	1794
B	4513	7/9	3510
C	11333	8/9	10074
D	20171	1	20171
E	12794	11/9	15637
F	7826	13/9	11304
G	9555	15/9	15925
H	1878	18/9	3756

2. National Non-Domestic Rates

NNDR is organised and administered on a national basis. The government specifies an amount (45.8 pence to the pound in 2012/13) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

In 2012/13 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 £173.210 million for 2012/13 (£183.695 million for 2011/12). The rateable value at 31st March 2013 was £447.165 million (£468.635 million at 31st March 2012).

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.

	31 March 2013 £000	31 March 2012 £000
London Borough of Hammersmith and Fulham	62,575	64,779
Greater London Authority	24,564	24,723
	87,139	**89,502**

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 2013 £000	31 March 2012 £000
London Borough of Hammersmith and Fulham	(786)	(138)
Greater London Authority	(308)	(52)
	(1,094)	**(190)**

5. Business Rates Supplement

Under the arrangements for the Business Rate Supplement, the Council collects a supplement for its area based on local rateable values in excess of £55,000 multiplied by the designated rate poundage. From 2010/11 onwards, the total amount, less certain reliefs and other deductions, is paid to the Greater London Authority on whose behalf it is collected. In 2012/13, the authority's contribution to the GLA was as follows:

	31 March 2013 £000	31 March 2012 £000
Gross Business Rate Supplement (BRS) due	5,801	6,625
less: provision for bad debt and reliefs	(185)	(277)
Collectable from rate payers	**5,616**	**6,348**

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	2012/13 £000	2011/12 £000
Income			
Dwelling Rents		(60,629)	(60,465)
Non-dwelling rents		(2,585)	(2,511)
Charges for services and facilities		(15,843)	(9,961)
Contributions towards expenditure		(934)	(15)
Reimbursement of Costs		-	-
HRA Subsidy receivable	8	(226)	(10,953)
		(80,217)	**(83,905)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		12,881	12,867
Supervision and management		28,250	31,090
Special Services		8,501	2,253
Rents, rates, taxes and other charges		275	1,054
Depreciation and impairment of non-current assets	7	16,149	22,690
Debt management costs		125	125
Movement in the allowance for bad debts		691	536
Revenue Expenditure Funded from Capital Under Statute		60	208
		66,932	**70,823**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**(13,285)**	**(13,082)**
HRA services' share of Corporate and Democratic Core		297	497
HRA services' share of Non Distributed Costs		462	-
Net (Income)/Cost for HRA Services		**(12,526)**	**(12,585)**
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		(19,630)	(19,907)
Income and expenditure in relation to investment properties and changes in their fair value		(304)	(19,045)
Interest payable and similar charges		12,180	76,634
Amortisation of Premiums and Discounts		-	83
Interest and investment income		(292)	(168)
Pensions interest cost and expected return on pensions assets		(580)	(644)
Capital grants and contributions		(5,212)	(251,343)
Other Operating Income		-	(2,703)
(Surplus)/deficit for the year on HRA services		**(26,364)**	**(229,678)**
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		**(5,030)**	**(3,107)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(26,364)	(229,678)
Adjustments between accounting basis and funding basis under statute	1	23,567	227,661
Net (increase)/decrease before transfers to/(from) reserves		(2,797)	(2,017)
Transfers to/(from) reserves			
Major Repairs Reserve		-	-
Earmarked Reserves*		3,564	94
(Increase)/decrease in year on the HRA		**767**	**(1,923)**
Balance on the HRA at the end of the current year		**(4,263)**	**(5,030)**

* 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

	2012/13 £000	2011/12 £000
Charges for depreciation of non-dwellings	(443)	(508)
Charges for depreciation of dwellings	15,350	14,818
Reversal of Major Repairs Allowance credited to the HRA	(15,034)	(16,912)
Impairment/Revaluation losses (charged to the I&E)	(356)	(7,364)
Revenue expenditure funded from capital under statute (REFCUS)	(60)	(208)
Movements in the market value of investment properties	(940)	19,045
Capital Funding	5,212	-
Gain or loss on sale of HRA non-current assets	19,630	19,906
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	5	198
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	98	(92)
HRA share of contributions (to)/from the Pensions Reserve	105	1,424
	23,567	**227,661**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2012/13 was 12,739. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents;

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2012	12,836	112	13	12,961
Adjustment to opening balance	(102)	-	-	(102)
Additions	3	-	-	3
Sales	(96)	(22)	-	(118)
Number at 31 March 2013	**12,641**	**90**	**13**	**12,744**

3. Stock Valuation

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

	31 March 2013 £000	1 April 2012 £000
Operational Assets		
Housing Dwellings	886,340	897,170
Other Land and Buildings	9,471	10,523
Vehicles, Plant, Equipment	325	503
Intangible Assets	132	142
Non Operational Assets		
Surplus Assets	3,954	3,800
Investment Properties	47,539	55,399
	947,761	**967,537**

The open market, vacant possession fair value of houses and flats within the HRA as at 1 April 2012 was £3.522 billion. Hostels were not revalued in 2012/13. This compares to the balance sheet value of £893.6 million for the Council's hostels, houses and flats as at 1 April 2012. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

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 from 2012/13 is a notional calculation.) This then functions as an earmarked fund which is used to support capital spending on Council dwellings.

	2012/13 £000	2011/12 £000
Balance as at 1 April	-	-
Depreciation Charges to HRA	(15,350)	(15,326)
Adjusting transfer from HRA:		
Depreciation on Non-Dwellings	-	508
Excess/(Shortfall) of Depreciation on Dwellings over MRA	(315)	2,095
Funding of Capital Expenditure	9,958	12,723
Balance as at 31 March	**(5,707)**	**-**

5. Capital Expenditure Financing

	2012/13 £000	2011/12 £000
Borrowing	-	208
Major Repairs Reserve	9,958	12,723
Other Grants and Contributions	5,212	6,279
Capital Receipts	10,679	18,612
Total	**25,849**	**37,822**

6. Capital Receipts
During the year the following net capital receipts from disposals were received:

	2012/13 £000	2011/12 £000
Dwelling & Hostels	(40,803)	(28,303)
Non-Dwellings	-	(474)
Total	**(40,803)**	**(28,777)**

7. Depreciation and Impairment
The total charge for depreciation and impairment within the council's HRA is shown below

	2012/13 £000	2011/12 £000
Operational Assets		
Depreciation		
Dwellings	15,350	14,818
Other Land and Buildings	217	282
Vehicles, Plant, Equipment and Intangible Assets	226	226
Revaluation Loss	356	7,364
Impairment	-	-
Total	**16,149**	**22,690**

8. HRA Subsidy
The introduction of self-financing to the housing revenue account (HRA) in April 2012 changed fundamentally the way that local authority housing has been funded since 1989. The system of redistributive subsidy has been replaced with a system where all rental income will be kept locally in return for authorities taking on a level of debt representative of the value of the stock.

As part of this a 'once and for all settlement between central and local government… a one off allocation of debt' was effected during 2011/12 and the HRA Subsidy discontinued from 2012/13. However, the final claim for 2011/12 was not completed and settled until the 2012/13 financial year. The Council's final settlement receipt was for £225,847.

9. Rent Arrears and Bad Debt Provisions

Gross rent arrears were as follows:

	2012/13 £000	2011/12 £000
Main Council Stock	4,247	3,175
Hostels	457	439
Total	**4,704**	**3,614**

Bad debt provisions at 31 March were:

	2012/13 £000	2011/12 £000
Main Council Stock	(2,421)	(2,198)
Hostels	(438)	(415)
Total	**(2,859)**	**(2,613)**

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 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

	Notes	2012/13		2011/12	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	23,136		23,234	
From Members	6	6,445	29,581	6,906	30,140
Individual Transfers In from other Pension Funds			1,575		1,906
Other Income			36		20
Benefits					
Pensions	7	(26,525)		(24,284)	
Lump Sum Retirement Benefits	7	(5,353)	(31,878)	(6,852)	(31,136)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(6,149)		(2,575)
Other Expenditure			(20)		(60)
Administrative Expenses	8		(632)		(867)
Net Additions (Withdrawals) from dealings with members			**(7,487)**		**(2,572)**
Returns on Investments					
Investment Income	9		9,930		9,579
Taxes on Income (Irrecoverable Withholding Tax)			(131)		(133)
Profit and losses on disposal of investments and changes in value of investments					
Realised	12		12,206		37,698
Unrealised	12		73,595		1,572
Investment Expenses	10		(2,667)		(3,222)
Net Returns on Investments			**92,933**		**45,494**
Net Increase (Decrease) in the net assets available for benefits during the year			**85,446**		**42,922**
Opening Net Assets of the Scheme			**638,640**		**595,718**
Closing Net Assets of the Scheme			**724,086**		**638,640**

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 19 of these accounts.

	Notes	31 March 2013 £000	31 March 2012 £000
Investment Assets			
Index Linked Securities	13	23,755	13,211
Equities	13	297,086	277,622
Pooled Investment Vehicles	13	374,420	326,655
Private Equity	13&15	12,687	13,142
Commodities	13	3,585	-
Cash Deposits	13	12,909	8,366
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	1,223	1,041
Investment Income Due	13	760	1,470
Investment Liabilities			
Amounts Outstanding on Purchase of Investments	13	(750)	(127)
Total Investment Assets	13	**725,675**	**641,380**
Current Assets	20	199	224
Current Liabilities	21	(1,114)	(1,067)
Cash Balances		(674)	(1,897)
Net assets of the fund available to fund benefits at the period end.		**724,086**	**638,640**

Notes to the Pension Fund Accounts

1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

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.

b) Audit, Pensions and Standards Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards 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.

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The Committee approved a Statement of Investment Principles on 28th June 2012 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.

The Committee has delegated the management of the fund's investments to professional investment managers (note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

d) Membership

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 2013	31 March 2012 Restated
Contributing employees	3,782	3,837
Pensioners receiving benefit	4,379	4,265
Deferred Pensioners	5,546	5,409

Details of the scheduled and admitted bodies in the scheme are shown in Notes 6 (contributions receivable) and 7 (benefits payable.)

e) 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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the fund's transactions for 2012/13 and its position at year-end as at 31st March 2013. 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.

3. SUMMARY OF SIGNIFICANT ACCCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend. Interest income is accrued on a daily basis. Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Fund Account - Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers witholding tax in the country of origin, unless exemption is permitted. irrecoverable tax is accounted for as a fund expense as it arises.

f) Administaration Expenses

Expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. All staff costs of the pensions adminstration team are charged direct to the fund.

(g) 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.

Net Assets Statement

(h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. 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 published bid prices or thoses quoted by their managers.

The values of the investment in Private Equity fund of funds 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.

i) Foreign Currency Transactions

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 reporting date.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions.

k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A Financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial Present Value of Promised Retirement Benefits

Paragraph 6.5.2.8 of the CIPFA Code of Practice on Local Authority Accounting sets out that the actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post Employment Benefits and relevant actuarial standards. As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans , the financial statements include a report from the Actuary by way of disclosing the actuarial present value of retirement benefits. (note 19)

m) Additional Voluntary Contributions

Additional Voluntary Contributions for the defined benefit scheme are not included within the accounts in accordance with the relevant regulations and are paid over to be invested separately from the pension fund. More information is given in Note 22.

n) Recharges from the General Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the management and administration of the fund are set out separately.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

a) Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the the investment managers in accordance with industry standards.

b) Pension Fund Liability

The Fund's liability is calculated triennially by the appointed actuary as permitted under IAS 26. The most recent triennial valuation was as at 31st March 2010 so the next one is due as at 31st March 2013. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

5. EVENTS AFTER THE BALANCE SHEET

At the 31st August 2013 the market value of the investments of the Fund had increased to approximately £726.48 million due to the rise in global stock markets since the date of the balance sheet.

6. 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.

	Employers'		**Employees'**	
	2012/13	**2011/12**	**2012/13**	**2011/12**
	£000	**£000**	**£000**	**£000**
LB Hammersmith and Fulham	19,923	20,698	5,507	5,976
LBHF Councillors	38	74	17	18
Sub-Totals Administering Authority	**19,961**	**20,772**	**5,524**	**5,994**
Mortlake Crematorium Board	53	53	14	14
London Oratory School	105	89	46	40
Burlington Danes Academy	113	106	52	49
Hammersmith Academy	64	49	30	24
Conway Academy	8	7	2	2
West London Free School	33	11	9	3
Bentworth Academy	22	-	6	-
Lady Margaret Academy	65	-	18	-
Sacred Heart High School	101	-	29	-
Fulham College Academy Trust	27	-	8	-
Sub-Totals Scheduled Bodies	**591**	**315**	**214**	**132**
F M Conway Ltd	61	85	21	34
Urban Partnership Group	51	50	14	13
H&F Community Law Centre	6	5	2	2
Family Mosaic	86	111	27	35
Disabilities Trust	4	5	1	2
Thames Reach	6	6	2	2
Medequip Assistive Technology	9	14	2	3
Eden Food Service	256	243	79	80
Fulham Palace Trust	41	54	12	15
Family Mosaic Supporting People	15	20	6	8
Glencross Cleaning Ltd	3	3	1	1
Inspace Partnerships Ltd	59	58	19	19
H & F Bridge Partnership	938	374	134	154
Kier	138	141	43	44
Kier - Non HR Contract	4	4	2	2
P H Jones Ltd	5	5	2	2
Irish Cultural Centre	6	6	1	1
E C Harris LLP	7	49	2	20
Crime Reduction Initiatives	5	1	2	1
Quadron	240	244	68	69
Serco	481	499	210	218
Tendis	21	21	6	6
Turners	120	149	43	49
ETDE Infrastructure	22	-	8	-
Sub-Totals Admitted Bodies	**2,584**	**2,147**	**707**	**780**
Grand Totals	**23,136**	**23,234**	**6,445**	**6,906**

7. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2012/13.

	Pensions		Pension Increases	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
LB Hammersmith and Fulham	(17,813)	(16,787)	(7,996)	(6,870)
Councillors	(1)	(1)	-	-
Sub-Totals Administering Authority	**(17,814)**	**(16,788)**	**(7,996)**	**(6,870)**
Mortlake Crematorium Board	(38)	(40)	(7)	(5)
London Oratory School	(2)	(2)	-	-
Burlington Danes Academy	(18)	(17)	(1)	(1)
Sub-Totals Scheduled Bodies	**(58)**	**(59)**	**(8)**	**(6)**
H&F Community Law Centre	(33)	(26)	(12)	(3)
H&F Police Consultative Group	(5)	(5)	(2)	(1)
ROOM the National Council	(4)	(4)	(2)	(1)
Family Mosaic	(98)	(90)	(19)	(15)
Greenwich Leisure Ltd	(2)	(2)	(1)	(1)
Blythe Neighbourhood Council	(1)	(1)	-	-
Inspace Partnerships Ltd	(42)	(42)	(4)	(2)
Kier	(1)	-	-	-
Turners	(14)	(15)	-	-
Urban Partnership Group	(3)	(3)	-	-
Disabilities Trust	(8)	-	(1)	-
EC Harris LLP	(12)	(4)	-	-
Eden Food Service	(17)	(14)	(1)	-
F M Conway Ltd	(16)	(12)	-	-
H & F Bridge Partnership	(236)	(236)	(20)	(10)
Quadron	(30)	(27)	(1)	(1)
Serco	(58)	(45)	(6)	(1)
Sub-Totals Admitted Bodies	**(580)**	**(526)**	**(69)**	**(35)**
Grand Totals	**(18,452)**	**(17,373)**	**(8,073)**	**(6,911)**

	Lump Sum Retirement Benefits & Interest on Lump Sums		Lump Sum Death Benefits	
	2012/13	2011/12	2012/13	2011/12
	£000	£000	£000	£000
LB Hammersmith and Fulham	(4,753)	(5,564)	(331)	(744)
Councillors	-	-	(19)	-
Sub-Totals Administering Authority	**(4,753)**	**(5,564)**	**(350)**	**(744)**
Mortlake Crematorium Board	-	-	(17)	-
London Oratory School	(15)	(12)	-	-
Burlington Danes Academy	-	(6)	-	-
Sub-Totals Scheduled Bodies	**(15)**	**(18)**	**(17)**	**-**
H&F Community Law Centre	(33)	-	-	-
Family Mosaic	(5)	(102)	-	-
Disabilities Trust	(2)	-	-	-
EC Harris LLP	-	(78)	-	-
Eden Food Service	(11)	(78)	(71)	(6)
F M Conway Ltd	-	(68)	-	-
Quadron	-	(58)	-	-
Kier	(10)	-	-	-
Turners	(37)	(3)	-	-
Serco	(49)	(133)	-	-
Sub-Totals Admitted Bodies	**(147)**	**(520)**	**(71)**	**(6)**
Grand Totals	**(4,915)**	**(6,102)**	**(438)**	**(750)**

8. ADMINISTRATION EXPENSES

The table below shows a breakdown of the administration expenses for the year.

	2012/13 £000	2011/12 £000
Provision of Pension Administration	(407)	(555)
Support services including IT	(179)	(181)
External audit fees	(21)	(32)
External audit fees re 2010/11	0	(26)
Actuarial fees	(22)	6
Other Fees	(3)	(79)
	(632)	**(867)**

9. INVESTMENT INCOME

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

	2012/13 £000	2011/12 £000
Dividends from Equities	8,774	9,220
Income from Index-Linked Securities	232	178
Interest on Cash Deposits	133	140
Currency profit/(loss)	342	(179)
Private Equity/Other	449	220
Total	**9,930**	**9,579**

10. INVESTMENT EXPENSES

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

	2012/13 £000	2011/12 £000
Management fees	(2,518)	(3,033)
Custody and performance monitoring fees	(110)	(91)
Investment consultancy	(39)	(98)
	(2,667)	**(3,222)**

11. 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 between Baring Asset Management Ltd and 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 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 2013		**31 March 2012**	
	Market Value £000	**Total %**	**Market Value £000**	**Total %**
Majedie Asset Management	173,322	23.8	165,450	25.8
MFS International (UK) Ltd	171,675	23.7	167,753	26.1
Baring Asset Management Ltd	123,116	17.0	114,060	17.8
Ruffer LLP	79,910	11.0	39,533	6.2
Goldman Sachs Asset Management	62,919	8.7	59,638	9.3
Legal and General Investment Management	101,397	14.0	81,804	12.7
Invesco Private Equity	7,265	1.0	7,600	1.2
Unigestion Private Equity	6,071	0.8	5,530	0.9
Barings English Growth Fund	-	0.0	12	0.0
	725,675	**100.0**	**641,380**	**100.0**

The Fund 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.

12. RECONCILIATION OF MOVEMENT IN INVESTMENTS

The table below shows a reconciliation of the movement in the total investment assets of the fund during the year.

	2012/13 £000	**2011/12 £000**
Market Value of Investment Assets at 1st April	641,380	594,164
Movements in Year		
Purchase of Investments	161,265	205,195
Sale of Investments	(166,163)	(198,541)
Realised Profit/(Loss) on Sales	12,206	37,698
Unrealised Profit/(Loss) in Market Value	73,595	1,572
Change in Cash Deposits	4,543	(13)
Change in Debtors and Creditors	(1,151)	1,305
Market Value of Investment Assets At 31st March	**725,675**	**641,380**

The table below shows a reconciliation of the movement in the total investment assets of each fund manager in 2012/2013.

	Value at 31 March 2012	Purchase of Investments	Sale of Investments	Realised Profit/ (Loss) on sales	Unrealised Profit/ (Loss) in Market value	Change in Cash Deposits	Change in Debtors and Creditors	**Value at 31 March 2013**
Fund Manager	£000	£000	£000	£000	£000	£000	£000	£000
Majedie Asset Management	165,450	45,447	(61,369)	6,594	18,205	(976)	(29)	**173,322**
MFS International (UK) Ltd	167,753	54,424	(70,828)	5,009	16,290	(1,004)	31	**171,675**
Baring Asset Management Ltd	114,060	114	-	-	8,942	-	-	**123,116**
Ruffer LLP	39,533	60,588	(31,768)	756	6,083	5,871	(1,153)	**79,910**
Goldman Sachs Asset Management	59,638	-	(2)	2	3,279	2	-	**62,919**
Legal and General Investment Management	81,804	-	-	-	19,592	1	-	**101,397**
Invesco Private Equity	7,600	122	(1,853)	288	557	551	-	**7,265**
Unigestion Private Equity	5,530	570	(343)	21	195	98	-	**6,071**
Barings English Growth Fund	12	-	0	(464)	452	0	0	**-**
Totals	**641,380**	**161,265**	**(166,163)**	**12,206**	**73,595**	**4,543**	**(1,151)**	**725,675**

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 £499,743 (£467,851 in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

13. 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.

	31 March 2013		31 March 2012	
Designated at fair value through Profit and Loss	£000	£000	£000	£000
United Kingdom				
Index Linked Securities - Public Sector		14,398		7,632
Equities		88,668		100,574
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	76,981		66,562	
Managed Fund - L & G LDI Bespoke Fund	101,396		81,804	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	62,916		59,637	
Managed Fund - Baring Dynamic Asset Allocation Fund	123,116		114,060	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	3,487		1,570	
Managed Fund - Ruffer Baker Steel Gold Fund	1,030		684	
Managed Fund - Ruffer Mid & Smaller Companies Fund	443		-	
Managed Fund - Ruffer Protection Strategies International Fund	463		-	
Managed Fund - Private Equity (Unquoted)	-	369,832	12	324,329
Commodities - Gold Bullion Securities 0% Undated Notes		3,585		-
Total United Kingdom		**476,483**		**432,535**
Overseas				
Index Linked Securities - Public Sector		9,357		5,579
Equities				
North America	111,824		93,855	
Japan	14,695		8,923	
Europe (ex UK)	57,533		49,756	
Pacific Basin	11,260		11,058	
Other	13,106	208,418	13,456	177,048
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	621		761	
Managed Fund - Ruffer Japanese Fund	2,672		1,206	
Managed Fund - Red Kite Compass Fund	865		371	
Managed Fund - Ruffer Global Smaller Companies Fund	430		-	
Managed Fund - Private Equity (Unquoted)	-		-	
Invesco - North America	6,714		7,600	
Unigestion - Europe	5,973	17,275	5,530	15,468
Total Overseas		**235,050**		**198,095**
Loans and Receivables				
Cash Deposits	12,909		8,366	
Amounts outstanding on Sale of Investments	1,223		1,041	
Investment Income Due	760		1,470	
Contributions due from Employers	123		45	
Contributions due from Members	43		134	
Combined Benefits	33		32	
Administration Expenses	-	15,091	13	11,101
Financial Liabilities at Amortised Cost				
Amounts outstanding on Purchase of Investments	(750)		(127)	
Unpaid Benefits	(256)		(429)	
Investment Management Expenses	(855)		(637)	
Administration Expenses	(3)		-	
Other Current Assets	-		(1)	
Cash Balances	(674)	(2,538)	(1,897)	(3,091)
Net assets of the scheme available to fund benefits at the period end.		**724,086**		**638,640**

14. 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 2013		31 March 2012	
	Market Value	Book Cost	Market Value	Book Cost
	£000	£000	£000	£000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	711,533	552,555	630,630	545,247
Loans and Receivables				
Cash Deposits	12,909	12,909	8,366	8,366
Amounts outstanding on Sale of Investments	1,223	1,223	1,041	1,041
Investment Income Due	760	760	1,470	1,470
Financial Liabilities at Amortised Cost				
Amounts outstanding on Purchase of Investments	(750)	(750)	(127)	(127)
Total Value of Investments	**725,675**	**566,697**	**641,380**	**555,997**

15. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2013, the fund had a commitment to invest a further £1.7million in two of the private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next two to three years.

16. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

17. 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 through pension and pay increases, interest rates and 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 closely match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4% 2017, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt1 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 Pensions and Standards Committee and is reviewed on a regular basis.

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

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.

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on its 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.

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.

The council recognises that a 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.

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 2013 the balance on this facility stood at £1,193,223. These borrowings are of a limited short term nature.

18. FUNDING ARRANGEMENTS

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 the difference between each participating employer's notional share of value of the Fund's assets and 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% 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

Development since 2010 and the 2013 Valuation

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund and we expect that the funding level should be slightly higher than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.

Alison Hamilton FFA
Partner, Barnett Waddingham
02 May 2013

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31st March 2013. 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 2013 £'000	31 March 2012 £'000
Present Value of Promised Retirement Benefits*	1,171,217	1,079,048
Fair Value of Scheme Assets (bid value)	(725,674)	(638,640)
Net Liability	**445,543**	**440,408**

*Present Value of Promised Retirement Benefits comprises of £984,337,000 (£918,319,000 in 2011/2012) and £186,880,000 (£160,729,000 in 2011/2012) in respect of vested benefits and non-vested benefits respectively as at 31 March 2013.

20. CURRENT ASSETS

	31 March 2013	31 March 2012
Debtors	**£000**	**£000**
Contributions due - employers	123	45
Contributions due - employees	43	134
Administration Expenses	-	13
Sundry debtors	33	32
	199	**224**

Analysis of debtors

	31 March 2013 £000	31 March 2012 £000
Central government bodies	-	-
Other entities and individuals	199	224
	199	**224**

21. CURRENT LIABILITIES

	31 March 2013	31 March 2012
Creditors	**£000**	**£000**
Unpaid Benefits	(256)	(429)
Investment Management Expenses	(855)	(637)
Administration Expenses	(3)	-
Sundry creditors	-	(1)
	(1,114)	**(1,067)**

Analysis of creditors

	31 March 2013 £000	31 March 2012 £000
Central government bodies	-	-
Other entities and individuals	(1,114)	(1,067)
	(1,114)	**(1,067)**

22. 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 one member who contributed £66.24 for death in service cover.

The total market value of the separately invested AVCs with Equitable Life Assuranceat 5 April 2013 was £225,969.65.

At 31 March 2013 there were 66 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2012/2013 was £27,317.90 and the total market value of the separately invested AVC's with Zurich Assurance at 5 April 2013 was £962,966.64.

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.

23. 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 2012/2013 was £586,213 (2011/2012 £740,954).

During 2012/2013 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 £4,127 in interest to the Council during 2012/2013. At 31st March 2013 the Council owed the Pension Fund £519,702.

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 2012/2013 were identified.

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 2013 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 and has been assessed this year against the new combined Public Sector Interal Audit Standards.

All Cabinet reports are cleared by the Executive Director of Finance & Corporate Governance and by the Director of Law 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 and mandates (where applicable) 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) and Role of the Head of Internal Audit (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 and Standards Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place.

Closed Items

In completing this review the following governance issues identified in 2011-12 were successfully closed;

1. Theft of materials
Metal theft increased when worldwide prices for scrap metal rose. The instances in 2011/12 of theft of metals in the White City Estate area affected 24 properties. The Housing and Regeneration Department explored the idea of using technology to mark valuable metals which would allow them to be identified as Council property but this was considered not cost-effective.

A stock condition survey and validation has been undertaken and details recorded. The Asset Management Plan and investment plan was agreed at Cabinet for future capital works which satisfactorily resolves this issue.

2. Housing repairs and maintenance
Following investigations undertaken by Internal Audit in 2011/12, it had been established that there are some historic control weaknesses relating to the financial administration of council housing repairs and maintenance function. During 2012/13 the position was monitored by the Audit, Pensions and Standards Committee where it was established that a package of measures had been implemented including training, commitment accounting, and a weekly review process. This issue is now considered resolved.

3. Local Taxation

A significant internal control issue was identified in the council's system for business rates collection. Arrangements were subsequently agreed with the Royal Borough of Kensington and Chelsea to undertake a series of management checks. A new proposal to combine NNDR and some Council Tax matters (under a new Taxation manager post) is being implemented. Work is progressing on the recovery of outstanding debt and, following an independent disciplinary panel hearing, a prosecution is being progressed by the Council.
Following an internal audit of the NNDR system a number of control improvements were recommended that have been successfully implemented.

The following governance issues were identified in 2012-2013;

1. Business Continuity - Supply Chain Resilience
Following an increase in the number of outsourced services and the continuing broad economic uncertainty it has been identified that the council is exposed to an increased supply chain risk. Following a recent collapse of a significant sub-contractor an internal audit of Supply Chain Resilience has been approved to establish the effectiveness of the system of internal control.

Whilst the council remains resilient to its main contractors it remains at risk of service interruption in responding to the failure of a critical subcontractor and business continuity plans do not always allow for this risk.
The BiBorough Procurement Strategy Board are reviewing the systems and processes associated with resilience of the supply chain. Proposals to improve controls , that are proportionate to the risk and support the resilience of the council, will be made.

2. Contracts Management
Chief Officers are responsible for all contracts tendered and let by their Department. They are accountable to the Cabinet for the performance in relation to contract letting and management, which are to ensure compliance with English and EU legislation and Council Policy; to ensure value for money in all procurement matters.

The council is required under its contract standing orders to record its contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded (using the London Councils Contracts Database where these have a total value of £50,000 and over)

It is apparent that the register is incomplete. A review of contract management is being undertaken by Internal Audit. Any evidence of non compliance with contract standing orders and Financial Regulations may result in recommendations to improve the system of internal control.

3. Health and Safety

There has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012/13 following a prosecution by the Heath and Safety Executive. This has included enhanced training, support, resource and guidance. A map of Health and Safety risks has been compiled and is reviewed quarterly. Safety Committees exist for TriBorough departments.

There is some evidence that health & safety contractors property risk assessment plans are not being effectively monitored resulting in breaches of statutory Health & Safety legislation. One notifiable incident has been made to the Health and Safety Executive in this regard.

Progress already made includes an appointed person in post for the management of Asbestos, to improve the controls, which will be monitored by Hammersmith and Fulham Business Board, Action Plans have been modified to improve the system of internal control in this area.

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 polices 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.

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 and income, either over a set period or for a specific project.

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
Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

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

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

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

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

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

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

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

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

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

DEPRECIATION
A provision made in the accounts to reflect the value of assets used during the year.

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.

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

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

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE
Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

HISTORIC COST

The actual cost of an asset in terms of past consideration as opposed to its current value.

HOUSING REVENUE ACCOUNT

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

HOUSING SUBSIDY

The grant payable by central government to local authorities to subsidise the cost of providing Council housing and the management and maintenance of that housing. The grant is paid into the Housing Revenue Account.

IAS19 (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 giving will be 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 from 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.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount that the Council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

NATIONAL NON-DOMESTIC RATE (NNDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Inland Revenue multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of relevant population.

NET 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. New changes have been introduced from 1 April 2012.

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. IAS37 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC WORKS LOAN BOARD (PWLB)
A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

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 officers.

RESERVES

The amounts held by way of balances and funds that are free from specific liabilities or commitments. The council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, Revenue Support Grant, 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.

Service Reporting Code of Practice (SERCOP)

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

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

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.

Report to those charged with governance (ISA 260) 2012/13

London Borough of Hammersmith and Fulham Council

13 September 2013

Contents

The contacts at KPMG in connection with this report are:

Michael McDonagh
Partner
KPMG LLP (UK)

Tel: 0207 6945546
Michael.A.McDonagh@KPMG.co.uk

Samantha Maloney
Senior Manager
KPMG LLP (UK)

Tel: 01293 652062
Samantha.Maloney@KPMG.co.uk

Joel Harrison
Assistant Manager
KPMG LLP (UK)

Tel: 0207 3112310
Joel.Harrison@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This report summarises:

- **the key issues identified during our audit of London Borough of Hammersmith and Fulham Council's (the Authority's) financial statements for the year ended 31 March 2013; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our *External Audit Plan 2012/13* presented to you in February 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation, substantive procedures and completion. Our on site work for these took place in two tranches during March 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems.
- Review internal audit function.
- Review accounts production process.
- Review progress on critical accounting matters.

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

This is our first year as the Council's external auditor following our appointment by the Audit Commission. We would like to take this opportunity to thank all the officers and Members for their help and co-operation since our appointment and throughout the audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Page 132

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding. It should be noted that the audit is substantially complete with the exception of final partner review and completion of our final audit procedures.
Audit adjustments	We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made three non-trivial adjustments, all of which were of a presentational nature. There was no impact on the General Fund. The draft accounts included a non-material prior year adjustment relating to a number of property disposals which took place during accounting period 2011/12. Accounting for a prior year adjustment is a technical point and open to interpretation. It has been concluded that this adjustment should be made in the 2012/13 financial statements, rather than as a prior year adjustment. An appropriate adjustment to remove the prior year adjustment has been made, this is in addition to the three non-trivial adjustments above. There was no impact on the General Fund. We have raised two recommendations arising from our work in respect of asset management and opportunity for efficiencies in the treasury management system.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and excellent quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with Officers throughout the year to discuss both specific risks and disclosure clarification such as disclosure of the Senior Officers Remuneration and HRA non dwelling depreciation. Early resolution of these points has led to a more efficient audit process.
Control environment	The Authority's organisation and control environment is effective, and controls over the key financial systems are sound. We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work using this to inform our risk assessment.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Post balance sheet events review; ■ Final review of financial statements; and ■ Review of the final Annual Governance Statement. Before we can issue our opinion we require a signed management representation letter. Our proposed wording for this is included in Appendix 3. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements. A full statement is included in Appendix 2.

Headlines

VFM conclusion and risk areas	
	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We identified one significant risk to our VFM conclusion and considered the arrangements you have put in place to mitigate this risk. Our work identified the following significant matter: ■ Saving Plans – The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. We have reviewed the arrangements the Authority has put in place and are satisfied it has taken appropriate steps to achieve the required savings whilst continuing to deliver services to its constituents. Our main accounts work has confirmed that the Authority has achieved its £23m savings plans for 2012-13. The Authority continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Authority and earmarked reserves are strong. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013, following completion of our closing procedures and final Partner review.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013, following completion of our final closing procedures.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

The draft accounts included a prior period adjustment which has been amended to an in year adjustment in the final version of the financial statements. We concur with the Council that this represents a technical accounting adjustment on which we agree with the Authority's conclusion. There is no impact on the bottom line in respect of the General Fund, working balance of the HRA or on the Statement of Financial position.

In addition, we identified three presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The Authority has addressed these making the necessary adjustments.

Annual Governance Statement

We have reviewed the Annual Governance Statement and subject to final review confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

We have worked with Officers throughout the year to discuss the focus of our audit and these significant areas.

Page 135

In our External Audit Plan 2012/13, presented to you in February 2013, we identified the significant areas affecting the Authority's 2012/13 financial statements. The table below sets out our findings in respect of these areas:

Key audit risk	Issue	Audit Work Performed
Property, Plant and Equipment	The Council has a significant asset base primarily relating to Council dwellings and Investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and uncertainty.	To seek assurance property, plant and equipment is reasonably stated we have performed the following audit procedures: • Reviewed management's assessment of property valuations and impairment calculations to gain assurance they are reasonably stated; • Considered the valuer's report and tested to confirm the valuation and accounting entries of the assets valued are correctly stated; • Compared the assumptions made by the valuer to benchmarks for consistency; and • Substantively tested capital additions and disposals for accuracy and completeness.
Cash	Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.	We have performed the following audit procedures to confirm cash is correctly stated in the financial statements: • Obtained confirmations directly from the bank over the account balances; and • Reviewed and substantively tested the year end bank reconciliation.
Pensions Costs and Liabilities	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.	Assurance has been sought over the pensions costs expense and liability balance through: • A review of the information provided to the actuary from the Council; • A review of the actuarial valuation and consideration of the disclosure implications.

No issues have been identified from our work in these areas.

Accounts production and audit process

The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendations in the *ISA 260 Report 2011/12*.

Page 136

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements in place. In particular it is noted officers have identified technical or subjective areas throughout the year and liaised with us to consider the implications for financial reporting. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013 in advance of the statutory deadline. We note that the draft accounts are 121 pages long and exceed the statutory disclosure requirements. Going forward officers should review the accounts to ensure that sufficient prominence is given to key areas and to identify whether supplementary information can be removed.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 18 February 2013 and discussed with Christopher Harris Head of Corporate Accountancy and Capital and Maria Campagna Finance Manager - Closing & Accountancy, set out our working paper requirements for the audit. The quality of working papers provided was excellent and met the standards specified in our *Accounts Audit Protocol*.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries promptly. The quality and timeliness of officers' responses were of a good standard.

Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report produced by the Audit Commission.

The Authority has fully implemented the recommendations in the Audit Commission's *ISA 260 Report 2011/12*.

Control environment

The Authority's organisational and control environment is effective, and controls over the key financial systems are sound.

We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.

Page 137

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. However, we issued a letter to Jane West Executive Director of Finance and Corporate Governance. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall and through testing were able to place reliance on a number of core financial systems.

Review of Internal Audit

We reviewed the work of internal audit to inform our risk assessment, provide additional assurance over a number of core financial systems and internal processes as well as identify any areas whereby we need to alter our audit strategy as a result of their findings.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Internal Audit has prepared for the adoption of the new PSIAS. The Bi-Borough Risk Manager prepared a briefing for the Audit Pensions and Standards Committee in June 2013 this included the Bi-borough audit strategy and charter which has been updated to fully reflect the changes.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound. We note Internal Audit have made a number of recommendations based on their work throughout the year. We have also performed a review of the Council's response to the changes made in respect of the National Non Domestic Rates system and would actively encourage the Authority to implement all recommendations to continuously improve the control environment.

We identified a minor area for further improvement. Our testing over the treasury system identified instances whereby an additional sign off requirement for significant investments had not been complied with. Although the control had not been performed as designed, we noted no issues indicating the investments were otherwise outside the Authority's policy. In all cases dual sign off had been obtained. We identified a number of controls operating effectively over such investments and believe there is scope for efficiencies to be achieved through the removal of some elements of the control without impacting on the control environment. Details of the recommendation is included in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Page 138

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of London Borough of Hammersmith and Fulham Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Jane West Executive Director of Finance and Corporate Governance, a draft of which is reproduced in Appendix 3. We require a signed copy of your management representations before we issue our audit opinion.

We are not asking for any specific representations from management for 2012/13.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' .

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Page 139

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly. Our approach was set out in more detail in our *External Audit Plan 2012/13*.

Risk assessment

Our initial risk assessment identified the following key business risk which is also relevant to our VFM conclusion:

- Saving Plans – The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. The Authority will need to establish and maintain saving plans to secure longer term financial and operational sustainability.

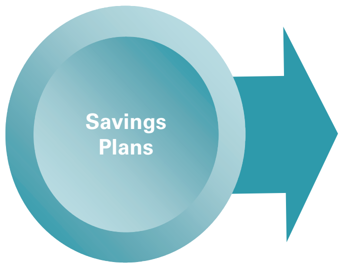
We are satisfied that sufficient work had been carried out by the Authority and other inspectorates or review agencies to mitigate the audit risks for our VFM conclusion. We concluded that we did not need to carry out any specific additional work on other VFM matters.

Significant Matters

We have worked with Officers throughout the year to discuss the focus of our audit and these significant areas.

Page 140

In our External Audit Plan 2012/13, presented to you in March 2013, we identified the significant areas of focus for our VFM conclusion. The table below sets out our findings in respect of these areas.

Key audit area	Issue	Findings
	The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. These savings will in part come from the Tri borough working arrangements which makes them inherently more risky. The Authority will need to manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in the 2012/13 financial statements as appropriate	Our main accounts work has confirmed that the Authority has achieved its £23m savings plans for 2012-13. Based on the current plan, which covers the period 2013/14 – 2015/16, there is a significant savings requirement over the three year period in the region of £65m. The savings required for 2013/14 of £21.4m have be identified and early indications – including the 2012/13 achievements and under-spends are positive. The pressure mounts considerably in 2014/15 when there is a further £20.9m saving requirement and 2015/16 when an additional £24.2m needs to be found. Many of these savings requirements are due to be delivered via the Tri borough working arrangements. However, finding additional savings year after year will be a challenge. The Authority is currently working through how these additional savings can be achieved. The Authority continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Authority and earmarked reserves are strong. We will continue to focus our attention on this area as the programmes develop over the next year.

Conclusion

Our work in this area is substantially complete. Subject to the completion of closing procedures and final Partner review, we anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

We will formally follow up these recommendations next year.

Page 141

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Non-Current Asset Management** The Authority has over 14,000 assets with a value of approx £1.35bn which are controlled and utilised by departments and divisions across the Council. An asset base of this scale and diversity poses a number of challenges, both from a technical perspective with differences in valuation treatments and in terms of maintaining up to date records. The Authority currently uses a number of spreadsheets as its asset database and to perform the required accounting calculations. This relies on a number of manual calculations and is both time consuming throughout the year and places significant time pressures of the Capital team during the year end closedown process. The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.	**Management Response:** We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. This is due to go live in April 2014 and it will form the basis of closing the accounts in 2014/15. In the meantime (year of account 2013/14) the Council will continue to use spread sheets which will be refined and improved where possible. **Responsible Officer:** Bi-Borough Director of Finance **Due Date:** April 2014

Appendix 1: Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	**Investments** The Authority has an active treasury management function placing a number of investments throughout the year for significant sums. Our review of the control environment found it to be operating effectively and as designed with segregation of duties and a defined authorisation process for each investment placed. For individual investments over £10m the Council has an additional layer of approval, which requires review/authorisation by a third officer. Of the 12 investments greater than £10m tested within our sample we identified two that did not have the additional level of authorisation. Although the control had not been performed, we noted no issues indicating the investments were otherwise outside the Authority's policy. Whilst this represents a strong control environment, there is an opportunity to remove this additional layer of approval, to make the process more efficient and reducing the time officers spend processing each investment. A preparer and reviewer is sufficient to segregate duties and mitigate the risk of error and fraud.	**Management Response:** We accept the recommendation. We will seek to make the authorisation process more efficient while continuing to ensure a sound control environment observes necessary segregation of duties. **Responsible Officer:** Director of Corporate Finance & Investment **Due Date:** September 2013

Appendix 2: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit, Pensions and Standards Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Hammersmith and Fulham Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham Council , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hammersmith and Fulham Council ("the Authority"), for the year ended 31 March 2013, for the purpose of expressing an opinion:

i. as to whether these give a true and fair view of the financial position of London Borough of Hammersmith and Fulham Council as at 31 March 2013 and of its expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These 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 the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the expenditure and income for the year then ended;
   - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authroity from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Page 146

6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that:
       - are statutory, contractual or implicit in the employer's actions;
       - arise in the UK and the Republic of Ireland or overseas;
       - are funded or unfunded; and
       - are approved or unapproved,

    have been identified and properly accounted for; and

    b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit, Pensions and Standards Committee on 26 September 2013.

Yours faithfully,

Chair of the Audit, Pensions and Standards Committee and Executive Director of Finance and Corporate Governance cutting through complexity ™

KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2012/13

London Borough of Hammersmith & Fulham Pension Fund

13 September 2013

Contents

The contacts at KPMG in connection with this report are:

Michael McDonagh
Partner
KPMG LLP (UK)

Tel: 0207 694 5546
michael.a.mcdonagh@kpmg.co.uk

Sally-Anne Eldridge
Senior Manager
KPMG LLP (UK)

Tel: 0207 311 2146
sally-anne.eldridge@kpmg.co.uk

Grant Slessor
Assistant Manager
KPMG LLP (UK)

Tel: 0207 311 3849
grant.slessor@kpmg.co.uk

Page 149

Page

Report sections

Appendices

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This report summarises the key issues identified during our audit of the London Borough of Hammersmith & Fulham Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

Page 150

Scope of this report

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the Audit, Pensions and Standards Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Some of our responsibilities under ISA 260 relate to London Borough of Hammersmith & Fulham ('the Authority') as administering authority as a whole and are discharged through our reporting to the Authority's Audit, Pensions and Standards Committee. This includes:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Audit of the pension fund

As with the main audit of the Authority, our audit of the Fund follows a four stage audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second, third and fourth stages of the process: control evaluation, substantive procedures and completion. Our on site work for these took place in two tranches during July and August.

We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems, placing reliance on our work on the Authority's systems, where relevant.
- Review accounts production process
- Review progress on critical accounting matters

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters .
- Identify audit adjustments.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's financial statements in more detail.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Page 151

Proposed audit opinion	Subject to completion of our final closing procedures and final Partner review, we anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013. At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.
Audit adjustments	We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made two trivial adjustments, which were of a presentational nature.
Accounts production and audit process	The Authority has good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Control environment	Controls over the Fund's key financial systems are sound. However we have raised one low priority recommendation arising from our work, which is summarised in Appendix 1.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Subject to the completion of our closing procedures and final Partner review, we anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2013.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit, Pensions and Standards Committee on 26 September 2013, following completion of our final closing procedures and satisfactory clearance of our review process.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements

In addition, we identified two presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The Authority will address these in the final version of the financial statements.

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts, subject to completion of our closing procedures and review process.

Accounts production and audit process

The Authority has good processes in place for the production of the Fund's financial statements and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts in June 2013, in advance of the statutory deadline.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in May 2013 and discussed with Bob Pearce (Pension Fund Accountant), set out our working paper requirements for the audit. The quality of working papers provided met the standards specified.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved all audit queries in a reasonable time.

Control Environment

Controls over the Fund's key financial systems are sound.

During July and August 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We found that your organisational and control environment is effective overall.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound.

We noted one minor weakness in respect of individual financial systems:

- The Pension Fund Accountant does not review the reconciliations performed by the custodian between their own valuations and that of the fund managers for the pension fund's investment assets.

Recommendations are included in Appendix 1.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Pension Fund Review of Custodian Reconciliations** **Issue:** The Pension Fund relies on the valuations provided by the Custodian (Northern Trust) for financial reporting purposes. Although reconciliations are performed by the Custodian on a monthly basis between their own valuation of the pension fund's assets and that of the fund managers, the pension fund is not provided with these and there is no oversight of the process. **Risk:** Lack of oversight by the Authority limits the ability to challenge the valuations and the robustness of the Custodian's reconciliation processes and their investigations of any differences. Ultimately these are figures which are included in the financial statements and for which the Authority is accountable. **Recommendation:** Request that the Custodian provides these reconciliations on at least a quarterly basis with evidence that any significant discrepancies between fund manager and Custodian valuations are investigated.	**Management Response:** Discussions are already underway with the Fund's custodian to ensure that the reconciliations are received quarterly and all necessary investigations are undertaken. **Responsible Officer:** Director of Corporate Finance & Investment **Due Date:** 31st October 2013

cutting through complexity™

h&f putting residents first	**London Borough of Hammersmith & Fulham** **AUDIT PENSIONS AND STANDARDS COMMITTEE** **(26th September 2013)**
TITLE OF REPORT Annual Governance Statement 2012 2013	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
For Review & Comment **Key Decision:No**	
Wards Affected: None	
Accountable Executive Director: Jane West**,** Executive Director of Finance and Corporate Governance	
Report Author: Michael Sloniowski, BiBorough Risk Manager	**Contact Details:** Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk

1. **EXECUTIVE SUMMARY**

1.1. This report presents to the Committee the Council's Annual Governance Statement (AGS) covering the period 2012 - 2013 **(Appendix 1)**. The Annual Governance Statement is a statutory document which affirms the control processes and procedures are in place to enable the council to carry out its functions effectively.

1.2. The statement is produced following a review of the Council's governance arrangements and includes an action plan to address any significant governance issues identified.

2. RECOMMENDATIONS

2.1. The committee consider and approve the 2012 – 2013 Annual Governance Statement.

2.2. The committee are recommended to monitor and track an agreed management action plan to address areas of control weaknesses and therby ensure continuous improvement of the system of internal control.

3. **REASONS FOR DECISION**

3.1. This report updates Members on the purpose of the Annual Governance Statement and the governance framework that comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and the 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.

3.2. 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 can 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.

4. INTRODUCTION AND BACKGROUND

4.1. 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, Directors and 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 governance framework is undertaken by Internal Audit and no significant issues were identified as necessary to be reported to Hammersmith & Fulham Business Board.

4.2. **Review of effectiveness**

4.3. The Council is required and 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 is reported to the Leader of the Council, Chief Executive and Audit, Pensions and Standards Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place.

4.4. **Assurance process**

4.5. The process that has been applied across TriBorough in order to maintain and review the effectiveness of the governance framework over an extended enterprise includes the following but is not limited to:

- **The Council's internal management processes**, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process.

- **the work of the corporate and departmental contract and procurement and commissioning review boards.**

- **an annual self assessment of the adequacy of the governance arrangements in departments** completed by each Director and verified by their Executive Director for TriBorough, BiBorough or Sovereign services.

- **the Council's internal audit coverage**, which is planned using a risk-based approach. The outcome from the internal audit coverage helps form the Head of Anti-fraud and Internal Audit's opinion on the overall adequacy of the Council's internal control framework, which is reported in their annual report.

- **the Head of Anti-fraud and Internal Audit's annual report** on anti-fraud and corruption activities

- **the annual review of the effectiveness of the internal audit function**

- **external audit** review of the work of the internal audit service and comment on corporate governance and performance management in the Annual Audit Letter and other reports

- **External assessment and accreditation**

- **Ofsted** annual children's services assessment

- External audit of **the Council's financial statements and the pension fund accounts**

- **the work of the Audit, Pensions and Standards Committee**, which reviews the outcomes from the annual audit plan and the reports of the Head of Anti-fraud and Chief Internal Auditor and includes monitoring the operation of the Members' Code of Conduct and the Member and Officer Protocol.

- **the work of the Overview & Scrutiny Board**

5. PROPOSAL AND ISSUES

5.1. Significant governance issues

5.2. The review, as detailed above, provides good assurance of the effectiveness of the Council's system of internal control. There have been 3 governance issues closed from 2011 – 2012 and 3 identified during the year that are considered significant in relation to the Council's overall governance framework which include;

5.3. **Items closed** (Details outlined in Appendix 1)

- Theft of metals
- Local Taxation
- Housing repairs and maintenance charging

5.4. **New governance issues** (Details outlined in Appendix 1)

- Business Continuity – Supply chain resilience
- Contract Management – Maintenance of the contracts register
- Health and Safety – Contractors property risk assessment plans

5.5. Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed or are being included in action plans for the relevant management action.

5.6. In 2012/13, the Council's top level management structure underwent significant change to better align it to the Council's priorities and reduce the number of senior managers, thereby achieving estimated savings of £1million. These changes presented challenges in maintaining the Council's good level of governance and internal control. During the period of change, senior managers needed to continue to ensure that responsibilities and reporting lines were properly defined and clearly communicated.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable as the report is a representation of the overall Statement which has been discussed and agreed at Hammersmith and Fulham Business Board.

7. CONSULTATION

The H&F Chief Internal Auditor, Risk Management Consultant, H&F Business Board, Financial Strategy Board, Corporate Safety, Corporate Anti Fraud Service Legal Services Division,The Procurement and IT Strategy Team including Information Governance, all departments and the Internal Audit Services of The Royal Borough of Kensington and Chelsea and Westminster City Councils.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Failure to manage risk effectively and maintain a reasonable control environment may give risk to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. The Council has a Fiduciary Duty to limit exposure to unplanned risk which could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.

11. RISK MANAGEMENT

11.1. It is the responsibility of management to mitigate risk to an acceptable level and to maintain a reasonable system of internal control. Appropriate and proportionate mitigating actions to known risks will continue to be expressed in the Enterprise Wide Risk and Assurance Register and subject to review as part of planned Audit work and the Annual Governance Statement.

11.2. Implications verified/completed by: Michael Sloniowski, BiBorough Risk Manager. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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

*[**Note:** Please list only those that are not already in the public domain, i.e. you do not need to include Government publications, previous public reports etc.] Do not list exempt documents. Background Papers must be retained for public inspection for four years after the date of the meeting.*

LIST OF APPENDICES:

Appendix 1

Annual Governance Statement 2012 2013

ANNUAL GOVERNANCE STATEMENT **APPENDIX 1**

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 2013 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. In line with the Localism Act 2012, from July 2012 the Council's Standards Committee was abolished and integrated into the Audit, Pensions and Standards Committee. A new process for dealing with complaints received against Councillors and co-opted members was introduced. A new Members Code of Conduct promoting high standards of behaviour in the public life based upon the Seven Principles of Public Life was also being 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 and Bribery Policy that is incorporated in the 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 systems 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 and has been assessed this year against the new combined Public Sector Internal Audit Standards.

All Cabinet reports are cleared by the Executive Director of Finance & Corporate Governance and by the Director of Law 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, and mandates (where applicable) 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) and Role of the Head of Internal Audit (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 and Standards Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place.

Closed items

In completing this review the following governance issues identified in 2011-2012 were successfully closed;

1. ***Theft of materials***
Metal theft increased when worldwide prices for scrap metal rose. The instances in 2011/12 of theft of metals in the White City Estate area affected 24 properties. The Housing and Regeneration Department explored the idea of using technology to mark valuable metals which would allow them to be identified as Council property but this was considered not cost-effective.

A stock condition survey and validation has been undertaken and details recorded. The Asset Management Plan and investment plan was agreed at Cabinet for future capital works which satisfactorily resolves this issue.

2. ***Housing repairs and maintenance.***
Following investigations undertaken by Internal Audit in 2011/12, it had been established that there are some historic control weaknesses relating to the financial administration of council housing repairs and maintenance function. During 2012/13 the position was monitored by the Audit, Pensions and Standards Committee where it was established that a package of measures had been implemented including training, commitment accounting, and a weekly review process. This issue is now considered resolved.

3. ***Local taxation***
A significant internal control issue was identified in the council's system for business rates collection. Arrangements were subsequently agreed with

the Royal Borough of Kensington and Chelsea to undertake a series of management checks. A new proposal to combine NNDR and some Council Tax matters (under a new Taxation manager post) is being implemented. Work is progressing on the recovery of outstanding debt and, following an independent disciplinary panel hearing, a prosecution is being progressed by the Council.

Following an internal audit of the NNDR system a number of control improvements were recommended that have been successfully implemented.

The following governance issues were identified in 2012-2013;

1. *Business Continuity* - Supply Chain Resilience
Following an increase in the number of outsourced services and the continuing broad economic uncertainty it has been identified that the council is exposed to an increased supply chain risk. Following a recent collapse of a significant sub-contractor an internal audit of Supply Chain Resilience has been approved to establish the effectiveness of the system of internal control.

Whilst the council remains resilient to its main contractors it remains at risk of service interruption in responding to the failure of a critical subcontractor and business continuity plans do not always allow for this risk.

Any proportionate systems or process improvements identified following on completion of the audit will be adopted to improve the control environment in this area.

2. *Contract Management*
Chief Officers are responsible for all contracts tendered and let by their Department. They accountable to the Cabinet for the performance in relation to contract letting and management, which are to ensure compliance with English and EU legislation and Council Policy;
to ensure value for money in all procurement matters.

The council is required under its contract standing orders to record its contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded (using the London Councils Contracts Database where these have a total value of £50,000 and over);

It is apparent that the register is incomplete. A review of contract management is being undertaken by Internal Audit. Any evidence of non compliance with contract standing orders and Financial Regulations may result in recommendations to improve the system of internal control.

3. Health and Safety

There has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012/13 following a prosecution by the Heath and Safety Executive. This has included enhanced training, support, resource and guidance. A map of Health and Safety risks has been compiled and is reviewed quarterly. Safety Committees exist for TriBorough departments.

There is some evidence that health & safety contractors property risk assessment plans are not being effectively monitored resulting in breaches of statutory Health & Safety legislation. One notifiable incident has been made to the Health and Safety Executive in this regard.

While proposals, including an appointed person in post for the management of Asbestos, 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. Action Plans have been modified to improve the system of internal control in this area.

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

Agenda Item 6

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 26 SEPTEMBER 2013	
ANNUAL REVIEW OF THE CODE OF CONDUCT AND ARRANGEMENTS FOR DEALING WITH COMPLAINTS AGAINST MEMBERS AND CO-OPTED MEMBERS	
Report of the Monitoring Officer - Tasnim Shawkat	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Janette Mullins Principal Solicitor (Housing and Litigation)	**Contact Details:** Tel: 020 8753 2744 E-mail: janette.mullins@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Council at its meeting on 4 July 2012 delegated to the Audit, Pensions and Standards Committee the statutory role under the Localism Act 2011 and the specific responsibility of maintaining high standards of conduct for Members. The Council also approved the Members Code of Conduct and the arrangements for dealing with complaints alleging a breach of the Code.

1.2. The new arrangements have been in operation for just over a year and officers have undertaken a review, as a matter of good practice. This report advises the Committee on the outcome of the review and makes recommendations for some minor changes. The Committee is asked to consider these revisions to the Code and the Arrangements.

2. RECOMMENDATIONS

2.1. That the proposed changes to the "Arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct"' set out in paragraph 5.6 and Appendix 1, be recommended to the Council for approval.

2.2. That Council be recommended to amend to the Committee's terms of reference to include " To consider any applications for dispensations from Councillors and co-opted members to allow them to participate in decisions".

2.3. That Council is also requested to note that in the event of an application being received a three member Audit, Pensions and Standards (Dispensation) Sub Committee would be set up to consider the request.

2.4. That the draft guidance for applications for dispensations attached at Appendix 2, be approved.

3. REASONS FOR DECISION

3.1. The Localism Act 2011 places a duty on a local authority to ensure that its Members and co-opted Members maintain high standards of conduct. It must set out the rules that the authority wants to put in place with regard to requiring Members to register and disclose pecuniary and non-pecuniary interests and adopt a code of conduct for its Members.

3.2. As the new regime has been in place for only one year it is appropriate to review its operations and make any necessary changes.

4. INTRODUCTION AND BACKGROUND

4.1. The Localism Act 2011 abolished the Standards regime and introduced a new framework for the regulation of Member conduct. The Act placed a duty on local authorities to ensure that their Members and co-opted Members maintain high standards of conduct.

4.2. The Council approved its Code of Conduct for Members on 4 July 2012 along with the arrangements to deal with allegations that Members have failed to comply the Code. The Audit, Pensions and Standards Committee was charged with the responsibility to review the operation of the Code and the arrangements for dealing with complaints after a year.

4.3. The Code and the Arrangements are all on the Council's website.

4.4. The Parliamentary Committee on Standards on Public Life published its 2012 – 13 Annual Report in August 2013. It welcomed the mandatory requirement for all local authorities to adopt a local code of conduct. It also listed some concerns in paragraphs 38 to 40 of its report attached as appendix 3 as follows:

- The new regimes is likely to do less well where there is inadequate leadership to support the process,
- The current sanctions against poor behaviour are insufficient,
- The current level of involvement of the Independent Person is not sufficient to provide assurance that justice is being done, and equally important, that it is seen to be done., and

- By June 2012, many local authorities had not adopted a local code of conduct nor appointed an Independent person.

5. PROPOSAL AND ISSUES

- **REGISTER OF INTERESTS**

5.1. All Members have submitted the requisite forms to register their disclosable pecuniary interests. During the year all changes have been sent to the Governance section which has updated the Members' records online.

5.2. Following the election next year, new Members will be asked to complete registration of disclosable pecuniary interests forms. As part of this exercise, the Monitoring Officer will be reminding returning Members to ensure that their registration is up to date.

- **COMPLAINTS**

5.3. Since the Arrangements were adopted in July 2012, the Monitoring Officer has received two complaints about Members.

5.4. The first was received on 22 June 2012 and it was not possible to deal with it by 1 July 2012 when the law changed the new Arrangements. The complaint was that the Councillor had brought his office into disrepute. The Monitoring Officer met with the Independent Person and concluded, on the basis of the evidence presented, that there had not been a breach of the Code of Conduct and as such the complaint did not merit an investigation.

5.5. The second complaint was withdrawn after the Councillor concerned apologised for overlooking some correspondence and dealt with the matters raised.

- **ARRANGEMENTS FOR DEALING WITH COMPLAINTS**

5.6. Paragraph 4.3 sets out the criteria which the Monitoring Officer will take into account to decide whether or not a complaint merits investigation. It is suggested that two of the criteria needed further clarification namely:

(c) The complaint is not "tit for tat"
(d) The complaint appears not to be politically motivated

5.7. Notes have been added to the relevant paragraphs as set out in Appendix 1 to clarify these criteria.

- **INDEPENDENT PERSON**

5.8. On 4 July 2012 Council agreed that two Independent Persons should be appointed in conjunction with the Royal Borough of Kensington and Chelsea, to consider complaints against Members and to offer their impartial views on each case, including any investigations undertaken.

5.9. Ms Janis Cammel OBE was appointed on 4 July 2012 and Ms Johanna Holmes was appointed on 29 May 2013.

- **DISPENSATIONS**

5.10. The Localism Act 2011 also places the responsible for considering any applications from Councillors and co-opted members to allow them to participate in decisions in circumstances where they have disclosable pecuniary interests on the Council. The Members' Code of Conduct sets out which interests are disclosable pecuniary interests. A Member with a disclosable pecuniary interest, in a matter being considered at a Committee or by the Executive, must not participate in that decision unless he or she has been granted a dispensation.

5.11. Section 33 of the Localism Act 2011 provides that a dispensation may be granted only if, having had regard to all the relevant circumstances, the Committee considers that:

- without the dispensation, the number of Members prohibited from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;
- without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business;
- granting the dispensation is in the interests of persons living in the Borough;
- without the dispensation each member of the Cabinet would be prohibited from participating in any particular business to be transacted by the Cabinet; or
- it is otherwise appropriate to grant a dispensation.

5.12. A dispensation may be granted for one meeting or for a specific period (up to a maximum of 4 years).

5.13. Currently, this function is not clearly stated in the Committee's terms of reference. The Audit, Pensions and Standards Committee is asked to recommend to Council an amendment to its terms of reference as follows:-

- To consider any applications for dispensations from Councillors and co-opted members to allow them to participate in decisions.

5.14. Council is also requested to note that in the event of an application being received a three member Audit, Pensions and Standards (Dispensation) Sub Committee would be set up to consider the request. The membership would be from the main Committee.

5.15. The Committee is asked to approve the draft guidance for applications for dispensations attached at Appendix 2. Once approved, it will be put on the Council's website for use.

- **RELATED PARTY TRANSACTIONS**

5.16. For the purposes of the Council's Statement of Accounts, Members are required annually to complete and return a related party transactions form. This form is returned to the Corporate Accountancy and Capital team acting on behalf of Executive Director of Finance and Corporate Governance. The form declares whether a Member or any close members of their families, companies they own or have a major shareholding in or other organisations over which they have an element of control have been in receipt of income or made payments to the Council. The forms must be returned, at the very latest, by early June in time for the issuing of the Council's draft Statement of Accounts for the preceding financial year. The forms are made available to and reviewed by the Council's external auditors.

5.17. The opportunity will be taken to align this process with the declaration of any related party transactions for the previous financial year.

6. CONSULTATION

6.1. The independent person and the Whips have been consulted.

7. EQUALITY IMPLICATIONS

7.1. There are no specific equality and diversity implications for this report.

8. LEGAL IMPLICATIONS

8.1. The legal implications are contained in the body of the report.

Implications completed by: Janette Mullins, Principal Housing and Litigation Solicitor

9. FINANCIAL AND RESOURCES IMPLICATIONS

9.1. None.

10. RISK MANAGEMENT

10.1. Not applicable.

11. PROCUREMENT AND IT STRATEGY IMPLICATIONS

11.1. There are no procurement related issues contained in this report.

Implications completed by: Janette Mullins, Principal Housing and Litigation Solicitor.

- **LOCAL GOVERNMENT ACT 2000**
- **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

JSM/F00021/1

Appendix 1

London Borough of Hammersmith and Fulham
Arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct

1. Context

1.1 Under Section 28 of the Localism Act 2011, the Council must have 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 the Members' Code of Conduct can be investigated and decisions made on such allegations.

1.2 These "arrangements" set out how you may make a complaint that an elected or co-opted Member of the **London Borough of Hammersmith and Fulham** ("the Council") has failed to comply with the Members' Code of Conduct ("the Code") and sets out how the Council will deal with allegations of a failure to comply with the Code.

1.3 Such arrangements must provide for the Council to appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on an allegation which it has decided shall be investigated, and whose views can be sought by the Council at any other stage, or by a Member or co-opted Member against whom an allegation has been made.

2. The Code

2.1 The Code adopted by the Council is on the Council's website and paper copies can be requested from Governance and Scrutiny Team, Town Hall, King Street, London, W6 9JU.

3. Making a complaint

3.1 If you wish to make a complaint, please complete a copy of the complaint form, available on the Council's website or on request from Governance Services, and send or email it to:

The Monitoring Officer
Legal and Democratic Services
Town Hall
King Street
London W6 9JU

email Tasnim.Shawkat@lbhf.gov.uk

3.2 The Monitoring Officer is a senior officer of the Council who has statutory responsibility for maintaining the Register of Members' Interests and who is responsible for administering these arrangements.

3.3 Please provide all the details requested on the complaint form. If you want to keep your name and address confidential, please indicate this in the space provided on the complaint form. The Monitoring Officer will consider your request but in the interests of fairness the presumption is that the Member concerned is entitled to know who has made the complaint. If, in exceptional circumstances, your request is granted we will not disclose your name and address to the Member against whom you make the complaint without your prior consent.

3.4 The Council will not investigate anonymous complaints unless the Monitoring Officer considers that there is a strong and clear public interest in doing so.

3.5 The Monitoring Officer will acknowledge receipt of your complaint within 5 working days of receiving it and will keep you informed of the progress of your complaint.

4. Will your complaint be investigated?

4.1 The Monitoring Officer will consider each complaint received and will decide, on the basis of the information set out in the complaint form or submitted with the complaint, whether it merits formal investigation. Whilst complainants must be confident that complaints are taken seriously and dealt with appropriately, investigating a complaint involves spending public money as well as the cost of officer and Member time. The Council, therefore, takes a proportionate approach to the issue of whether or not a complaint merits investigation bearing in mind the sanctions which can be imposed if a Member is found to be in breach of the Code, and the costs to the Council and, therefore, to the public of undertaking an investigation. The performance of Members in terms of how they represent those in their wards is ultimately a matter for the electorate if a Member seeks re-election.

4.2 A complaint will only be considered to merit formal investigation if it complies with all the criteria in paragraph 4.3 or one or more of the criteria in paragraph 4.4 below. The Monitoring Officer will consult the Independent Person before coming to a final decision as to whether or not a complaint which meets the relevant criteria should be investigated.

4.3 The relevant criteria are:

a) The complaint raises matters which would be a breach of the Code;

b) The complaint is sufficiently serious to warrant investigation;

c) The complaint is not “tit-for-tat”; ” i.e. the complaint has not been made by another Member only because he or she has been complained about by the Member the subject of the complaint;

d) The complaint appears not to be politically motivated; (A complaint will not be adjudged to be politically motivated just because the complainant is from a different political group to the Member complained about);

e) It is about someone who is still a Member or co-opted Member of the Council;

f) The complaint has been received within 3 months of the alleged failure to comply with the Code unless there are exceptional circumstances for the delay and the delay does not mean that it would be difficult for a fair investigation to be carried out;

g) The same, or similar, complaint has not already been investigated;

h) It is not an anonymous complaint, unless it includes sufficient documentary evidence to show a significant breach of the Code;

i) The Member complained about has not already apologised and/or admitted making an error; and

j) If the complaint reveals a criminal offence and a complaint has been made to the Police, that the Police investigation and any proceedings have concluded or the Police have confirmed no proceedings will be issued.

4.4 a) The complaint reveals a continuing pattern of behaviour that is significantly and unreasonably disrupting the business of the Council and there is no other avenue left to deal with it other than by way of an investigation; or

b) The complaint is made by the Chief Executive or the Monitoring Officer

4.5 This decision will normally be taken within 28 working days of receipt of your complaint. The Monitoring Officer will inform you of his/her decision and the reasons for that decision.

4.6 In appropriate cases, where the Monitoring Officer has decided in accordance with the criteria set out above that a complaint would merit investigation, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the Member accepting that his/her conduct was in breach of the Code and offering an apology, or other remedial action such as correcting the Register of Interests. Where the Member makes a reasonable offer of informal resolution, but you are not willing to accept the offer, the Monitoring Officer will take account of this in deciding whether the complaint should be investigated.

4.7 In consultation with the Independent Persons and Chairman of the Audit, Pensions and Standards Committee, the Monitoring Officer will refer to the Police for investigation a complaint which falls under Section 34 of the Act which makes it a criminal offence if a Member or co-opted Member fails, without reasonable excuse, to comply with requirements to register or declare disclosable pecuniary interests (but not other such interests as the Council may include in its Code), or takes part in Council business at meetings or when acting alone when prevented from doing so.

5 How is the investigation conducted?

5.1 If the Monitoring Officer decides that a complaint merits investigation, he/she may conduct the investigation but will normally appoint an investigating officer, who may be another senior officer of the Council, an officer of another Council or an external investigator ("the Investigating Officer"). The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the detail of your complaint and so that you can explain your understanding of events and suggest what documents need to seen and who needs to be interviewed.

5.2 The Investigating Officer will normally write to the Member against whom you have complained and provide him/her with a copy of your complaint, and ask the Member to provide his/her explanation of events, and to identify what documents he needs to see and who he needs to interview.

In exceptional cases, where the Monitoring Officer has decided to keep your identity confidential your name and address will be deleted from the papers given to the Member.

5.3 At the end of his/her investigation, the Investigating Officer will produce a draft report ("the Investigation Report") and will send copies of that draft report, in confidence, to you and to the Member concerned, to give you both an opportunity to correct any factual inaccuracies.

5.4 Having received and taken account of any comments which you may make on the draft Investigation Report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6 What happens if the Investigating Officer or Monitoring Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

6.1 The Monitoring Officer will review the Investigating Officer's report and, if he/she is satisfied that the Investigating Officer's report is sufficient, the Monitoring Officer will write to you and to the Member concerned notifying you that he/she is satisfied that no further action is required, and give you both a copy of the final Investigation Report. There is no right of appeal for you as complainant or for the Member against a decision of the Monitoring Officer.

7 What happens if the Investigating Officer or Monitoring Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

7.1 If an Investigating Officer has been appointed the Monitoring Officer will review the Investigating Officer's report, seek the views of the Independent Person and will then arrange for the Audit, Pensions and Standards (Complaints) Sub Committee to consider the complaint. The Sub Committee will consider the Investigator's Report, the written opinion of the Independent

Person and any written representations from the Member concerned before deciding whether the Member has failed to comply with the Code and, if so, whether to take any action in respect of the Member.

7.3 The meeting will be held in public so you may attend the meeting as can other members of the public. The Committee will usually consider the matters on the papers but, in exceptional cases, the Member may be permitted by the Committee to make representations on his or her own behalf, although he or she will not be entitled to be represented by a solicitor or other legal representative. . Whether or not the case in question is an "exceptional case" is a matter for the discretion of the Committee but might include, for example, cases where the Member's version of the relevant facts is significantly at odds with the conclusions reached in the Investigating Officer's report and as a consequence the Committee would like to hear from the Member

7.4 The Committee, with the benefit of any advice from the Independent Person, may conclude that the Member did not fail to comply with the Code, and dismiss the complaint. If the Committee concludes that the Member did fail to comply with the Code, the Chairman will inform those present at the meeting of this finding and the Committee will then consider what action, if any, the Committee should take as a result of the Member's failure to comply with the Code. In doing this, the Committee may give the Member an opportunity to make representations but will consider any written representations from the Member and take into account the views of the Independent Person, before deciding what action, if any, to take in respect of the matter.

8 What action can the Audit, Pensions and Standards Committee take where a Member has failed to comply with the Code of Conduct?

The Committee may:-

8.1.1 Censure the Member;

8.1.2 Report its findings to a meeting of the Council for information;

8.1.3 Recommend to the Council that the Member be issued with a formal censure;

8.1.4 Recommend to the Member's Group Leader that he/she be removed from any or all Committees or Sub-Committees of the Council; or

8.1.5 Recommend to the Leader of the Council that the Member be removed from the Cabinet, or removed from particular Portfolio responsibilities.

9 What happens at the end of the hearing?

9.1 At the end of the hearing, the Chairman will announce the decision of the Committee as to whether the Member failed to comply with the Code and as to any sanctions imposed.

9.2 As soon as reasonably practicable thereafter, the Monitoring Officer will write to you and the Member concerned confirming the decisions taken.

10. Appeals

10.1 Where a Member is dissatisfied with the decision of the Audit, Pensions and Standards (Complaints) Sub-Committee in respect of a complaint against him/her, he/she may appeal to an Audit, Pensions and Standards (Appeals) Sub-Committee comprising a different membership to the original Sub-Committee, to reconsider the decision. The Member will be required to set out in detail, within 14 days of the Committee meeting, the grounds upon which an appeal is sought.

10.2 Upon receipt of notification of appeal, the Monitoring Officer will consult an Independent Person for his/her views. The Monitoring Officer will forward a report detailing the allegations, views of the Independent Person and the findings of the investigation to the Audit , Pension and Standards (Appeals) Committee who will determine the appeal. The Appeals Sub-Committee can either endorse the previous decision or conclude that there is no breach and dismiss the complaint.

11 What are the responsibilities of the Audit, Pensions and Standards Committee?

11.1 The Audit, Pensions and Standards Committee is charged with considering those written complaints that a Member or co-opted Member has failed to comply with the Code referred to it following an investigation of the complaint. The Committee may decide to impose a sanction if it finds that the Member has failed to comply with the Code. The duty to consider complaints has been delegated to its Complaints Sub Committee.

12 Who is the Independent Person?

12.1 The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and has been appointed by the Council. There a number of statutory restrictions on who may be appointed. For example, a person cannot be appointed as an independent person if he or she is, or has been within the past 5 years, a Member, co-opted Member or officer of the Council.

12.2 The Independent Person may be invited to attend meetings of the Committee and his/her views are sought and taken into consideration before the Committee takes any decision on whether the Member’s conduct constitutes a failure to comply with the Code and as to any action to be taken following a finding of failure to comply with the Code.

13 Revision of these arrangements

13.1 The Council may by resolution agree to amend these arrangements.

Application to the Audit, Pensions and Standards Committee for a Dispensation

To: Audit, Pensions and Standards Committee, c/o The Monitoring Officer.

1. Full name of Member seeking dispensation ***Note:*** *the application must be submitted by the individual Member seeking the dispensation*
2. The disclosable pecuniary interest for which a dispensation is sought
3. Nature and duration of the dispensation sought ***Note:*** *dispensations may be granted for speaking only or for speaking and voting. They may be granted for a particular meeting or may be granted for a specified period of time (up to a maximum of 4 years)*
4. Date of the meeting at which the interest will arise, if relevant

5. Reasons why you think the Committee should grant the request for a dispensation. ***Note:*** *Please read the Guidance on Applications for Dispensations which sets out the matters which the Audit, Pensions and Standards Committee will take into account in coming to a decision.*

Signed: . . . .

Name (block caps): . . . .

Dated: . . . .

Guidance on Applications for Dispensations

This guidance explains:

- the circumstances which dispensations can be granted
- the procedure for applying for dispensations
- the criteria which the Audit, Pensions and Standards Committee will apply in determining applications

1. The Audit, Pensions and Standards Committee may at its discretion grant dispensations to Members allowing them to speak and vote at a meeting in circumstances where they have a disclosable pecuniary interest. This function is delegated to the Audit, Pensions and Standards (Dispensation) Sub Committee.

2. This procedure sets out how requests for dispensations should be made, the process that will be followed when the request is considered and the criteria that will be applied when the request is determined.

3. A Member seeking a dispensation should send the completed form (attached to this guidance) to the Monitoring Officer. The application should be submitted as early as possible. Upon receipt of the application, a meeting of Audit, Pensions and Standards (Dispensation) Sub Committee will be convened.In deciding whether to grant the dispensation the Sub Committee will consider:

   (a) whether the legal criteria for the grant of a dispensation are met (see paragraph 4 below);
   (b) the reasons why the applicant Member considers the dispensation should be granted; and
   (c) the matters referred to in paragraph 6 below

4. The Audit, Pensions and Standards (Dispensation) Sub Committee has the power to grant a dispensation in the following circumstances if, having had regard to all relevant circumstances, the Committee considers that;

   (a) without the dispensation the number of Members prohibited from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;
   (b) without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business;
   (c) granting the dispensation is in the interests of persons living in the Borough;

(d) without the dispensation each member of the Cabinet would be prohibited from participating in any particular business to be transacted by the Cabinet; or
(e) it is otherwise appropriate to grant a dispensation.

A dispensation may be granted for just one meeting or for a specified period (up to a maximum of 4 years).

5. In coming to a decision the Sub Committee will take into account the following, where relevant;

- *Is the nature of the Member's interest such that allowing them to participate would not damage public confidence in the conduct of the authority's business?* A dispensation is unlikely to be granted where the decision is one having a direct and significant financial effect on the applicant Member. For example, a dispensation allowing a Member to be on the Planning Applications Committee determining his or her planning application would be extremely unlikely to be granted.
- *Can the decision be readily taken in an alternative way without damage to public confidence in the conduct of the authority's business?* It may not be in the public interest if the decision, in the absence of dispensations being granted, could be taken only by a small number of Members or by an officer under delegated powers.
- *Is the participation of the Member in the business that the interest relates to justified by the Member's particular role or expertise?*

6. The Sub Committee may grant a dispensation to allow the Member to speak and not vote, or to speak and vote. In most cases it will be appropriate to grant a dispensation allowing full participation. The Sub Committee will also consider how long the dispensation should apply.

7. The Monitoring Officer will notify the Member of the Sub Committee's decision and the reasons for it at the earliest opportunity. Then nature and duration of any dispensation granted will be recorded in writing and kept with the register of Members' interests.

Annual

Report

2012-13

Committee on Standards
In Public Life

August 2013

CONTENTS

INTRODUCTION

1. The Committee on Standards in Public Life has wide terms of reference.

> **"To examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities, and make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life and to review issues in relation to the funding of political parties, and to make recommendations as to any changes in present arrangements."[1]**

2. The Committee fulfils this role partly through its formal inquiries. In addition, we routinely monitor and consider issues and concerns relating to standards in public life, track public perception of standards of conduct of public office holders and seek to promote the Seven Principles of Public Life. We contribute to public policy development through meetings, seminars, research, speaking engagements, and by responding to consultation papers on relevant issues.

3. This report provides an overview of the Committee's activities over the course of the financial year 2012/13. The Committee's main project in this year has been to produce its Fourteenth Report, *Standards matter: A review of best practice in promoting good behaviour in public life*. This report aimed to analyse what has been shown to work best in promoting high standards and to take stock of current areas of risk. The project was launched in May 2012, and the final report was published in January 2013. The Committee also carried out its fifth biennial survey of attitudes to standards in public life, the results of which will be published in September 2013.

4. A triennial review of the Committee was carried out this year, the report of which was published by the Government in February 2013. As a result, on 5 February 2013, the terms of reference of the Committee were clarified in two respects: *'...in future the Committee should not inquire into matters relating to the devolved legislatures and governments except with the agreement of those bodies'* and *'...the Committee's remit to examine "standards of conduct of all holders of public office" [encompasses] all those involved in the delivery of public services, not solely those*

---

[1] Hansard (HC) 25 October 1994, col. 758, Hansard (HC) 12 November 1997, col. 899 and Hansard (HC) 25 October 1994, col 758

appointed or elected to public office.'[2]

5. Following an open competition, Lord Bew has been appointed the new Chair of the Committee effective from 1 September 2013. His term of office is for five years and is non-renewable. Following the end of Sir Christopher Kelly's term on 31 March 2013, David Prince served as interim Chair until 31 July 2013.

6. The appendices to this report provide detail about the structure and finances of the Committee.

OVERVIEW OF ACTIVITIES

General Overview

7. This year we reflected on what has been achieved since the Committee's first report in 1995. We asked ourselves whether the task was completed and, if not, what more still needs to be done. We found that while many of the original "Nolan Principles" - such as integrity, accountability and openness are widely understood and resonate closely with public expectations - the principles as a whole were still not being lived out everywhere in spirit as well as letter. There needed to be more active implementation and embedding within the day to day business of many organisations.

8. More disturbingly, the year's news was dominated by stories of governance failures and other inappropriate behaviour in institutions previously enjoying high levels of public trust and confidence, and by the failure of leadership in others, both private and public, to inculcate a culture of high standards in tune with public expectations. Many instances have involved deliberate attempts to get around codes of practice and conduct, and in some cases there are allegations involving covering up, concealment and even criminal activity. Moreover, when some individuals attempted to raise ethical issues or standards concerns they were prevented or inhibited from raising those concerns internally or speaking out on issues in the public interest.

9. So, while much of the infrastructure is now in place to support high standards - statements of principles, codes of conduct, independent scrutiny, and while standards of behaviour have improved in many areas of public life, high standards are still not yet understood everywhere as a matter of integrity and personal responsibility. Recent lapses have occurred not because individuals, often in key leadership roles, have been unaware of their responsibility and of what

[2] Hansard (HC) 5 February 2013, col. 7WS

Lobbying

36. The Committee continues to regard lobbying as an area in which there are genuine concerns involving suspicions that some lobbying may be taking place in secret and some individuals or organisations have more access to policy makers, so that it is not known who or what is influencing a particular decision. However, we remain doubtful that a statutory register of third party lobbyists, as proposed by the Government in a consultation paper in 2012, is the key to further reform. We believe it would be better to build on the steps already taken to increase transparency. Greater transparency might include, for example, enhancing the level of disclosure around meetings between ministers and those lobbying on behalf of a particular interest, as proposed in a report published in July 2012 by the Political and Constitutional Reform Committee. The Government renewed its commitment to introducing a statutory register of lobbyists and increasing transparency around lobbying in its mid-term review of the Coalition published in January and has recently restated that legislation will be introduced in July 2013.

37. As set out in our annual work plan, the Committee has been considering the transparency issues around lobbying, focusing particularly on those who are lobbied. To progress this work, the Committee issued a call for evidence in June and will be holding a meeting after the Parliamentary recess with interested parties, to look at what more can be done to bring greater integrity to existing arrangements. With the evidence gathered we aim to produce proportionate recommendations which will complement the proposed statutory provision and help restore the public's trust and confidence.

Local government standards

38. Under the Localism Act 2011 the new local government standards regime came into effect on 1 July 2012. The Committee welcomed the introduction of a mandatory requirement for local authorities to adopt a local code of conduct based on the Seven Principles of Public Life and the intention to encourage a greater sense of local responsibility for standards and to reduce the number of vexatious complaints.

39. While we recognise that the new system needs time to properly bed in, we do, however, have certain concerns:

- Due to the emphasis on local ownership of standards we would expect the new regime, like the previous one, to function well in those areas where party leaders are prepared to provide the necessary leadership and example. It is likely to do less well where such leadership is inadequate.[5] History suggests that problems are most likely in areas with monolithic political cultures and correspondingly little political challenge, where partisan rivalry is most bitter and tit-for-tat accusations most common, or in those predominantly rural areas with significant numbers of independent members without the benefit of party discipline.

- Under the previous arrangements local authorities and an independent tribunal had the power to suspend members for varying periods of time as a sanction against poor behaviour. The only sanctions now available, apart from through the use of a political party's internal discipline procedures are censure or criminal prosecution for deliberately withholding or misrepresenting a financial interest. We do not think these are sufficient. The last few years have seen a number of examples of inappropriate behaviour which would not pass the strict tests required to warrant a criminal prosecution, but which deserves a sanction stronger than simple censure. While censure may carry opprobrium in the political arena it is often considered unacceptably lenient by the public relative to other areas of their experience. Coercion of other members or officers is one category of offence with which it will be difficult to deal adequately under the new arrangements.

- Under the previous arrangements allegations about poor behaviour were determined by standards committees independently chaired by individuals who were not themselves members of the local authority. Under the new arrangements every local authority must appoint at least one independent person whose views it will seek, and take into account, before making its decision on an allegation that it has decided to investigate. We doubt that this will be sufficient to provide assurance that justice is being done and, equally important, that it is seen to be done.

- In the transition to the new system local authorities may have lacked proper time to prepare. In early June 2012 we wrote to all local authorities in England to ask about their preparations for implementing the new regime which came into force on 1 July 2012. The Committee was concerned that so late in the day, nearly half of those who responded had yet to adopt a new code and around four fifths had yet to appoint an independent person. The fact that the Regulations and Order which took effect from 1 July were laid only on 6 June cannot have helped their preparations.

---

[5] Not forgetting that in several prominent recent cases it is the behaviour of leaders themselves that have been under question.

40. While inevitably there have been various teething problems with the new regime, the Committee will continue to monitor the implementation and its effectiveness, particularly in relation to public confidence that any wrongdoing is tackled promptly and transparently in the absence of any external investigation and scrutiny.

Independent Adviser on Ministerial Interests

41. In a report published in March 2012, the Public Administration Select Committee (PASC) raised the possibility that the Independent Adviser on Ministerial Interests was in practice insufficiently independent, as he or she is appointed personally by the Prime Minister, is supported from within the Cabinet Office, and cannot instigate his or her own investigations. Investigations can only be undertaken at the request of the Prime Minister. We agreed, and argued for the independence of the role to be increased and the power to instigate investigations to be granted.

42. The Independent Adviser on Ministerial Interests has carried out one investigation since then, finding in June 2012 that the then Conservative Co-Chairman had committed a minor breach of the Ministerial Code by not declaring a business relationship. However, there has also been controversy over the Prime Minister's decisions not to refer allegations made in 2012 about a possible breach of the code by the then Secretary of State for Culture, Media and Sport in relation to the bid by News Corporation for BSkyB to the Independent Adviser, on the basis that the issue would be looked at during evidence sessions for the Leveson Inquiry. It would in our view have taken much of the politics out of the issue, to everyone's advantage, if the decision on whether to investigate separately had been taken by the Independent Adviser – even if, as he might well have done, he had taken the same view. It is too easy for a Prime Ministerial decision not to refer, to be interpreted, however unfairly, as being motivated by a desire to avoid uncomfortable revelations.

43. In July 2012 our then Chair, Sir Christopher Kelly, issued a statement arguing for the Adviser to have the power to instigate investigations. The debate is still ongoing, and we continue to monitor it with interest.

The Leveson Inquiry

44. Part 1 of the Leveson Inquiry into the culture, practice and ethics of the press was published in November 2012. The Committee submitted written evidence to the Inquiry in 2011, and welcomed the contribution it made to the debate on press regulation and public standards in the UK more

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** 26th September 2013
PENSION FUND VALUE AND INVESTMENT PERFORMANCE	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Information **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-Borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb @westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report prepared by P-Solve, provides details of the performance and market value of the Council's Pension Fund investments for the quarter ending 30th June 2013. It is attached as Appendix 1.

2. RECOMMENDATIONS

2.1. To note the report.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. Not applicable.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

5. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

6 CONSULTATION

7.1 Not applicable.

8 EQUALITY IMPLICATIONS

8.1 Not applicable.

9 LEGAL IMPLICATIONS

9.1 Not applicable.

10 FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11 RISK MANAGEMENT

11.1 Not applicable.

12 PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1 Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Quarterly Fund Manager reports	Nicola Webb 020 7641 4331	16th Floor, Westminster City Hall

LIST OF APPENDICES:

Appendix 1: P-Solve Quarterly report for quarter ended 30th June 2013

P-Solve

London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2013

This report is addressed to the Audit & Pensions Committee of the London Borough of Hammersmith & Fulham Pension Fund only.
– Not for onward distribution

Strategic Overview

Summary

The assets of the Fund are considered in terms of four broadly 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 1⅛% 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	*FTSE All Share + 2% p.a. over three year rolling periods*
MFS	*MFS Custom Benchmark*
Barings	*3 month Sterling LIBOR + 4% p.a.*
Ruffer	*3 month Sterling LIBOR + 4% p.a.*
Goldman Sachs	*3 month Sterling LIBOR + 2% p.a.*
Legal & General	*Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)*

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 Unicapital which is invested almost entirely in Europe.

Performance Overview

Breakdown of Fund Peformance by Manager as at 30th June 2013									
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.	5 year return (%) p.a.
Total Fund		**715,212**	**100.0**	**100.0**	**(1.5)**	**16.3**	**9.6**	**11.8**	**10.0**
New Liability Benchmark + 2.2% p.a.					*(5.2)*	*4.8*	*10.7*	*11.1*	*6.8*
Difference					*3.7*	*11.5*	*(1.1)*	*0.7*	*3.2*
UK Equity Mandate		**178,517**	**25.0**	**22.5**					
	Majedie				3.0	29.6	13.7	17.1	12.1
FTSE All Share + 2% p.a.					*(1.2)*	*20.3*	*9.0*	*15.0*	*8.8*
Difference					*4.2*	*9.3*	*4.7*	*2.1*	*3.3*
Overseas Equity Mandate		**170,689**	**23.9**	**22.5**					
	MFS				(0.6)	21.9	9.9	14.1	12.0
MFS Custom Benchmark					*(0.6)*	*20.2*	*8.4*	*12.6*	*9.8*
Difference					*0.0*	*1.7*	*1.5*	*1.5*	*2.2*
Dynamic Asset Allocation Mandates		**202,068**	**28.3**	**30.0**	**(0.5)**	**10.4**	**6.1**	**7.7**	**-**
	Barings	121,661	17.0	18.8	(1.2)	7.6	5.1	7.1	-
3 month Sterling LIBOR + 4% p.a.					*1.1*	*4.6*	*4.8*	*4.8*	-
Difference					*(2.3)*	*3.0*	*0.3*	*2.3*	-
	Ruffer	80,407	11.2	11.2	0.5	14.8	7.7	8.1	-
3 month Sterling LIBOR + 4% p.a.					*1.1*	*4.6*	*4.8*	*4.8*	-
Difference					*(0.6)*	*10.2*	*2.9*	*3.3*	-
Matching Fund		**150,167**	**21.0**	**25.0**	**(8.6)**	**5.1**	**9.1**	**8.2**	**-**
Liability Benchmark + 1% p.a.					*(5.5)*	*3.6*	*9.4*	*9.9*	-
Difference					*(3.1)*	*1.5*	*(0.3)*	*(1.7)*	-
	Goldman Sachs	63,202	8.8	12.5	0.5	6.0	3.4	2.9	2.4
3 month Sterling LIBOR + 2% p.a.					*0.6*	*2.6*	*2.8*	*2.8*	*1.1*
Difference					*(0.1)*	*3.4*	*0.6*	*0.1*	*1.3*
	Legal & General	86,966	12.2	12.5	(14.2)	4.5	13.8	12.8	9.0
Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)					*(11.4)*	*3.8*	*22.0*	*21.1*	*10.9*
Difference					*(2.8)*	*0.7*	*(8.2)*	*(8.3)*	*(1.9)*
Private Equity		**13,770**	**1.9**	**0.0**	**3.3**	**16.7**	**13.4**	**16.5**	**-**
	Invesco	7,656	1.1	0.0	5.4	16.6	19.1	17.6	-
	Unicapital	6,114	0.9	0.0	0.7	17.1	6.8	14.8	-

Notes:

1) Over the 3 months to 30 June 2013, 3 month LIBOR returned 0.1%, over a 12 month period the return was 0.6%.
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

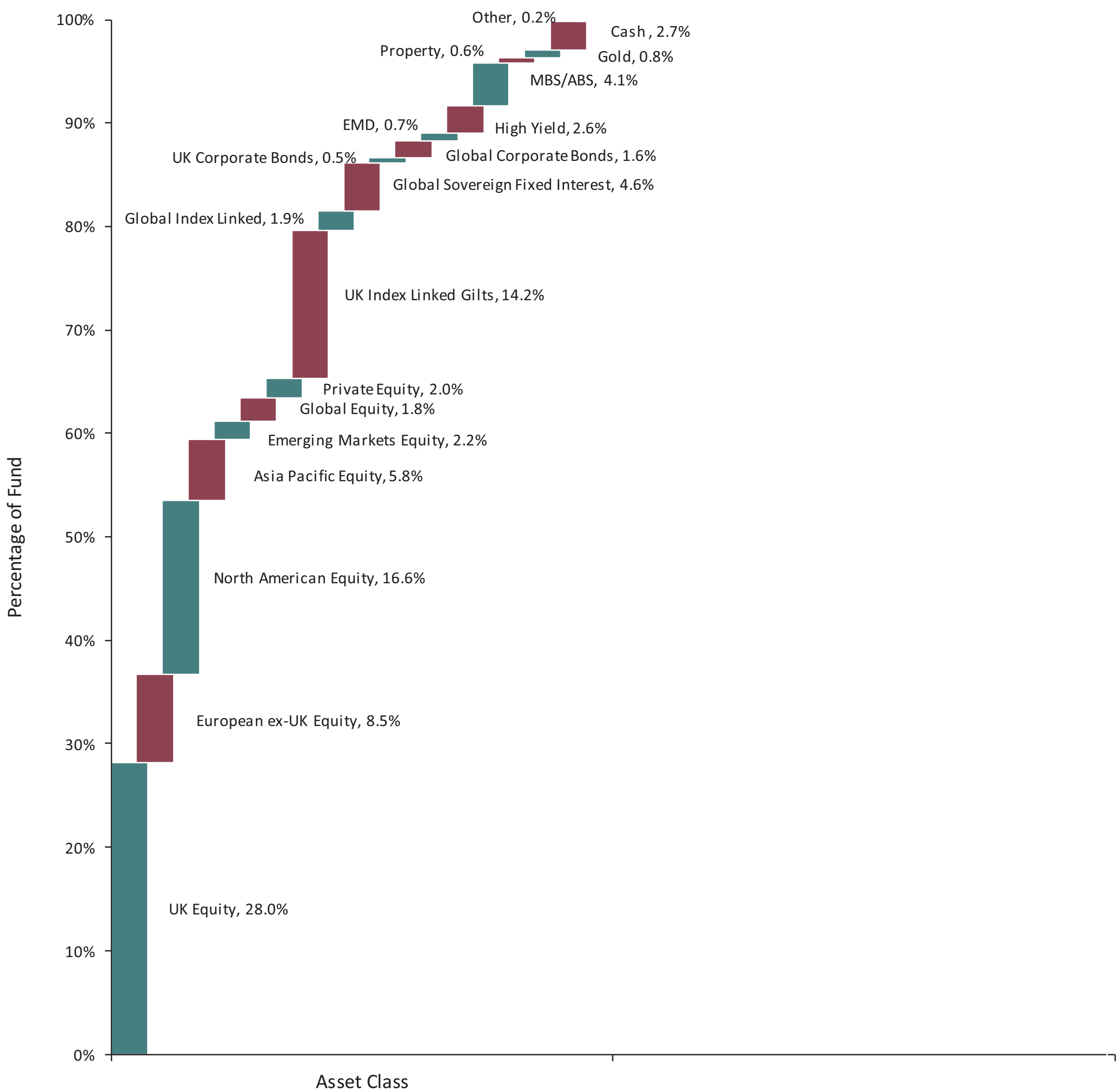
Asset Reconciliation and Valuation

Fund	Manager	Closing Market Value as at 31st March 2013 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2013 £000	% of Total Fund	Target % of Total Fund
Total Fund		**725,890**	**100.0**	**(0)**	**(10,678)**	**3,189**	**0**	**715,212**	**100.0**	**100.0**
UK Equity Mandate	**Majedie**	**173,369**	**23.9**	**-**	**5,148**	**1,498**	**-**	**178,517**	**25.0**	**22.5**
Overseas Equity Mandate	**MFS**	**171,759**	**23.7**	**(0)**	**(1,070)**	**1,242**	**0**	**170,689**	**23.9**	**22.5**
Dynamic Asset Allocation Mandates		**203,110**	**28.0**	**-**	**(1,042)**	**449**	**-**	**202,068**	**28.3**	**30.0**
	Barings	123,116	17.0	-	(1,455)	30	-	121,661	17.0	18.8
	Ruffer	79,994	11.0	-	413	419	-	80,407	11.2	11.2
Matching Fund		**164,316**	**22.6**	**-**	**(14,149)**	**-**	**-**	**150,167**	**21.0**	**25.0**
	Goldman Sachs	62,919	8.7	-	283	-	-	63,202	8.8	12.5
	Legal & General	101,397	14.0	-	(14,431)	-	-	86,966	12.2	12.5
Private Equity		**13,336**	**1.8**	**-**	**434**	**0**	**-**	**13,770**	**1.9**	**0.0**
	Invesco	7,265	1.0	-	391	0	-	7,656	1.1	0.0
	Unicaptial	6,071	0.8	-	43	-	-	6,114	0.9	0.0

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

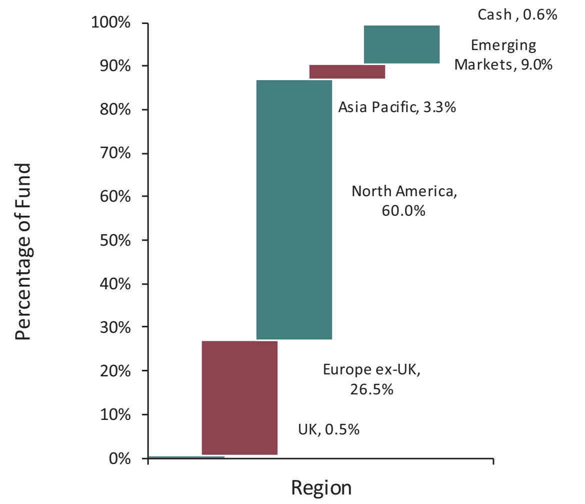
Fund Breakdown

Asset Class Breakdown as at 30 June 2013

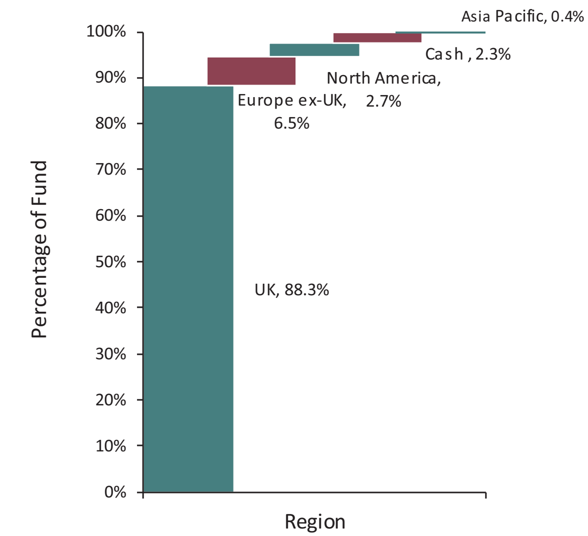


Notes: Breakdown has been estimated by P-Solve based on the available manager data.

Breakdown of the MFS mandate

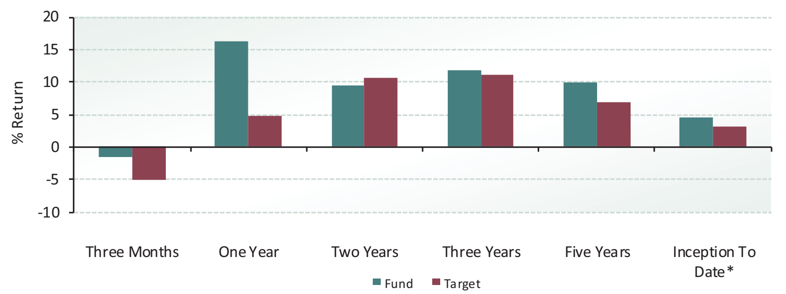


Breakdown of the Majedie mandate



Overall Performance

Historical Fund Performance



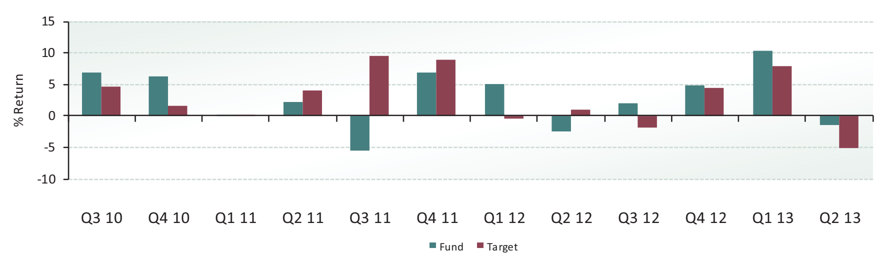
The Fund outperformed its liability benchmark by 3.71% over the quarter, returning -1.47% compared to the target of -5.18%. The Fund's performance of 16.26% over the year was ahead of its target by 11.43%. The Fund has kept pace over the last 3 years and has outperformed over 5 years and since inception by 3.16% and 1.46% per annum respectively.

	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	-1.47	16.26	9.57	11.79	9.96	4.62
Target	-5.18	4.83	10.70	11.11	6.80	3.16

*Incepted 31 December 1999

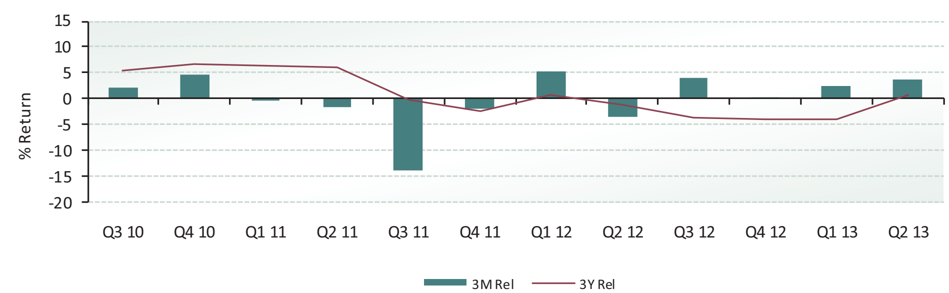
Page 203

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96	4.85	10.37	-1.47
Target	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96	4.46	7.96	-5.18

Three Years Rolling Relative Returns

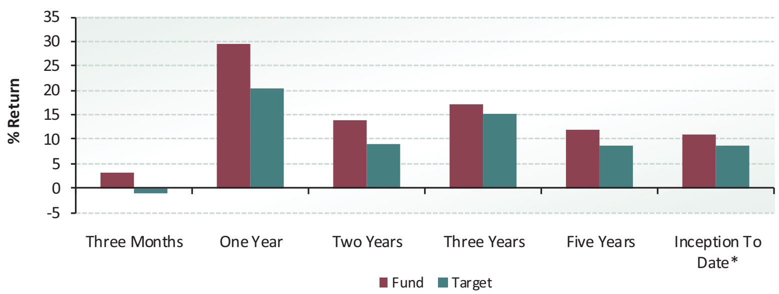


	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00	0.39	2.41	3.71
3Y Rel	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46	-4.07	-3.90	0.68

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.
Three Year Rolling Relative Returns have been calculated arithmetically from Q4 2012 onwards.

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 Fund Performance



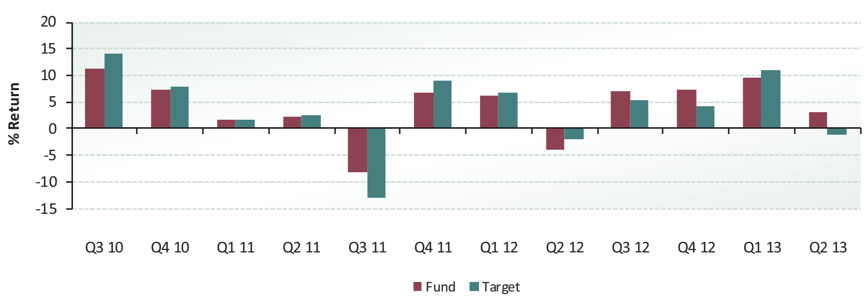
	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	2.97	29.63	13.73	17.11	12.07	10.99
Target	-1.17	20.26	9.01	15.03	8.81	8.54

*Incepted 31 August 2005

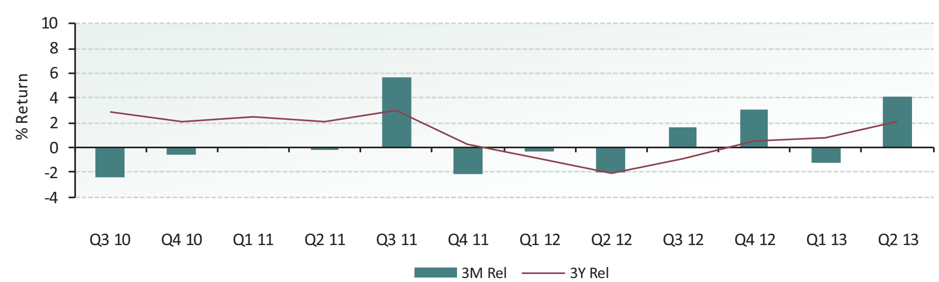
Quarterly Manager update

Organisation	A new portfolio manager will join the team in November to focus on small-cap companies alongside Adam Parker. Richard Staveley joins from River & Mercentile, where he ran UK equity smaller companies and UK equity income funds.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.97% over the quarter, 4.14% ahead of its target. Over 12 months, the portfolio was 9.37% ahead of its target. Performance drivers were holdings in Nokia, Mediaset (Italian TV) and Post NL (Dutch postal), with other positive contributions from MyCelx Technologies, Lonrho, Blur Group, Polar Capital and Anglo Asian Mining. The main negative contribution was from FirstGroup whose share price fell due to a deeply discounted rights issue during the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96	7.42	9.57	2.97
Target	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21	4.33	10.85	-1.17

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66	3.09	-1.28	4.14
3Y Rel	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90	0.48	0.84	2.08

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.

MFS

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 Fund Performance

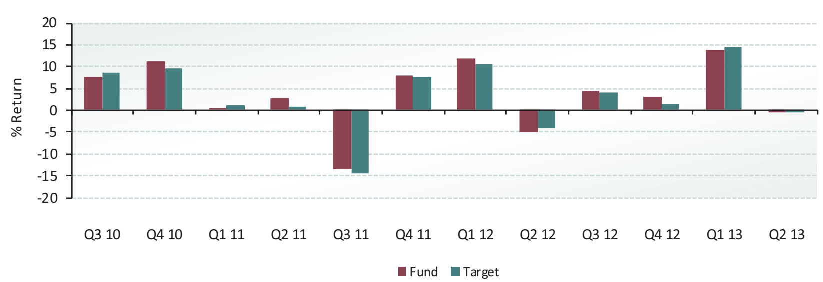
	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	-0.62	21.87	9.88	14.05	11.97	10.32
Target	-0.63	20.22	8.35	12.60	9.79	9.02

*Incepted 31 August 2005

Quarterly Manager update

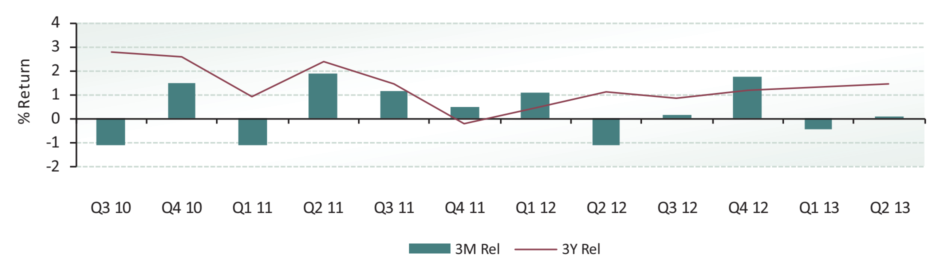
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was -0.62%, 0.01% ahead of its target. Over 12 months, the fund was 1.65% ahead of its target. An overweight position in the Industrial Goods & Services sector and stock selection in Danone, Walt Disney Co. and Occidental Petroleum Corp. has aided performance. However, holdings in the Financial Services sector as well as Toyota Motor Corp., Rio Tinto (mining company) and Saipem (oil services company) all detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31	3.23	13.88	-0.62
Target	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20	1.53	14.35	-0.63

Three Years Rolling Relative Returns

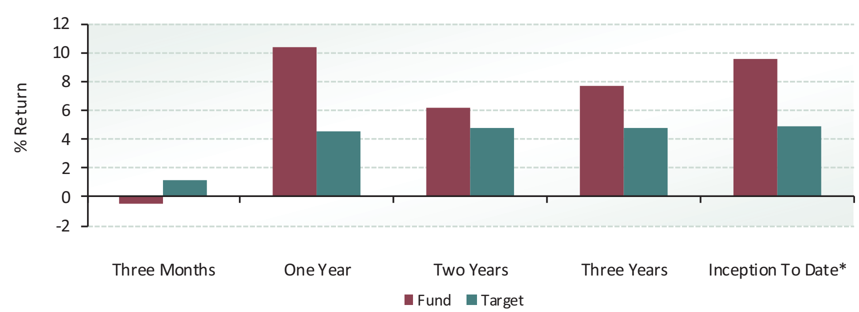


	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11	1.70	-0.47	0.01
3Y Rel	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83	1.14	1.33	1.45

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.

Dynamic Asset Allocation Group

Historical Fund Performance

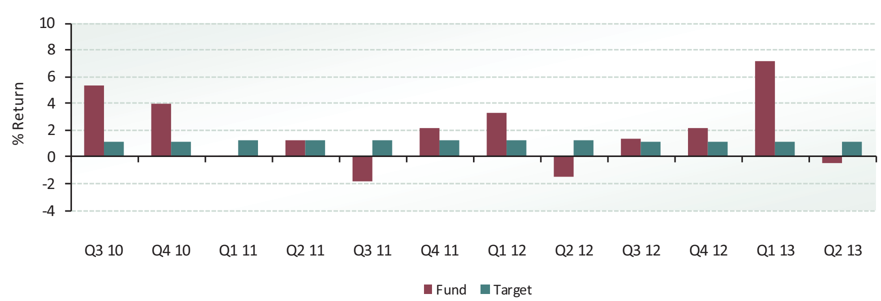


	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-0.51	10.37	6.13	7.65	9.56
Target	1.11	4.59	4.81	4.81	4.89

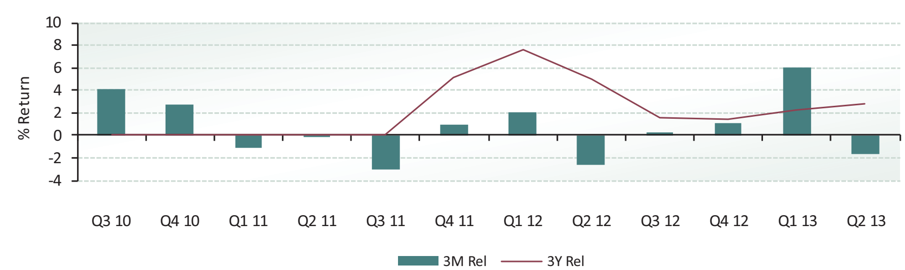
* Grouped performance incepted 31 December 2008

Both Dynamic Asset Allocation managers underperformed their LIBOR based targets over the quarter. Although Ruffer generated a positive absolute return of 0.5%, Barings returned -1.2% so overall the group returned -0.5% over the quarter, against the LIBOR based target of 1.1%. Both managers were negatively affected by the general pull back in all asset classes over late May and throughout June.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



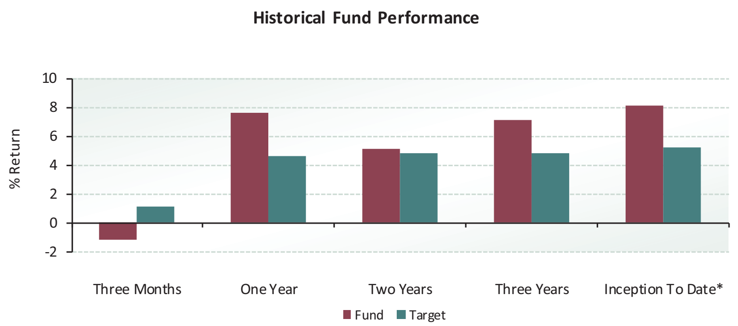
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37	2.15	7.13	-0.51
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20	1.03	6.02	-1.62
3Y Rel	-	-	-	-	-	5.10	7.54	4.97	1.59	1.39	2.21	2.84

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.

Barings

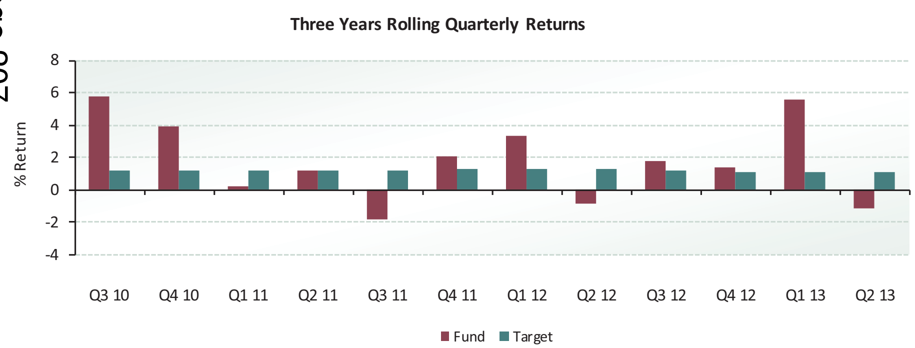
Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

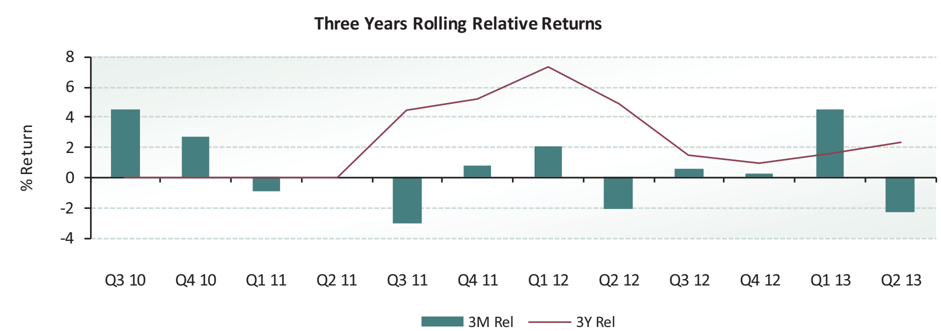


	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-1.18	7.64	5.07	7.14	8.12
Target	1.11	4.59	4.81	4.81	5.23

*Incepted 31 July 2008

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -1.18% over the quarter, 2.29% below its target. Over 12 months, the fund is 3.05% ahead of target. Over the quarter, the largest detractor from returns came from the fund's relatively small exposure to Australian and US Treasuries, as the price of these assets fell following the Fed's announcement that they might slow their asset purchase programme earlier than anticipated. The fund's holding in gold and the general fall in equity markets over late May and June further detracted from performance.
Process	No significant changes over the quarter.





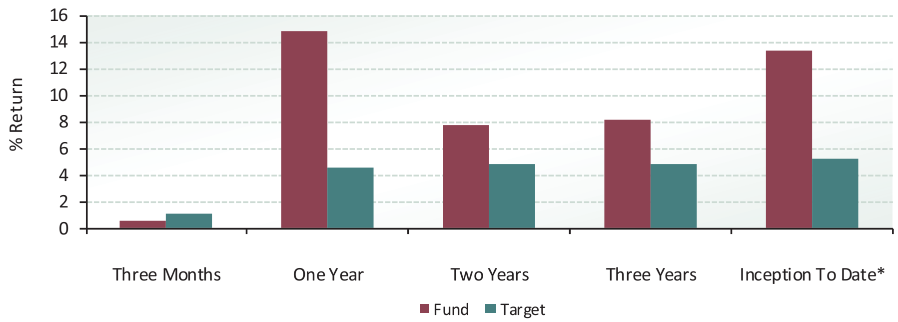
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78	1.34	5.60	-1.18
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	0.60	0.22	4.49	-2.29
3Y Rel	-	-	-	-	4.51	5.26	7.38	4.90	1.46	0.98	1.61	2.33

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.

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 Fund Performance



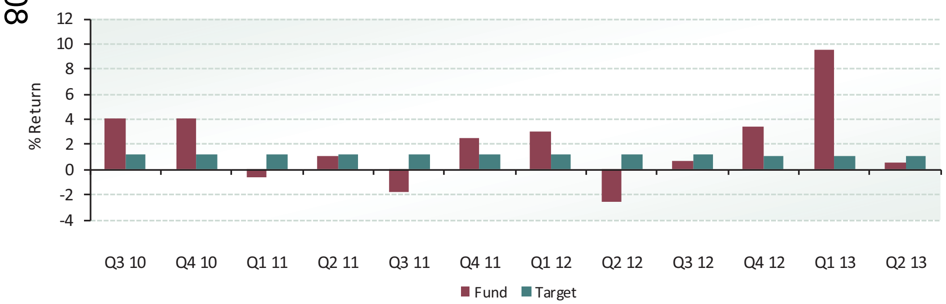
	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	0.52	14.77	7.67	8.10	13.30
Target	1.11	4.59	4.81	4.81	5.23

*Incepted 31 July 2008

Quarterly Manager update

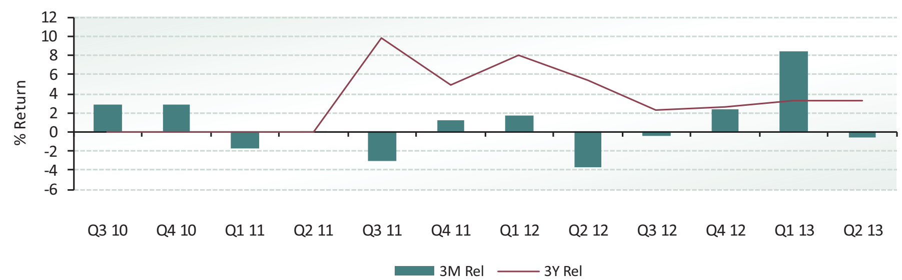
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.52% over the quarter, 0.59% below of its target. Over 12 months, the fund was 10.18% above the target. The returns for the portfolio were driven by continued positive contributions from Japanese equity exposure, specifically within bank and property stocks. Positions in US interest rate derivatives appreciated sharply as US bond yields rose following the Fed's implications of reduced asset purchases going forward. The main detractors from performance were the decline in value of inflation-linked bonds and a fall in the price of Gold that worsened with a strengthening of the US dollar over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71	3.47	9.57	0.52
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

Three Years Rolling Relative Returns

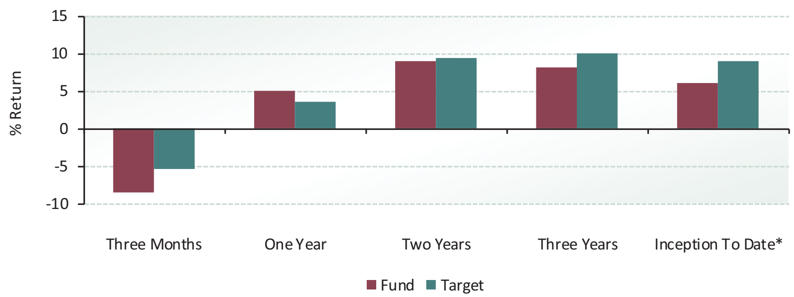


	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45	2.35	8.46	-0.59
3Y Rel	-	-	-	-	9.79	4.86	8.01	5.34	2.35	2.60	3.24	3.29

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.

Matching Fund

Historical Fund Performance



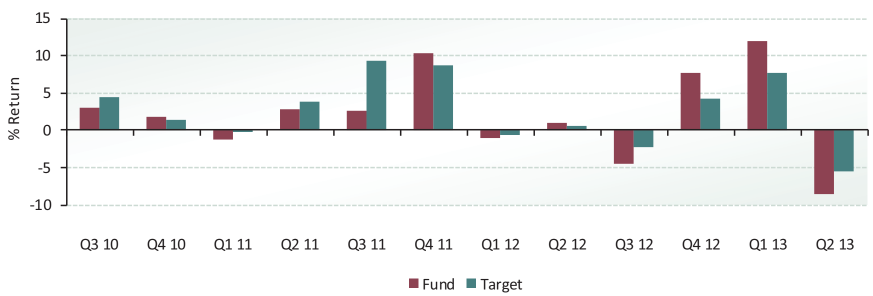
The performance of the Matching Fund over the quarter was -8.61%, 3.14% below its gilts-based liability benchmark. The Matching Fund return of 5.09% over the year and was 1.50% above its target.

	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-8.61	5.09	9.05	8.15	6.09
Target	-5.47	3.59	9.40	9.93	9.01

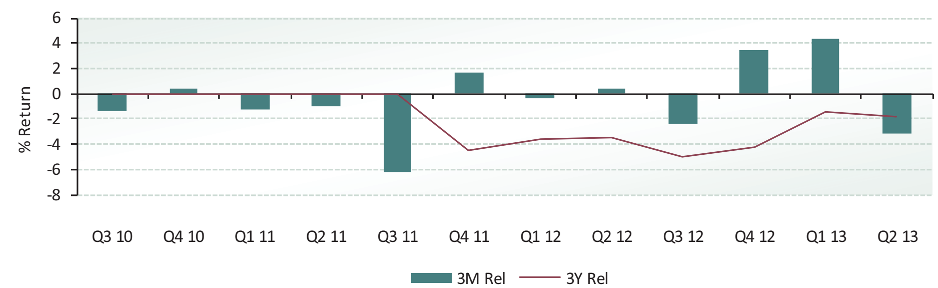
* Grouped performance incepted 31 December 2008

Page 209

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60	7.59	12.03	-8.61
Target	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25	4.15	7.64	-5.47

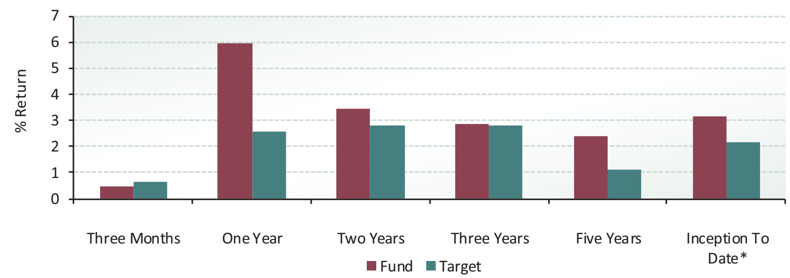
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40	3.44	4.39	-3.14
3Y Rel	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07	-4.23	-1.42	-1.78

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.

Goldman Sachs

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

Historical Fund Performance



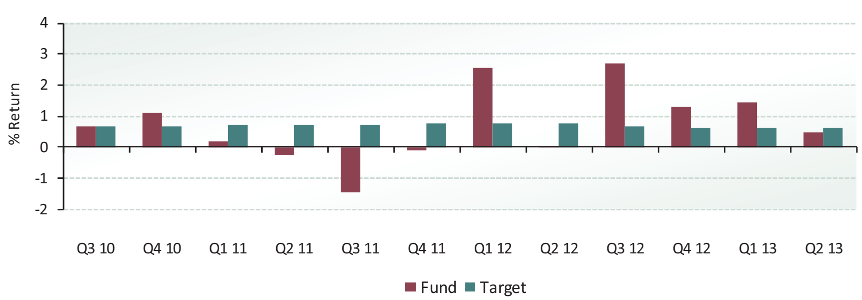
	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	0.45	5.95	3.43	2.85	2.40	3.14
Target	0.62	2.58	2.79	2.79	1.13	2.14

*Incepted 31 March 2003

Quarterly Manager update

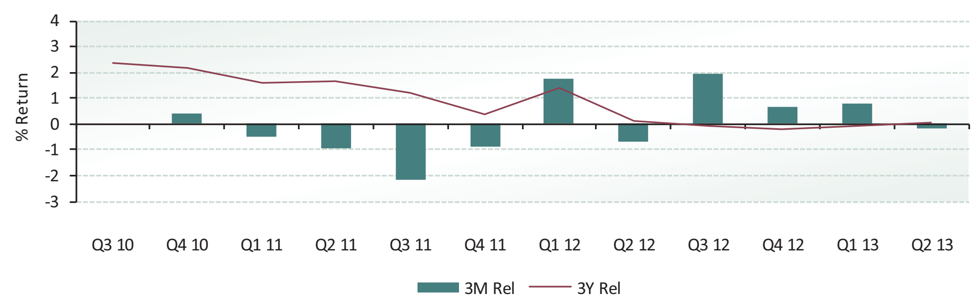
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.45% over the quarter, 0.17% below its target. Over 12 months, performance was 3.37% ahead of the target. Positive contributions over the quarter came from the portfolio’s country and sector selection, for example the portfolio’s bias to corporate risk. However, the portfolio’s duration exposure, notably being long German bonds, detracted from performance as there was a general sell off in global fixed-income securities after the Fed’s announcement that it might slow its asset purchases this year.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67	1.27	1.44	0.45
Target	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68	0.63	0.62	0.62

Three Years Rolling Relative Returns



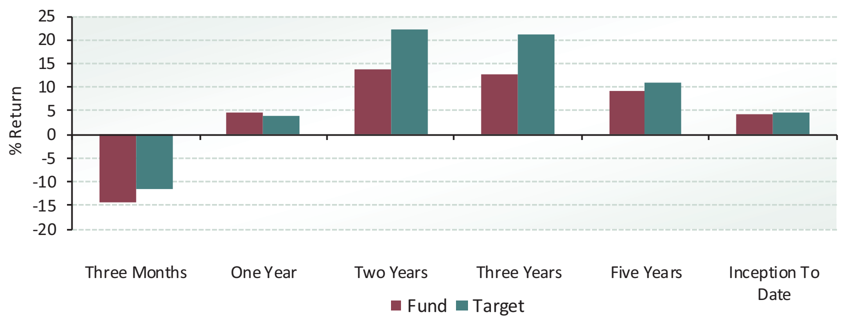
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98	0.64	0.82	-0.17
3Y Rel	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10	-0.23	-0.10	0.06

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.

Legal & General

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 Fund Performance

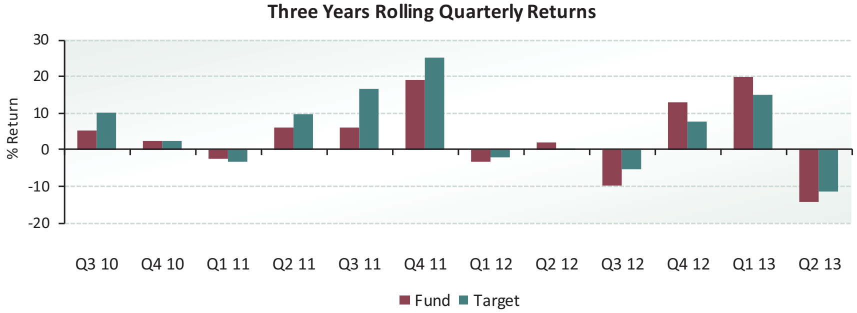


	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	-14.23	4.47	13.76	12.79	9.02	4.34
Target	-11.42	3.82	22.02	21.08	10.86	4.75

*Incepted 30 June 1999

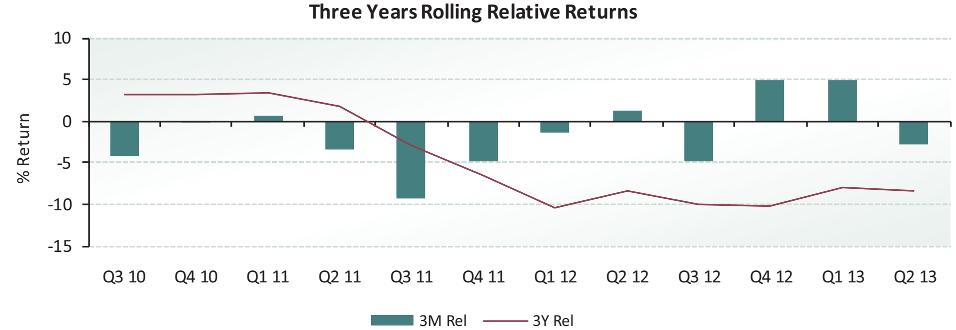
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -14.23% over the quarter, 2.81% behind its bespoke target. Over 12 months, performance was 0.65% ahead of the target.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81	12.75	19.79	-14.23
Target	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27	7.69	14.89	-11.42

Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79	5.06	4.90	-2.81
3Y Rel	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01	-10.26	-7.91	-8.29

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.

A sell-off in June erased most of the gains made in risky assets since the start of the quarter. This was triggered when Ben Bernanke, the Chairman of the Federal Reserve ("Fed"), failed to deny the possibility of slowing the Fed's asset purchases at some point this year. Markets were shaken by the mere discussion of "tapering", highlighting the scale of investors' apparent addiction to quantitative easing.

Whilst April and May were generally positive months for on-risk assets, volatility increased in June as a result of the mounting tapering speculation, with emerging market equities and riskier credit in particular suffering. Other developed equity market returns were mixed, with gains coming from Japan and the US, and small losses in the UK and Europe.

In contrast to previous sell-offs, June's correction was not characterised by the usual flight to safety. The possibility that the US Fed may look to slow its asset purchases and possibly raise interest rates in time pushed yields up in most global economies, triggering negative returns from many conventionally "safe" assets.

Fixed interest and index-linked gilt yields rose significantly across the curve over the quarter, with the 10 year fixed UK gilt experiencing its sharpest quarterly yield rise since before the crisis began. The resulting fall in liabilities will provide a cushion to second quarter performance, offsetting some of the falls in asset values.

The euro zone was relatively uneventful over the quarter with the exception of the decision by the European Central Bank to cut interest rates by 0.25% in May. This was widely anticipated by investors however and with economic data continuing to disappoint, further cuts are still a possibility.

Japanese equities were the strongest performers over the second quarter despite suffering negative returns in May and June, their first monthly losses in 10 months. The announcement of a planned doubling of Japan's monetary base in April was much more aggressive than markets had been expecting and marked a substantial change of policy. It is likely that further upside will require visible progress in ending deflation and reviving growth. Investors now require evidence of success rather than the mere hope of it.

Elsewhere, the eagerly awaited first quarter GDP figure for China disappointed many observers at only 7.7%. Also, the first signs of Chinese policy makers' efforts to reign in their country's private sector credit growth were witnessed in June when the overnight SHIBOR rate (the rate at which Chinese banks lend to each other) shot up past 13% p.a. The Chinese central bank was forced to intervene the following day, acting as the lender of last resort to prevent this short-term squeeze developing into a full blown credit crunch. These tensions are likely to re-emerge in the future as Chinese policymakers continue to attempt to curb the amount of capital funnelled into the shadow banking system at the expense of more productive parts of the economy.

Emerging markets fell further behind their developed counterparts during the second quarter partly due to lower than expected growth projections and an increase in developed sovereign debt yields. This, together with political unrest in some major emerging economies, slowing Chinese growth and a continued slump in demand for commodities have compounded what has already been a difficult year for emerging markets, a theme likely to continue for the rest of 2013.

Commodity markets also fell significantly over the quarter. Most notable were the falls experienced by precious metals, gold and silver.

P-Solve Contact

John Conroy

John.Conroy@psolve.com

020 3327 5048

11 Strand, London WC2N 5HR

Client Contact

Jonathan Hunt

jonathanhunt@westminster.gov.uk

020 7641 1804

Fund Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION

This Investment Governance Report has been prepared for the Audit & Pensions Committee of the London Borough of Hammersmith and Fulham Pension Fund (the "Fund") only. It is not for onward distribution. The purpose of this report is to provide factual information relating to the current portfolios, valuation, components and a factual description of the performance in the period covered by the report. The subject matter of this report has been agreed with you and is provided by us in order to meet our reporting obligations to you under the FCA Rules. As such, it has not been prepared for distribution to individual scheme members or retail investors.

P-Solve is authorised and regulated by the Financial Conduct Authority and which is part of the Punter Southall Group of Companies.

This document is intended for the recipient only. The information expressed is provided in good faith and has been prepared using sources considered to be reasonable and appropriate. Past performance is not necessarily a guide to future returns.

Registered Office: 11 Strand, London WC2N 5HR. Registered in England & Wales: No. 3359127. FCA Registration No. 195028

THIS REPORT IS ADDRESSED TO THE AUDIT & PENSIONS COMMITTEE OF THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND ONLY – NOT FOR ONWARD DISTRIBUTION

Agenda Item 8

<table>
<tr><td>h&f the low tax borough</td><td colspan="2">London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

26th September 2013</td></tr>
<tr><td colspan="3">PENSION FUND CASHFLOW POSITION</td></tr>
<tr><td colspan="3">Report of the Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="3">Open Report</td></tr>
<tr><td colspan="3">Classification: For Decision

Key Decision: No</td></tr>
<tr><td colspan="3">Wards Affected: All</td></tr>
<tr><td colspan="3">Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="2">Report Author: Nicola Webb, Tri-borough Pension Fund Officer</td><td>Contact Details:
Tel: 020 7641 4331
E-mail:
nwebb@westminster.gov.uk</td></tr>
</table>

1. EXECUTIVE SUMMARY

1.1. Due to changes in Pension Fund membership over the last few years, the Pension Fund now has more cash being paid out in benefits every month than it has contributions coming in. This will result in the Pension Fund being overdrawn on its bank account in October 2013, because investment income is currently automatically reinvested by the fund managers. The Local Government Pension Scheme regulations do not allow Pension Funds to sustain an overdraft for a prolonged period.

1.2. This report proposes a short term solution of withdrawing the cash required to maintain a positive cash balance from the UK equity portfolio, (the highest overweight compared to target) in October and proposes the decision of what cash is withdrawn in the remainder of 2013/14 is delegated to the Executive Director of Finance and Corporate Governance, in consultation with the Chair of the Audit, Pensions and Standards Committee. It also highlights the work which will be commencing with officers and the Fund Actuary to determine the longer term trend to inform the next investment strategy review post the actuarial valuation.

2. RECOMMENDATIONS

2.1. That the Committee agree to £5m being withdrawn from the Majedie UK equity portfolio in October 2013 to cover the expected overdraft.

2.2. That the Committee delegate to the Executive Director of Finance and Corporate Governance, in consultation with the Chair of the Audit, Pensions and Standards Committee, the decision about how much, when and from which portfolio cash be withdrawn during the remainder of 2013/14. The decision is to be made on the basis that the cash required is withdrawn from the portfolio with the highest overweight position compared to target at the time of the requirement for withdrawal.

3. REASONS FOR DECISION

3.1. The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 only permit Pension Funds to maintain an overdraft for a period of 90 days and therefore in the absence of any other source of cash, it is necessary to withdraw cash from a portfolio held by one of the fund managers to avoid a prolonged overdraft.

3.2. Withdrawing from the portfolio with the highest overweight balance compared to target will ensure the Fund does not move any further away from the target. As the precise cashflow position for the remainder of 2013/14 is uncertain, the delegation to the Executive Director (in consultation with the Chair of this Committee) will ensure that not only will the cash balance remain positive, but also that the Fund remains fully invested for as long as possible.

4. INTRODUCTION AND BACKGROUND

4.1. Until recently the Pension Fund has been able to fund pension benefit payments from contributions collected from employees and employers. However, the membership profile of the Fund has been changing over the last few years, as the number of pensioners has increased and the number of active contributing members has reduced. This change has led to pension payments increasing, contributions reducing and more cash going out every month than there is coming in.

4.2. The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 permit pension funds to make use of overdraft facilities for the purpose of paying benefits due under the scheme. However, an overdraft can only be maintained for a period of 90 days. The Fund has a £5m overdraft facility in place with Northern Trust, the Fund's bankers.

4.3. This report proposes a short term way to fund the expected cash deficit over the next 12 months and highlights the work required in the coming months to forecast the longer term trend and to determine how best to address the Fund's cashflow requirements going forward.

5. PROPOSAL AND ISSUES

Membership trend

5.1. The following table shows the membership of the Fund and how it has changed over the last 5 years. The number of active contributors has fallen 17% over 5 years while deferred members and pensioners have increased by 28% and 15% respectively.

Table 1: Membership

	31 Mar 2008	31 Mar 2009	31 Mar 2010	31 Mar 2011	31 Mar 2012	31 Mar 2013
Actives	4,572	4,297	4,176	4,064	3,835	3,782
Deferreds	4,343	4,714	4,900	5,217	5,409	5,546
Pensioners	3,812	3,903	4,067	4,174	4,265	4,379
Total	**12,727**	**12,914**	**13,143**	**13,455**	**13,509**	**13,707**

5.2. This trend has resulted in part from cuts to local government budgets and hence staffing levels. This has seen many active members become either deferred beneficiaries or pensioners. In the Local Government Pension Scheme (LGPS) as a whole, the picture is very similar. According to the latest data available from the Communities and Local Government Department, the number of active members in the LGPS fell by 5% between 31st March 2008 and 31st March 2012, while the number of deferred members and pensioners increased by 35% and 19% respectively.

Cashflow – Contributions, Benefits and Expenses

5.3. Table 2 below shows the impact of the membership trend described above. It can be seen that contributions have been falling and that there has been an increase in the on-going pension payments to the larger number of pensioners. It also shows that the figures for transfer values in and out vary considerably year by year and therefore can make the difference between the Fund being in surplus or deficit in any one year.

Table 2: Contributions, Benefits & expenses

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Contributions	31,034	32,097	32,540	30,182	29,629
Pensions	-19,828	-20,811	-21,417	-24,284	-26,525
Lump Sums	-4,297	-7,665	-6,430	-6,526	-5,546
Expenses	-3,335	-3,692	-4,668	-3,977	-3,065
Net TVs in/(out)	-1,384	-1,718	2,053	-669	-4,574
Net cash in / (out)	**2,190**	**-1,789**	**2,078**	**-5,274**	**-10,081**

5.4. The bottom of the table shows net cash in or out in each financial year. It can be seen that the deficit has grown particularly in the last two years.

Investment Income

5.5. The investments the Fund holds earn income and the policy to date has been for the Fund to re-invest this income into further investments, as it has not been required to fund pension payments. Private equity has been the exception to this where the distributions have been used to either fund further private equity drawdowns or to cover deficits in the past, particularly in 2009/10 and 2011/12. Table 3 below shows the value of investment income in recent years and shows the cash surplus in each year once investment income is included.

Table 3: Net cash position including investment income

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Net contrib less benefits & exps	2,190	-1,789	2,078	-5,274	-10,081
Investment Income	11,829	9,510	7,624	9,038	10,508
Overall net cash in	14,019	7,721	9,702	3,764	427

5.6. The table shows that in 2012/13 the payments out were very close to the sum of contribution and investment income for the first time and it is likely that in 2013/14 it will be the case again and it may even be the case that there is a cash deficit after investment income. This means that the cashflow situation has moved considerably closer to the position where assets will need to be sold in order to fund all of the Fund's obligations.

Action taken in 2012/13

5.7. In 2012/13 £10m was withdrawn from the equity managers to fund the cash deficit in that year. This decision was taken under delegated powers by the Executive Director of Finance and Corporate Governance, on the basis that both equity portfolios were above their target weightings. This decision was reported to the Committee as part of the quarterly Pension value and investment performance report on14th February 2013.

Current position

5.8. Table 4 overleaf shows the cashflow in 2013/14 to date. The Council paid the lump sum deficit contribution into the Fund in April, which has ensured the cash balance has remained positive to date.

Table 4: Cashflow in 2013/14 to date

	April 13 £000	May 13 £000	Jun 13 £000	Jul 13 £000	Aug 13 £000
Balance b/f	-674	5,064	3,568	2,860	1,681
Contributions	9,130	1,647	1,775	1,751	1,806
Pensions	-2,196	-2,238	-2,270	-2,236	-2,219
Lump Sums	-976	-408	-192	-348	-212
Expenses	-2	-635	0	-362	-557
Net TVs in/(out)	-218	138	-20	16	-105
Net cash in / (out)	5,738	-1,496	-708	-1,179	-1,287
Balance c/f	**5,064**	**3,568**	**2,860**	**1,681**	**394**

The future

5.9. A forecast for the remainder of 2013/14 and the first six months of 2014/15 is set out in the first table in Appendix 1. This makes no assumptions about changes to the level of benefits paid out or the value of contributions coming in. It can be seen that without any action being taken, the Fund bank account will be overdrawn in October this year and that it is forecast that this will grow through the remainder of 2013/14 to an overdraft of around £9m by the end of March 2014. In April, the Council is expected to pay the lump sum deficit contribution into the Fund which will ensure the overdrawn position does not start to deteriorate again until September 2014.

5.10. The trend of pension benefits exceeding contributions is expected to continue and this represents a fundamental shift in the way the Fund views the funding of benefit payments. In the past they were considered an issue for the long term only and the investment strategy reflected this. Now there is a requirement for the Fund's investments to provide cash regularly to pay benefits and so this needs to be built into the Fund's planning going forward.

5.11. It is therefore proposed that officers work with the Fund Actuary to forecast the longer term trend for cashflow as part of the valuation work already being undertaken. This information can then be fed into the review of investment strategy planned to take place when the valuation results are known to ensure there is a clear strategy going forward for funding benefit payments.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. As discussed in paragraph 4.3 above, the Fund is only permitted to be overdrawn for a period of 90 days and the forecast in Appendix 1 shows that there will be an overdraft for a prolonged period if no action is taken. In order to cover the overdraft expected for the remainder of 2013/14, withdrawals of cash from portfolios being managed by the fund managers will be required, as no other sources of cash are available. Table 5 below shows the value of each of the portfolios at 31st July 2013 and how the proportions in each compare to the target weightings set out in the current investment strategy.

Table 5: Investment Portfolios

	Value of portfolio 31 July 13	**% of portfolio**	**Target %**	**Variance from target**
Majedie UK Equities	£191.0m	25.7%	22.5%	**+3.2%**
MFS Global Equities	£179.1m	24.1%	22.5%	**+1.6%**
Barings DAA	£125.9m	27.9%	30.0%	**-2.1%**
Ruffer DAA	£81.2m			
LGIM Matching	£88.1m	20.4%	25.0%	**-4.6%**
Goldman Matching	£63.5m			
Invesco Private Equity	£7.7m	1.9%	0.0%	**+1.9%**
Unicap Private Equity	£6.3m			
TOTAL	£742.8m	100.0%	100.0%	**0.0%**

6.2. It can be seen that the UK equity portfolio managed by Majedie is further above the target allocation than any other portfolio following their recent good performance. It is proposed to withdraw £5m in October 2013 from Majedie as their portfolio is currently the one which exceeds the target weighting the most. This would bring their weighting down to 25.2% (if nothing else changed), still further above the target than any other portfolio. It would be possible to withdraw cash from any of the Fund's portfolios, except the private equity ones, but this would move the Fund further from the target weightings set out in the investment strategy.

6.3. To ensure the Fund remains fully invested for as much time as possible, it is proposed that another cash sum is withdrawn during 2013/14. Based on the forecast set out in the table in Appendix 1 above, this is likely to be a further £4m in January 2014. The second table in Appendix 1 shows the impact this would have on the cash position.

6.4. However, the cashflow forecasts in this report are forecasts only and therefore may not turn out to be correct. Transfers in and out are particularly unpredictable and the timing of distributions from the private equity investments is uncertain. It is therefore proposed that the decision about the precise amount to be withdrawn, when and the portfolio(s) it is withdrawn from during the remainder of 2013/14, is delegated to the Executive Director of Finance and Corporate Governance, in consultation with the Chair of this Committee, on the basis that the cash required is withdrawn from the portfolio with the highest overweight position compared to target at the time of the requirement for withdrawal.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

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

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Spreadsheet calculating cashflow forecast.	Nicola Webb 020 7641 4331	Tri-borough Pensions Team, Westminster City Hall

LIST OF APPENDICES:

Appendix 1 – Cashflow forecast September 2013 to September 2014.

Appendix 1

<u>Cashflow forecast September 2013 to September 2014</u>

Cashflow forecast if no action taken

	Sep13 £000	Oct13 £000	Nov13 £000	Dec13 £000	Jan14 £000	Feb14 £000	Mar14 £000	Apr14 £000	May14 £000	Jun14 £000	Jul14 £000	Aug14 £000	Sep14 £000
Balance b/f	394	180	-1,580	-2,690	-3,800	-5,560	-6,670	-8,430	-2,590	-3,700	-4,810	-6,570	-7,680
Contributions	1,700	1,700	1,700	1,700	1,700	1,700	1,700	9,300	1,700	1,700	1,700	1,700	1,700
Pensions	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300
Lump Sums	-350	-350	-350	-350	-350	-350	-350	-350	-350	-350	-350	-350	-350
Net TVs in/(out)	-160	-160	-160	-160	-160	-160	-160	-160	-160	-160	-160	-160	-160
Expenses	0	-650	0	0	-650	0	-650	-650	0	0	-650	0	0
Net cash in/(out) in month	-1,110	-1,760	-1,110	-1,110	-1,760	-1,110	-1,760	5,840	-1,110	-1,110	-1,760	-1,110	-1,110
Private Equity distributions	896												
Balance c/f	**180**	**-1,580**	**-2,690**	**-3,800**	**-5,560**	**-6,670**	**-8,430**	**-2,590**	**-3,700**	**-4,810**	**-6,570**	**-7,680**	**-8,790**

Cashflow forecast assuming inflows from fund managers

	Sep13 £000	Oct13 £000	Nov13 £000	Dec13 £000	Jan14 £000	Feb14 £000	Mar14 £000	Apr14 £000	May14 £000	Jun14 £000	Jul14 £000	Aug14 £000	Sep14 £000
Proposed inflows from fund managers		5,000			4,000								
Revised cash balance	**180**	**3,420**	**2,310**	**1,200**	**3,440**	**2,330**	**570**	**6,410**	**5,300**	**4,190**	**2,430**	**1,320**	**210**

Agenda Item 10

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** 26th September 2013
PENSION FUND: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME AND COLLECTIVE INVESTMENT VEHICLE	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Jonathan Hunt, Tri-borough Director of Treasury & Pensions	**Contact Details:** Tel: 020 7641 1804 E-mail: jonathanhunt @westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) have issued a call for evidence on the future structure of the LGPS. A tri-borough response is being prepared which sets out the view that it is possible to achieve the efficiencies sought through the tri-borough approach, in conjunction with the use of initiatives such as collective investment vehicles and national framework agreements.

1.2. The Society of London Treasurers has been working on a proposal for a Collective Investment Vehicle targeted initially at London with the aim of pooling the buying power of Funds to achieve lower investment management fees. Support and start up capital is now required to make this viable and a contribution of up to a maximum of £25,000 is being sought from all London LGPS Funds.

2. RECOMMENDATIONS

2.1. That the Committee support the production of a tri-borough response to the call for evidence on the future structure of the LGPS based on the key themes set out in this report.

2.2. That the Committee give formal support to the principal of a Collective Investment Vehicle for the Local Government Pension Scheme, subject to the receipt of further details of the operation, and agree to commit up to a maximum of £25,000 to the start up costs of the initiative.

3. REASONS FOR DECISION

3.1. A positive consultation response to the call for evidence will highlight how the tri-borough approach is already delivering efficiency, as well as outlining the disadvantages of a merger of funds, and will ensure that the Tri-borough is viewed as being pro-active.

3.2. Support for the Collective Investment Vehicles initiative demonstrates the Fund's willingness to embrace new ways of seeking efficiency and will help ensure this initiative, which could in time save the Fund money, is able to proceed.

4. INTRODUCTION AND BACKGROUND

4.1. In 2011 the Independent Public Service Pensions Commission, set up by the government and chaired by Lord Hutton, reported on it's review of public service pensions. One of the "Hutton report" recommendations was:

> *"Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities."*

4.2. In following up this recommendation, the Department for Communities and Local Government (DCLG) and Local Government Association (LGA) have asked for views and evidence on how and why the current structure, with 89 funds in England and Wales, might be made to work better through change. The Minister (Brandon Lewis) has indicated that *"if it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal"*. The complete call for evidence is attached at Appendix 1. This call for evidence will inform a subsequent consultation on the structure of the LGPS planned for later in the year.

4.3. Aligned to this, the Society of London Treasurers has been working on a proposal for a Collective Investment Vehicle targeted initially at London funds with the aim of achieving reduced investment management fees through economies of scale without losing individual borough decision making and accountability.

5. PROPOSAL AND ISSUES

Response to Call for Evidence

5.1. The call for evidence, attached at Appendix 1, closes on 27th September 2013, and at the time of writing, a tri-borough response is in the process of being drafted. Paragraphs 5.2 to 5.8 below set out the key themes which it is proposed to include in the response.

5.2. The Tri-Borough response will argue that the Funds have dealt effectively with the high level objectives of the call (Dealing with deficits and improving investment returns) through careful management of the investment strategies and maintenance of sustainable employer contribution rates.

5.3. The DCLG's secondary objectives are:

- To reduce investment fees;
- To improve the flexibility of investment strategies;
- To improve the cost effectiveness of administration;
- To provide access to higher quality staffing resources;
- To provide more in-house investment resource;
- To provide for greater investment in infrastructure.

5.4. The Tri-Borough arrangement, along with the initiative for a London Common Investment Vehicle (discussed below) and a number of national framework agreements, which the three Funds are participating in, are all intended to address the first five of these objectives. By working together, the pension funds of the Tri-Borough councils have managed to address the efficiency argument while improving resilience and developing staff expertise in the area.

5.5. Importantly for the three Councils themselves, in the implementation of the tri-borough approach, there has been no merging of responsibility or loss of local accountability. Any merger would remove local accountability and in particular, risk penalising taxpayers in an authority who's Fund has been well managed to pay for deficits elsewhere.

5.6. The response will also make the point that higher performing funds generally close to new business when they reach a size beyond which they cannot remain anonymous in the market: there is a capacity issue in good fund management companies. If "super funds" were to be created through merging, access to these good fund managers would no longer be possible. However, while there is scope for reducing fees by pooling across funds (the Collective Investment Vehicle should achieve this for core assets), in Tri Borough a rate based on the combined value of the three funds (about £2.3 billion) can be sought across all asset classes, with a view to securing a more competitive arrangement and reduced management fees.

5.7. With regard to the final objective regarding infrastructure investment, there is considerable appetite amongst pension funds, should a suitable vehicle become available. The reason that investment in the asset class in the UK has not been as swift as many would like, is that funds are not prepared to risk their reputations for fiduciary responsibility in over-risky projects. Making changes to the structure of the LGPS would not alter the availability of investment opportunities in the asset class.

5.8. In summary the response will argue that the tri-borough approach, has so far worked very well and may be something which colleagues in other boroughs and DCLG would wish to consider going forward.

Collective Investment Vehicle (CIV)

5.9. The aim of a collective investment vehicle is for Funds to combine buying power and achieve reduced investment management fees as a result. A limited range of investment managers would be available to select from for each asset class and with sufficient commitment from funds, reduced investment management fees could be achieved. This approach would best suit core equity or bond portfolios, where capacity is not an issue for a fund manager.

5.10. The key with the CIV is that the decisions about asset allocation and investment managers would remain local ones, thus retaining local accountability for the Pension Funds. An individual fund could decide to invest some, all or none of their monies through the CIV.

5.11. The work to develop a London LGPS CIV is being led by the Society of London Treasurers and has reached a point where start up funding is required in order to proceed further. Every London borough has been asked to consider contributing up to a maximum of £25,000 each to ensure this can happen.

6. OPTIONS AND ANALYSIS OF OPTIONS

Response to the call for evidence

6.1. The Tri-borough response to the call for evidence will be a proactive response which highlights how the Funds in the tri-borough arrangement are embracing initiatives to continually seek to be more efficient and ensure there are sufficient assets available to meet liabilities. This is considered to be a better option than supporting the merger of LGPS funds, as it maintains local accountability to council taxpayers. In addition to the as yet undefined costs, which would inevitably be incurred in a merger, a merger would inevitably lead to some element of cross-subsidy across boroughs, as a set of funds, with quite different characteristics, are brought together.

Collective Investment Vehicle (CIV)

6.2. It is recommended that the Committee support the development of the London LGPS CIV. The CIV once up and running would be a good option to consider for core investments. The CIV and the tri-borough approach are not mutually exclusive and could be used together to maximise efficiency and value for money. The start up contribution is a small amount in the context of the size of the Fund and therefore it is recommended that this is agreed, as it demonstrates a willingness to embrace new ways of working and will help ensure the CIV proceeds with the potential to save the Fund money in the long run.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

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

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

Appendix 1: Department for Communities and Local Government and Local Government Association – Call for evidence on the future structure of the Local Government Pension Scheme.

Call for evidence on the future structure of the Local Government Pension Scheme

Background

In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should investigated further. The Local Government Pension Scheme currently costs local taxpayers £6billion a year in employer contributions.

***Recommendation 23**: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*

Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

On 16 May 2013, the LGA and DCLG held a roundtable event on the potential for increased co-operation within the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. 25 attendees represented administering authorities, employers, trade unions, the actuarial profession and academia.

The roundtable aimed to bring objectivity and transparency to the subject through open debate. There was a full discussion of the possible aims of reform and the potential benefits of structural change, together with the further work needed to provide robust evidence to support emerging options. The meeting focused on the issues to be addressed by reform rather than the detailed arguments for any of the potential ways forward that have been proposed.

The roundtable heard about the projects being undertaken to look at the options for structural reform of the Scheme in London and Wales and considered the range and relative priorities of the desired outcomes of reform, the data requirements for determining a start point and target and the next steps for delivering those outcomes.

On 22 May at the National Association of Pension Funds' local authority conference, the Local Government Minister Brandon Lewis said:

I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.

The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.

I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.

You will be aware that work is well underway to establish a shadow national pensions board for the Scheme. I have met with the LGA and local government trades unions on several occasions to discuss the sort of work that I would like the board to undertake.

This document sets out the call for evidence from DCLG and the LGA, working with the Shadow Scheme Advisory Board, and explains how it will feed into the forthcoming consultation.

The call for evidence

At the roundtable, the following high level and secondary objectives for structural reform were proposed:

<u>High level objectives</u>

1. Dealing with deficits
2. Improving investment returns

<u>Secondary objectives</u>

1. To reduce investment fees
2. To improve the flexibility of investment strategies

3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

The roundtable also agreed that, although there is a wide range of data available on Local Government Pension Scheme funds, it is currently widely dispersed and would benefit from enhancement, collation and further analysis. It also considered how best to achieve a high level of accountability to local taxpayers, particularly if services are to be shared or funds merged.

In your response to this call for evidence, it would be helpful if you could have particular (although not exclusive) regard to the following questions and provide evidence in the form of annexes to support your answers.

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties - including through the availability of transparent and comparable data on costs and income - while adapting to become more efficient and to promote stronger investment performance.

Question 2 – Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

Question 3 – What options for reform would best meet the high level objectives and why?

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Timetable

Responses to this call for evidence should be submitted in electronic form to Victoria Edwards at: LGPSReform@communities.gsi.gov.uk

The closing date for submissions is 27 September 2013.

The submissions will then be analysed by DCLG and the LGA, working with the Shadow Scheme Advisory Board. You may be asked to provide further clarification and/or evidence to support your answers during that process.

The analysis of submissions will then inform a formal consultation on the options for change to be published by DCLG in the early autumn.

Agenda Item 11

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** 26th September 2013
PENSION FUND ANNUAL REPORT 2012/13 AND COMMUNICATION POLICY STATEMENT	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Local Government Pension Scheme regulations require the Pension Fund to prepare and publish an annual report by 1st December every year. The report for 2012/13 which the Committee is asked to approve has been prepared in line with the requirements of the regulations and having regard for the CIPFA guidance on the preparation of annual reports.

1.2. The same regulations also require the Pension Fund to prepare and keep under review a number of policy statements. The Committee is asked to approve an updated version of the Communication Policy Statement, which has been prepared in accordance with the regulations and has been updated to reflect current practice.

2. RECOMMENDATIONS

2.1. That the Pension Fund Annual Report 2012/13 be approved.

2.2. That the updated version of the Pension Fund Communication Policy Statement be approved.

3. REASONS FOR DECISION

3.1. The Local Government Pension Scheme (LGPS) Administration Regulations 2008 require the Pension Fund to publish an annual report covering the financial year by 1st December. The regulations also require the Pension Fund to publish and keep under review a Communication Policy Statement.

4. INTRODUCTION AND BACKGROUND

4.1. The Local Government Pension Scheme Administration Regulations 2008 require all Local Government Pension Funds to prepare and publish an annual report on the activities of the Fund by 1st December following the end of the financial year. The regulations set out the areas to be covered in the report and guidance from CIPFA provides further detail of the requirements.

4.2. These regulations also require the Fund to publish and keep under review a number of policy statements. One of those is a Communication Policy Statement. The Fund's current statement has not been reviewed for at least three years and some aspects no longer reflect current practice. The LGPS regulations set out what is to be included in the policy statement.

4.3. The Fund's other policy statements are the Statement of Investment Principles and the Funding Strategy Statement. The Statement of Investment Principles was reviewed in 2012 and reflects the current strategy. The Funding Strategy Statement will be reviewed in late 2013/ early 2014 alongside the triennial actuarial valuation results.

5. PROPOSAL AND ISSUES

5.1. The LGPS regulations require the Pension Fund annual report to include the following:

- Management and Financial performance;
- Investment Policy;
- Administration;
- A Statement from the Fund's Actuary;
- Fund Account and Net Asset Statement;
- Links to Statement of Investment Principles, Funding Strategy Statement and Communication Policy Statement.

5.2. The annual report for 2012/13 attached at Appendix 1 includes all of the requirements above and was prepared having regard to the CIPFA guidance. The complete Pension Fund accounts including all the disclosure notes is published within the Council's Statement of Accounts as required by legislation.

5.3. The Communication Policy Statement is required by regulation to include:

- Provision of information to scheme members, employers and prospective scheme members;
- Format, frequency and method of distribution of the information.

5.4. The statement set out in Appendix 2 has been updated to reflect current practice and the fact Capita Employee Benefits now provide the administration service for the Pension Fund. This means communication with all stakeholders is carried out in partnership with them.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. The production of the annual report and communication policy statement are required by the LGPS regulations and therefore there are no other options to consider.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

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

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

Appendix 1: Pension Fund Annual Report 2012/13

Appendix 2: Communication Policy Statement

London Borough of Hammersmith & Fulham Pension Fund Communication Policy Statement

Background

The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities such as the London Borough of Hammersmith & Fulham to prepare, publish and maintain a policy statement setting out how we communicate with:

- Scheme members and their representatives
- Prospective members
- Employers participating in the Fund.

This document sets out the mechanisms that we use to communicate. We aim to use the most effective communication methods, keeping the needs of the customer in mind.

Communication in relation to the Fund is undertaken in conjunction with the scheme administrator, Capita Employee Benefits, who provide administration services for the Fund under a framework contract with the Council. The framework allows other London boroughs to enter into a call off contract for a range of pension administration services.

Methods of communication

The key methods of communication used by the Fund are:

Pensions website: www.mylgps.org.uk

This provides up to date information about the Local Government Pension Scheme to all scheme members and their employers.

On-line forms

The website provides access to all the key forms required by scheme members and employers to inform Capita about various matters.

The Fund is working with Capita to implement further on-line capability. Capita use their own administration system called Hart Link and it has a facility called Hart Link On-Line, whereby scheme members can log in securely to view their personal details and perform a range of 'what if' calculations.

A further feature is Hart Link Exchange, an on-line system whereby scheme employers may enter information about starters, leavers, salary details and other information required by the scheme administrator, cutting out manual form filling procedures.

It is planned that Hart Link On-Line and Hart Link Exchange will be made available in late 2013.

Correspondence
Scheme members and employers can correspond with Capita by post or by email to a dedicated Hammersmith & Fulham email address.

Telephone
A dedicated Hammersmith & Fulham team telephone number at Capita is available to make enquiries by phone. For data protection purposes, reasonable identity checks will be made before any information relating to an individual is released.

Publications
The Fund publishes a number of documents which either provide information on the scheme and its administration, or are policy statements setting out how the Fund is run.

Scheme members and their representatives

The Fund has approximately 3,700 active members, 4,400 pensioners and 5,500 deferred scheme members. Communication with these individuals and their representatives is via the following mechanisms:

Pensions website – The website has separate sections for each type of scheme member focusing information on their needs and providing Frequently Asked Questions relevant to their situation.

On-line forms – Forms are provided on the website relevant to each type of scheme member for them to be able to download and complete at home.

Telephone enquiry line – Capita have a dedicated telephone number for Hammersmith & Fulham scheme members to make enquiries about their pension benefits by telephone.

Postal & email enquiry service – Enquiries can also be made via the post or to a dedicated Hammersmith & Fulham email address. Capita will usually respond to the enquiry using the same method that the scheme member used to make the enquiry.

Newsletters – An annual newsletter is issued to scheme members with their annual benefit statement.

Annual Benefit Statements – All active and deferred scheme members receive a statement sent to their home address on an annual basis setting out the benefits they have built up in the scheme to date and what their prospective benefits at retirement age are. The Fund is planning to provide these statements on line via Hart Link On-Line will be contacting members to explain this during 2013.

Pay Slips – Pensioners receive a payslip with their first pension payment and a payslip in April each year, detailing the pay dates for the coming year and the value of the annual index linked increase. A payslip is also sent if the net payment changes by more than £10 compared to the previous month. A P60 statement of income and tax is sent to all pensioners shortly after the end of the tax year.

All the information above is available to scheme members. Information in respect of individuals' pension benefits is only made available to members' representatives if permission is given by the individual.

Prospective members

Prospective members include:

- Staff who already work for an employer of the Fund and are eligible for membership but have chosen not to participate to date or opted out in the past.
- Individuals who have started work for an employer of the Fund recently and have been auto-enrolled into the Pension Scheme, but need to make a decision of whether to remain in the pension scheme.
- Those who are considering applying for or accepting a job with an employer of the Fund, where they would be eligible for scheme membership.

The methods of communication with these individuals are set out below:

Job Adverts – Pension scheme membership is advertised as one of the benefits of employment when jobs are advertised.

Scheme guide – A guide setting out the benefits of the pension scheme is provided to all new starters by their employer.

Pensions website – The website has a specific section for prospective scheme members to find out about the scheme and provides a form to complete if they wish to join.

Employers

In addition to the London Borough of Hammersmith and Fulham, there are 37 other employers actively participating in the Fund. Communication with these employers is via the following methods:

Pensions website – There is a dedicated section of the website to provide employers of the Fund with information and guidance about the Fund and their responsibilities.

Scheme Procedure manual – A scheme procedure manual is provided to all new employers in the Fund and an up to date version is always available on the website. This provides specific guidance to employers about their role in the Pension Fund.

On-line forms – The website also provides all the forms that employers will need to provide information to Capita in respect of their employees in the Fund. They can be downloaded as required.

Telephone enquiry line – Capita's telephone enquiry line for Hammersmith & Fulham is also available for employers to make enquiries or seek guidance on matters concerning their employees' participation in the Fund.

Postal & email enquiry service – As is the case for scheme members, employers can provide information or make enquiries by post or by email.

Employer forums or meetings – Capita runs staff briefings on request.

Fund Governance

The Council's Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. This includes responsibility for approving and reviewing this Communication Policy Statement.

The committee meets on a quarterly basis and other employers and Trades Union representatives are invited to attend. The minutes of the meetings are published on the Council's website. The Fund is required to publish a series of policy statements setting out how the Fund will be managed. These statements are approved by the Committee before publication and can also be found on the Council's website to be viewed by any interested parties.

Contacts

Pension Fund Administrator - Capita Employee Benefits

Capita Employee Benefits
London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS

Telephone: 01737 366139 or 366037
Email: lbhf.pensions@capita.co.uk
Website: www.mylgpspension.co.uk

London Borough of Hammersmith and Fulham

Town Hall
King Street
London
W6 9JU
Website: www.lbhf.gov.uk

Pension Administration issues:
Principal Pensions Manager
Telephone: 020 8753 1878
Email: pensions@lbhf.gov.uk

Pension Fund Accounting & Investment issues:
Tri-borough Pensions Team
c/o Westminster City Hall
Telephone: 020 7641 4331
Email: pensionfund@lbhf.gov.uk

London Borough of Hammersmith & Fulham
Pension Fund
Annual Report
2012-2013

Contents

Chairman's report

The Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2012-13.

During the year the value of the Fund rose by £84m following positive absolute investment returns over the year. The Fund's investment return beat the target return by 3.2% and placed the Fund in the top 15% of local authority funds in terms of performance, which is a very welcome result.

I reported last year that the Committee had taken a decision in March 2012 to increase the allocation of the Fund's investments with the investment manager Ruffer, to provide greater diversification. This was implemented at the beginning of the financial year and the Committee agreed a change to the Statement of Investment Principles in June to reflect this.

In September the Committee approved the Fund's Statement of Accounts and received the external auditor's Annual Governance Report on the accounts.

The Committee has continued to monitor the Fund closely at every meeting, as the uncertainty in world markets persisted throughout the year. The Committee challenged the investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The next actuarial valuation of the Fund is currently being undertaken by the Fund Actuary as at 31st March 2013. The results will be available later in the year. The Committee will be reviewing both the funding strategy as well as the investment strategy to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. This, along with the introduction of the new Local Government Pension Scheme from April 2014, will ensure 2013/14 is another busy year for the Committee.

I would like to thank all those involved in the management of the Pension Fund during the year including my fellow Committee members, officers, advisers and investment managers.

Councillor Michael Adam

Chairman of Audit, Pensions & Standards Committee

Management report

The day to day management of the Pension Fund is my responsibility as the section 151 officer for the London Borough of Hammersmith and Fulham.

The management of the Fund's investments and accounting is undertaken on my behalf by the Tri-borough Pensions team. The team provide this service to Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council ensuring there is resilience for the service not achievable from a single borough team. 2012/13 was the first full financial year for this new arrangement and it is already proving to be valuable.

The Fund's investments returned 15.1% in 2012/13, which was positive both in absolute terms and because it was 3.2% in excess of the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio in April 2012 following a decision by the Committee in March 2012.

The administration of the benefits and membership aspects of the Fund is undertaken through a framework contract with Capita Employee Benefits. The contract is managed and the policy aspects of benefits dealt with by staff in the Human Resources Department at Hammersmith and Fulham. The introduction of the new Local Government Pension Scheme in April 2014 has been a focus of work this year and will continue to be so up to and beyond implementation.

The number of employers in the Fund increased further in the year to 35, as more academy schools opened. The pattern of falling numbers of active members seen in recent years continued in 2012/13, resulting in benefits being paid out of the Fund being higher than contributions coming in. These emerging trends will form part of the considerations of the triennial valuation results due later in 2013.

Jane West

Executive Director of Finance and Corporate Governance

Introduction

The Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established by the Superannuation Act 1972, 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.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from the Fund's investments. The contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years.

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A guaranteed pension based on final salary and length of service;
- Option to take up to 25% of pension as a tax-free lump sum;
- Death and survivor benefits;
- Early payment of pensions in the event of ill health;
- Pension increases in line with Consumer Price Inflation (CPI).

A new LGPS scheme will be introduced with effect from 1st April 2014. This will continue to be a defined benefit scheme, but instead of final salary, it will be a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension will be based on their earnings throughout their career, rather than solely on their final salary. Consultation is on-going on the detailed regulations required to implement the scheme, as well as a consideration of future governance arrangements for the LGPS as a whole.

This annual report starts with the Management and Performance section which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.

The Investment section follows and details the Fund's investment strategy, arrangements and performance. This is followed by Scheme Administration which sets out how the administration of the scheme's benefits and membership is undertaken. Section 4 outlines the funding position of the Fund with a statement from the Fund's actuary and section 5 provides a summary of the Fund's annual accounts.

The report concludes with a list of contacts in section 6 and a glossary of some of the more technical terms in section 7.

1. Management and Performance

Governance Arrangements

The London Borough of Hammersmith & Fulham Council has delegated decision making powers in respect of pensions matters to the Audit, Pensions and Standards Committee (the Committee). The Committee is made up of six elected representatives of the Council – four from the administration and two opposition party representatives. 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 meets at least four times a year and has the following terms of reference:

- To determine the overall investment strategy and strategic asset allocation of the Pension Fund;
- 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;
- To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable;
- 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;
- To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents;
- 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;
- To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report;
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;
- 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;
- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;
- To approve the arrangements for the provision of AVCs for fund members;
- To receive and consider the auditor's report on the governance of the Pension Fund.

The Committee reports to the full Council annually on its activities. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance and her staff, and as necessary from the Fund's appointed actuary, advisors and investment managers.

The current membership of the Audit & Pensions Committee is as follows:

Councillor Michael Adam	Chairman
Councillor PJ Murphy	Vice Chairman
Councillor Charlie Dewhirst	
Councillor Robert Iggulden	
Councillor Lucy Ivimy	
Councillor Michael Cartwright	
Eugenie White	Co-Opted member

Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles. This measurement should result in a statement of full, partial or non compliance with a further explanation provided for any non or partial compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's published statement can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

Scheme Management and Advisers

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 and this includes the Pensions and Treasury Teams.

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 continue to be managed separately in accordance with each borough's strategy and so each continues to have sovereignty over decision making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the tri-borough working aims.

Officers

Executive Director of Finance & Corporate Governance	Jane West
Bi-Borough Director of Finance – London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea	Hitesh Jolapara
Tri-Borough Pensions Team	Jonathan Hunt Alex Robertson Nicola Webb
Principal Pensions Manager	Les Green

External Advisers

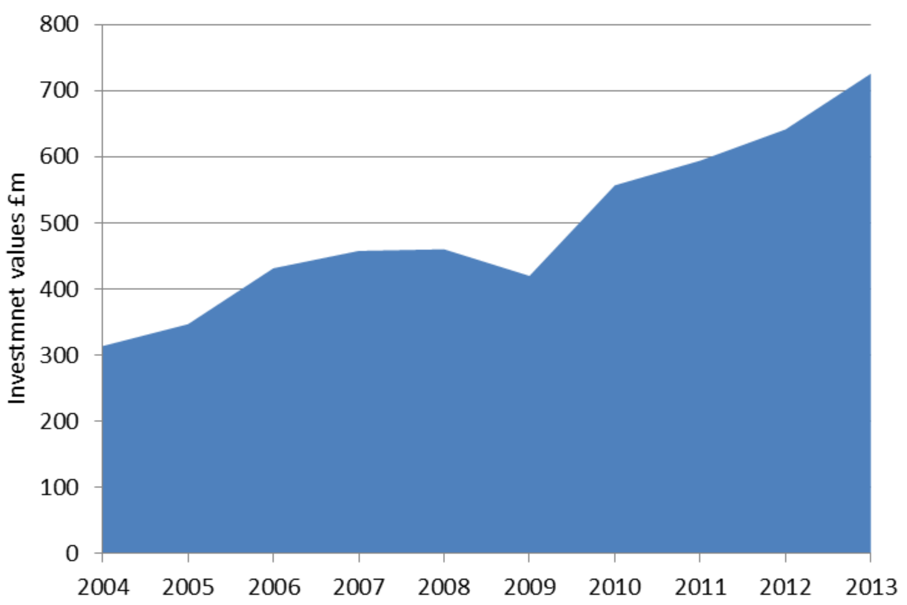
Investment Adviser	PSolve
Investment Managers	Majedie Asset Management MFS International (UK) Limited Baring Asset Management Limited Ruffer LLP Goldman Sachs Asset Management Legal & General Investment Management Invesco Unigestion
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2012/13 was positive both in absolute terms and relative to the Fund's target. The return was 15.1%, which was 3.2% above the target set by the Fund. There were no changes of investment manager during the year and the only change to allocation was a shift of 5% out of equities into the Dynamic Asset Allocation portfolio managed by Ruffer LLP in April 2012 following a decision by the Committee in March 2012. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

The table below shows how the value of the Fund's investments have increased over time by showing the total value at 31st March every year for the last ten years:

<u>Value of the Fund over the last ten years</u>



The Pension Fund Account and Net Assets Statement set out in section 5 provide more detail about the financial transactions during the year and the value of assets at the end.

Risk Management

The Fund has recognised that the most significant long term risk is that the Fund's assets are not sufficient to meet the liabilities. In the light of this, the Fund has set a "Liability Benchmark" to measure the movement in the liabilities and also to assist in monitoring investment performance to ensure it exceeds it.

In order to achieve this level of performance, the Fund has decided to invest in assets, the value of which can fluctuate significantly. To mitigate this risk, an investment strategy which covers a wide range of asset classes and geographical areas has been implemented, to ensure diversification. All of the investments are undertaken in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 and only following advice from the Fund's investment adviser.

All of the Fund's assets are managed by external investment managers and they are required to provide an audited internal controls report regularly to the Fund which sets out how they ensure the Fund's assets are managed in accordance with the Investment Management Agreement the Council has signed with each investment manager. A range of investment managers are used to diversify manager risk. All the Fund's assets are held for safekeeping by the custodian, who is independent of all the investment managers. They are also required to provide an audited internal controls report to the Fund on a regular basis.

The Funding Strategy Statement sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

2. Investment Policy and Performance

The Fund's investment policy, objectives and strategy are summarised below and set out in detail in the Statement of Investment Principles, which can be found at the link shown later in this section. One of the Fund's key objectives is to manage employers' liabilities effectively and one of the key risks for the Fund is that the assets will fall short of the liabilities. As a result the investment policy is set and performance measured by reference to a benchmark which reflects the liabilities.

Investment Benchmark and Objective

The benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" is defined using the following range of index linked gilts, designed to closely match the Fund's liabilities.

45%	Index Linked Treasury Gilt 1.25% 2017
20%	Index Linked Treasury Gilt 1.25% 2027
20%	Index Linked Treasury Gilt 1.25% 2055
10%	Index Linked Treasury Gilt 1.125% 2037
5%	Index Linked Treasury Gilt 0.75% 2047

The investment benchmark for the Fund as a whole is the Liability Benchmark plus 2.2% per annum. The investment objective is to achieve the Liability Benchmark plus 2.5% per annum.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Pension Funds to prepare, maintain and publish a statement setting out the investment policy of the Fund. In addition Pension Funds are required to demonstrate compliance with the six "Myners Principles".

The "Myners Principles" are a set of recommendations relating to the investment of pension funds which were originally prepared by Lord Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. The current version of the principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

The Fund's published statement can be found in the Pension Fund section of the following website:

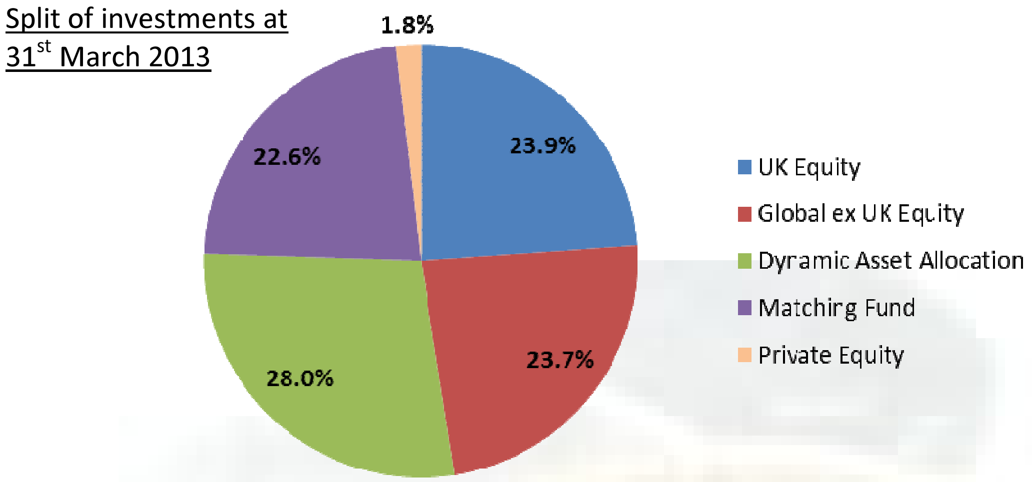
http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

Investment Strategy

The investment strategy of the Fund is to have 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 provide diversification and specialisation to reduce exposure to market risk and achieve optimum return against the Liability Benchmark.

The table and graph below shows how the Fund was split between the four main portfolios at 31/03/13. The split at 31/03/12 is shown in the table for comparison.

Portfolio	**Benchmark at 31/03/2013**	**Market Value at 31/03/2013 £000s**	**% of Fund at 31/03/2013**	**Market Value at 31/03/2012 £000s**	**% of Fund at 31/03/2012**
UK Equity	22.5%	173,322	23.9%	165,450	25.8%
Global ex UK Equity	22.5%	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation	30.0%	203,026	28.0%	153,953	23.9%
Matching Fund	25.0%	164,316	22.6%	141,442	22.1%
Other	0%	13,336	1.8%	13,142	2.0%
TOTAL	100%	725,675	100.0%	641,380	100.0%



The main change to the split of the portfolios in the year 2012/13 was an increase in the proportion allocated to the Dynamic Asset Allocation portfolio. A decision was taken in March 2012 to move assets from the UK and Global Equity portfolios and to allocate them to the Dynamic Asset Allocation portfolio. This was implemented in April 2012. The "Other" category is made up mainly of private equity investments – the Fund has committed to making investments of up to £15m.

Investment Managers

The Fund has appointed external investment managers within the four main portfolios. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund's assets were allocated between the investment managers at 31/03/13, and at 31/03/12 for comparison.

Investment Manager	Market Value at 31/03/2013	% of Fund at 31/03/2013	Market Value at 31/03/2012	% of Fund at 31/03/2012
UK Equity				
Majedie Asset Management	173,322	23.9%	165,450	25.8%
Global ex UK Equity				
MFS International (UK) Ltd	171,675	23.7%	167,753	26.2%
Dynamic Asset Allocation				
Baring Asset Management Ltd	123,116	17.0%	114,060	17.8%
Ruffer LLP	79,910	11.0%	39,533	6.2%
Matching Fund				
Goldman Sachs Asset	62,919	8.6%	59,638	9.3%

Management Legal and General Investment Mngt	101,397	14.0%	81,804	12.8%
Private Equity Invesco Unigestion	 7,265 6,071	 1.0% 0.8%	 7,600 5,530	 1.2% 0.8%
Other Baring English Growth Fund	 0	 0.0%	 12	 0.0%
TOTAL	725,675	100.0%	641,380	100.0%

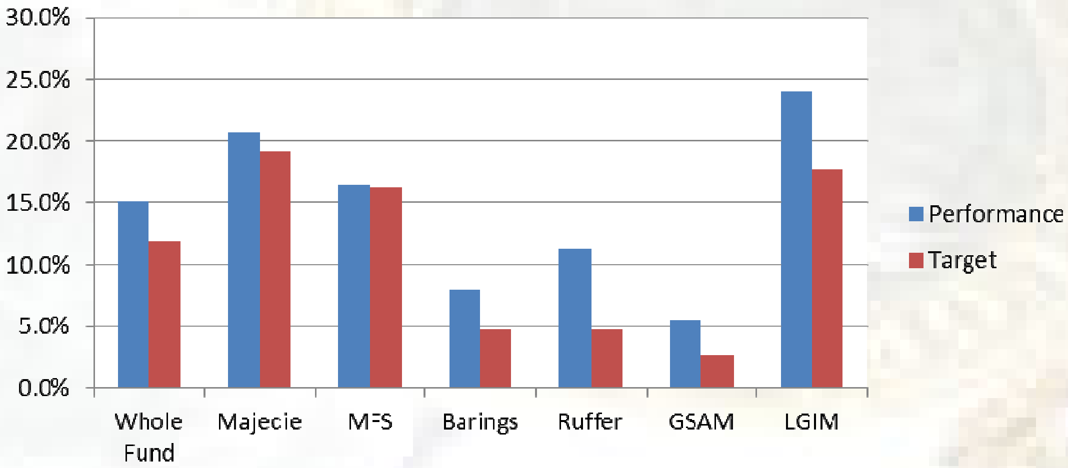
Investment Performance

The table below shows the performance of the Fund against the target in 2012/13, the previous financial year, and the annualised performance over three and five years.

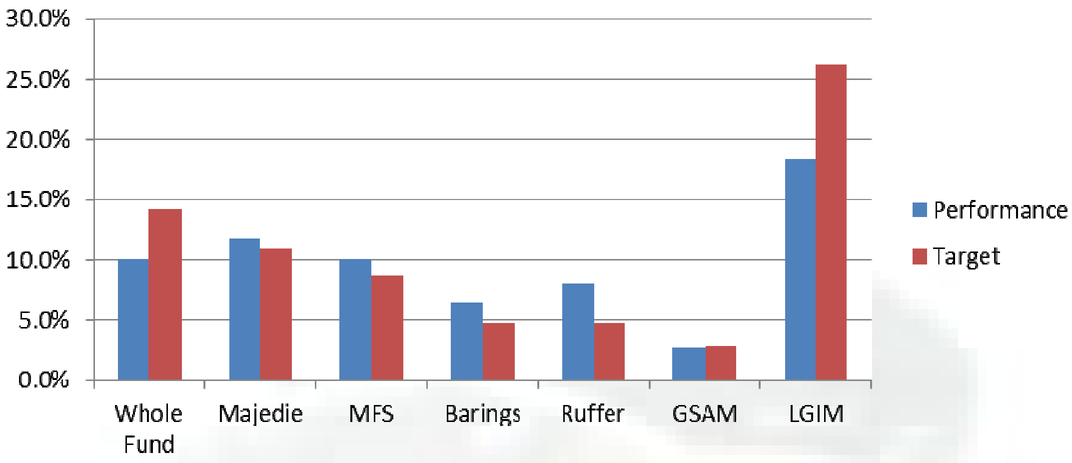
	2012/13	2011/12	3 years	5 years
Performance	15.1%	8.2%	10.0%	10.0%
Target (Liability Benchmark + 2.5%)	11.9%	22.0%	14.2%	8.0%
Out / (under) performance against target	3.2%	(13.8%)	(4.2%)	2.0%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Committee. The graphs below show the performance of the investment managers against their targets over 2012/13 and annualised over three years.

2012/13 performance against targets



Three Years annualised performance against targets



The graphs show that all the investment managers outperformed their targets in 2012/13, which led to outperformance against target for the Fund as a whole over the year. In the longer term the two investment managers running the matching fund portfolios underperformed their targets over three years and the outperformance of the other portfolios was not enough to offset this at the whole Fund level.

Responsible Investment

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. Following consideration of how to address the issue, in the light of the resources available to the Fund, it has been decided to delegate responsibility for the consideration of responsible investment matters to the Fund's investment managers. The Committee believes this is the most efficient approach for a Fund of this size.

The investment managers are required to report to the Fund on how they implement their responsible investment policy including voting decisions they take on behalf of the Fund in their quarterly reports.

Custody and Banking

The Fund has appointed a global custodian, independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments – this is Northern Trust. They are also responsible for the settlement of all investment transactions and the collection of income. The Fund's bank account is also held at Northern Trust. Funds not immediately required to pay benefits are invested in Northern Trust's AAA rated money market fund.

3. Scheme Administration

The Local Government Pension Scheme ("LGPS") is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a defined benefit pension scheme and the benefits are currently based on final salary and length of scheme membership.

Service Delivery

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. Capita Employee Benefits have been contracted under a framework to perform the pension administration service for the London Borough of Hammersmith and Fulham and the Council monitors their performance. The framework allows other London boroughs to enter into a call off contract for a range of pension administration services.

Key Service Standards

Capita work to an agreed set of targets based on the number of working days from the date all of the required information is available to them. The following table sets out their performance during 2012/13.

Work area	Total Number	Within Target	% Within Target	Average Days
Starters	229	229	100.0	7.8
Transfer Value In (Quote)	86	84	97.7	6.0
Transfer Value In (Actual)	45	45	100.0	3.7
Transfer Value Out (Quote)	89	86	96.6	4.3
Transfer Value Out (Actual)	52	50	96.2	4.1
Refund	16	16	100.0	5.1
Preserved Benefit	450	435	96.7	13.9
Estimate (Benefit)	798	791	99.1	3.5
Death in Service	17	17	100.0	5.0
Death on Pension	18	14	77.8	3.0
Quote AVCs	18	18	100.0	5.0
Quote ARCs	14	14	100.0	2.7

Membership of the Fund

The Fund provides pensions not only for employees of the London Borough of Hammersmith and Fulham, but also for the employees of a number of scheduled and admitted bodies. Scheduled Bodies are organisations which have the right to be a member of the Local Government Pension Scheme under the regulations e.g. academies. Admitted bodies participate in the scheme via an admission agreement, which is a legal document made between the Council and the organisation. Examples of admitted bodies are not for profit organisations with a link to the Council and contractors who have taken on the Council's services and therefore staff have been transferred.

The table below shows that the number of employers has been growing over the last five years. This is in part due to an increase in academies and free schools and partly due to outsourcing of Council services.

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Employers	20	25	29	30	35

A full list of the Fund's employers is set out at the end of this section.

The table below shows the Fund's membership over the last five years. It demonstrates how the number of active contributing members in the Pension Fund has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of those schemes.

	31st March 2009	**31st March 2010**	**31st March 2011**	**31st March 2012**	**31st March 2013**
Contributors	4,297	4,176	4,064	3,837	3,782
Deferred	4,714	4,900	5,217	5,409	5,546
Pensioners & Dependents	3,903	4,067	4,174	4,265	4,379
Total Membership	12,914	13,143	13,455	13,511	13,707

Employer List

Scheduled Bodies	Admitted Bodies
London Borough of Hammersmith & Fulham	Crime Reduction Initiatives
Bentworth Academy	Disabilities Trust
Burlington Danes Academy	E C Harris LLP
Conway Academy	Eden Food Service
Fulham College Academy Trust	ETDE Infrastructure
Hammersmith Academy	F M Conway Ltd
Lady Margaret Academy	Family Mosaic
London Oratory School	Family Mosaic Supporting People
Mortlake Crematorium Board	Fulham Palace Trust
Sacred Heart High School	Glencross Cleaning Ltd
West London Free School	H & F Bridge Partnership
	H&F Community Law Centre
	Inspace Partnerships Ltd
	Irish Cultural Centre
	Keir
	Keir - Non HR Contract
	Medequip Assistive Technology
	P H Jones Ltd
	Quadron
	Serco
	Tendis
	Thames Reach
	Turners
	Urban Partnership Group

Communication policy statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found on the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

Sources of information

Further information about the benefits payable from the Pension Fund can be found on the national Local Government Pension Scheme website www.lgps.org.uk . For further information about the administration of the scheme in Hammersmith and Fulham, visit the administrator's LGPS website www.mylgpspension.co.uk

Internal Dispute Resolution Procedure
Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with Les Green at the following address: pensions@lbhf.gov.uk, telephone number 020 8753 1878. If the matter remains unresolved, a stage 1 appeal may be made to Steve Birks, Director of Pension Operations at Capita Employee Benefits using the email address: lbhf.pensions@capita.co.uk and thereafter, if necessary a further appeal may be made to Debbie Morris, Bi-borough Director of HR for Hammersmith & Fulham and Kensington & Chelsea.

If the problem remains unresolved, members then have the right to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:
11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. 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. 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, but are recorded in a disclosure note.

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange for an actuary to conduct an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2010. The next one will be calculated as at 31st March 2013 and the results will be available later in the 2013 calendar year.

The results of the valuation in 2010 are shown in the table below:

Value of Assets	£532m
Liabilities	(£718m)
Deficit	(£186m)
Funding Level	74%
Future Service Contribution Rate	13.1%
Past Service Recovery Contribution Rate	8.4%
Total Employer Contribution Rate	21.5%

These results show that the Fund had assets sufficient to meet 74% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.1% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 8.4% of payroll was set to recover the deficit over a 25 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Funding Strategy Statement

The Local Government Pension Scheme (Administration) Regulations 2008 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

The Fund's published statement can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

Statement of the Fund Actuary

The statement below has been provided by the Fund Actuary, Barnett Waddingham.

Introduction

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by us 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 March 2011.

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:

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due, plus;
- an amount to reflect the difference between each participating employer's notional share of value of the Fund's assets and 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 Funds assets as at 31 March 2010 for valuation purposes was £531.7m which represented 74% 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

Developments since 2010 and the 2013 valuation

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund and we expect that the funding level should be slightly higher than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.

Alison Hamilton FFA

Partner

Anna Short FFA

Associate

10th May 2013

5. Pension Fund Accounts

This section sets out extracts from the full audited financial statements of the London Borough of Hammersmith and Fulham Pension Fund for the year ended 31st March 2013. The full financial statements can be found on the following website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

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 to safeguard its assets, and
- 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 Code;
- 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 2013 and income and expenditure for the year for the financial year 2012/13.

Jane West, Executive Director of Finance and Corporate Governance

Fund Account 2012/13

	Note	2012/13 £000	2012/13 £000	2011/12 £000	2011/12 £000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	23,136		23,234	
From Members	6	6,445	29,581	6,906	30,140
Individual Transfers In from other Pension Funds			1,575		1,906
Other Income			36		20
Benefits					
Pensions	7	(26,525)		(24,284)	
Lump Sum Retirement Benefits	7	(5,353)	(31,878)	(6,852)	(31,136)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(6,149)		(2,575)
Other Expenditure			(20)		(60)
Administrative Expenses	8		(632)		(867)
Net Additions (Withdrawals) from dealings with members			**(7,487)**		**(2,572)**
Returns on Investments					
Investment Income	9		9,930		9,579
Taxes on Income (Irrecoverable Withholding Tax)			(131)		(133)
Profit and losses on disposal of investments and changes in value of					
Realised	12		12,206		37,698
Unrealised	12		73,595		1,572
Investment Expenses	10		(2,667)		(3,222)
Net Returns on Investments			**92,933**		**45,494**
Net Increase (Decrease) in the net assets available for benefits during the year			**85,446**		**42,922**
Opening Net Assets of the Scheme			**638,640**		**595,718**
Closing Net Assets of the Scheme			**724,086**		**638,640**

Net Asset Statement as at 31st March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Investment Assets			
Index Linked Securities	13	23,755	13,211
Equities	13	297,086	277,622
Pooled Investment Vehicles	13	374,420	326,655
Private Equity	13&15	12,687	13,142
Commodities	13	3,585	-
Cash Deposits	13	12,909	8,366
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	1,223	1,041
Investment Income Due	13	760	1,470
Investment Liabilities			
Amounts Outstanding on Purchase of Investments	13	(750)	(127)
Total Investment Assets	13	**725,675**	**641,380**
Current Assets	20	199	224
Current Liabilities	21	(1,114)	(1,067)
Cash Balances		(674)	(1,897)
Net assets of the fund available to fund benefits at the period end.		**724,086**	**638,640**

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Independent auditor's report to the members of London Borough of Hammersmith and Fulham

6. Contacts

Tri Borough Pensions Team
c/o Westminster City Council
City Hall
64 Victoria Street
London
SW1E 6QE
Email: pensionfund@lbhf.gov.uk

Principal Pensions Manager
London Borough of Hammersmith and Fulham
Town Hall
King Street
London
W6 9JU
Email: pensions@lbhf.gov.uk

Capita Employee Benefits
London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS
Telephone: 01737 366139 or 366037
Email: lbhf.pensions@capita.co.uk

National Local Government Pension Scheme information website
www.lgps.org.uk

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923
Email: www.pensionsadvisoryservice.org.uk/online-enquiry

The Office of the Pensions Ombudsman
11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk

7. Glossary

Active member: Current employee who is contributing to a pension scheme.

Actuary: An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers contribution rates.

Additional Voluntary Contributions (AVC): An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

Admitted Body: An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation: The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

Benchmark: A measure against which the investment policy or performance of an investment manager can be compared.

Deferred members: Scheme members, who have left employment or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

Defined Benefit Scheme: A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

Dynamic Asset Allocation Portfolio: A portfolio that involves the movement of assets through different investment markets as market conditions change.

Employer Contribution Rates: The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Index: A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Indexed Linked Securities: Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in the Retail Price Index.

Pooled Investment Vehicles: Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private Equity: Investments in companies not quoted on public stock exchanges. Commonly these are start up businesses (also known as venture capital) or buyouts of companies with a view to restructuring and selling on.

Return: The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Scheduled Body: An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as it's right to membership is automatic.

Unrealised Gains/Losses: The increase or decrease in the market value of investments held by the fund since the date of their purchase.

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 26 SEPTEMBER 2013	
TREASURY REPORT 2012/13 OUTTURN	
Report of the Leader, Councillor Nicholas Botterill	
Open Report	
Classification - For Information **Key Decision:** Yes	
Wards Affected: All	
Accountable Executive Director: Jane West Executive Director of Finance & Corporate Governance	
Report Author: Halfield Jackman Tri Borough, Treasury Manager	**Contact Details:** Tel: 020 7651 4354 E-mail: hjackman@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents the Council's Outturn Treasury Report for 2012/13 in accordance with the Council's treasury management practices (TMS).

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 31 March 2013 which includes the investment and the borrowing strategy and outturn for 2012/13;
- the UK economy and interest rates
- compliance with treasury limits and prudential indicators

1.3. The borrowing amounts outstanding and cash investment for the relevant periods are as follows in the table below.

£ million	31/3/2013	31/3/2012	31/3/2011
Total borrowing	262.07	262.17	475.52
Total cash balances	206.17	109.30	70.00

2. RECOMMENDATIONS

2.1 To note that the Council has not undertaken any borrowing for the period 1st April 2012 to 31st March 2013.

2.2 To note the investment activity for the period 1st April 2012 to 31st March 2013.

3. INTRODUCTION AND BACKGROUND

3.1. This report presents the Council's Outturn Treasury Report for 2012/13 in accordance with the Council's treasury management practices. This report covers:

- the treasury position as at 31 March 2013 which includes the investment and the borrowing strategy and outturn for 2012/13;
- the UK economy and interest rates
- compliance with treasury limits and prudential indicators.

4. TREASURY POSITION AS AT 31 MARCH 2013

Investments

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

Investment Type	**Value 31 March 2013 (£million)**	**Value 31 March 2012 (£million)**
Liquid Deposits	44.52	18.80
Term Deposits	121.65	69.50
Money Market Funds	40.00	21.00
Total	**206.17**	**109.30**

4.2. The total investments increased by £97 million in 2012/13, the increase was attributable to a rise in usable reserves and unapplied capital receipts.

4.3. Liquid deposits consisting of overnight deposits with the Debt Management Office (DMO) and a Call Bank A/c.

4.4. The Council had £40 million invested in four money market funds (£10 million in each) run by Goldman Sachs, Blackrock, Insight and Prime Rate. The funds return ranged from 0.29 per cent to 0.49 per cent (all are rated AAA by at least one, and in most cases two, rating agencies).

4.5. The term deposits comprise 15 fixed term deals with maturities ranging from April 2013 to August 2013. The investments were deposited with DMO, Lloyds Bank, Barclays Bank, London Borough of Islington and Woking Borough Council.

4.6. The weighted average interest rate of return on the investments over the year was 0.90 per cent, with a total interest received of £1.52 million (compared with a weighted average of 1.18 per cent and a total interest £1.19 million for 2011/12).

4.7. The investment strategy for 2012/13 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.

Borrowing

4.8. All external borrowing is with the Public Work Loan Board (PWLB) at various fixed rates and split between the General Fund and Housing Revenue Account (HRA).

4.9. Total borrowings decreased by £0.1 million to £262.07 million due to maturing debt. No new borrowing was undertaken during the year.

4.10. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, has not been fully funded by external loan debt, the balance being funded by cash reserves. This strategy is prudent as investment returns are low and counterparty risk is high.

4.11. The closing General Fund debt as measured by the Capital Financing Requirement (CFR)[1] for 2012/13 at quarter 4 is £78.4 million (in quarter 3 £91.4 million), as shown in table below.

In accordance with the debt reduction strategy, all year-end surplus general fund receipts have been directed towards debt reduction. This maximises the revenue savings associated with debt reduction in the subsequent year.

Movement in the Capital Financing Requirement (CFR)

	Q3	Movement	Q4 Outturn
	£million	£million	£million

[1] The Capital Financing Requirement is a measure of the Council's underlying need to borrow for capital expenditure or to finance its other long term liabilities.

Opening Capital Financing Requirement (CFR)	99.8		99.8
Revenue Repayment of Debt (MRP)	(2.3)		(2.3)
Net Impact of Appropriations between General Fund and HRA		0.5	0.5
Annual (Surplus) in Capital Programme	(6.1)	(13.5)	(19.6)
Closing CFR	91.4	(13)	78.4
Net Movement from £99.8m	(8.4)	(13)	(21.4)

4.12. Following the implementation of Housing Finance Reform on the 28th March 2012 Central Government abolished the Housing Subsidy System and replaced it with the "self financing" regime. The Housing Revenue Account (HRA) debt was reduced by £197.4 million (repayment of debt by DCLG) from £414.7 million to £217.3 million. This resulted in a reduction in annual interest costs of £10.2million. In return, the Council agreed to give up the annual Housing Subsidy payment (this was worth £10.4million in 2011/12). The end result is the HRA is now responsible for servicing 82.9 per cent of the Council's external debt, the General Fund holds the remaining 17.1 per cent.

4.13. The table below shows the details around the Council's external borrowing (as at 31 March 2013), split between the General Fund and HRA.

	General Fund (£million)	Average Interest rate	HRA (£million)	Average Interest rate	Total external borrowing (£million)	Combined Average Interest Rate
Total / average	44.77	5.61%	217.30	5.61%	262.07	5.61%

5. THE ECONOMY AND INTEREST RATES

5.1. Given the rapidly moving state of the European debt crisis, the details below focus on the last financial year, and it should be recognised that events have moved on since.

5.2 **Sovereign debt crisis.** During 2012-13 financial markets remained apprehensive, fearful of the potential for another financial crisis prompted by a European Sovereign Government debt default. The European Authorities were keen to do whatever it took to stabilise the Euro and financial markets. The European Central Bank (ECB) cut rates and in September committed to unlimited purchases of peripheral sovereign debt.

5.3 This action was mirrored in the US where the Federal Reserve implemented further quantitative easing measures by increasing the amount of open-ended purchases from $40 billion to $85 billion per month. The Monetary

Policy Committee (MPC) increased the quantitative easing program by a further £50 billion in July 2012 but has not acted further.

5.4 The UK coalition Government maintained its fiscal policy stance. Both Fitch and Moody's downgraded the UK long term debt rating due to the weaker economic and fiscal outlook. The downgrades had little market impact.

5.5 **UK growth** proved mixed over the year. In quarter 2, GDP growth was -0.4 per cent, but then quarter 3 showed a return to growth of 0.9 per cent quarter on quarter before moving back into decline (-0.3 per cent) in quarter 4. The UK grew by 0.3 per cent in the first three months of 2013 and avoided a triple dip recession. The Office for National Statistics said that strong growth in the services sector and a recovery in North Sea oil/gas output helped the economy grow in the first quarter of 2013. Falling real incomes, the deficit reduction plan and the poor state of the European economy are holding back economic growth. However, there was also a return of some optimism for growth outside the EU as the Federal Reserve in America continued to provide quantitative easing to boost growth.

5.6 **UK CPI inflation** peaked at the start of the year at 3 per cent before ending the year at 2.8 per cent. Inflation is forecast to exceed 3 per cent over the next year.

5.7 In the latest Budget, the MPC were given more flexibility to make tradeoffs to support the economy. The implication is that the MPC will be able to justify above target inflation over the medium term if the broader economic backdrop is deemed to require measures to boost growth.

5.8 **Gilt yields** fell for much of the year, as concerns continued over the EU debt crisis. This resulted in safe haven flows into UK gilts.

5.9 **Bank Rate** was unchanged at 0.5 per cent throughout the year while expectations of when the first increase would occur were steadily pushed back to the second half of 2015 at the earliest. Deposit rates fell throughout the year as the government implemented its Funding for Lending scheme

5.10 **Risk premiums** remained throughout the year. 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.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1. During the financial year to March 2013, the Council operated within the treasury limits as set out in the TMS. The outturn for the Treasury Management Prudential Indicators are shown in Appendix A.

7. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

7.1 These are contained within the report.

8. COMMENTS OF THE DIRECTOR OF LAW

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

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Loans and Investments ledger	Halfield Jackman. Tel: 020 7651 4354	Tri-borough Treasury Manager, Westminster City Council
2.	CIPFA Treasury Management Code of Practice (published)	Halfield Jackman. Tel: 020 7651 4354	Tri-borough Treasury Manager, Westminster City Council

APPENDIX A

LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2012-13

Authorised Limit and Operational Boundary 12/13

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit[2]	£351m	£262.07m	None
Operational Boundary[3]	£284m	£262.07m	None

Limits on Interest Rate Exposure

Interest Rate Exposure	Upper Limit	Lower Limit	Actual at 31 Mar 2013
Fixed Rate Debt	£330m	£0m	£262.07m
Variable Rate Debt	£66m	£0m	£0m

Maturity Structure of Borrowing

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual at 31 Mar 2013
Under 1 year	15%	0%	4%
1 year to 2 years	15%	0%	1%
2 years to 5 years	60%	0%	12%
5 years to 10 years	75%	0%	10%
Over 10 years	100%	0%	73%

2 The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

3 The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Agenda Item 13

London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 26th September 2013	
Combined Risk Management Highlight report	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
For Review & Comment **Key Decision:No**	
Wards Affected: None	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Michael Sloniowski, Bi-borough Risk Manager	**Contact Details:** Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report updates the Committee of the risks, controls, assurances and management action orientated to manage Enterprise Wide risks.

2. RECOMMENDATIONS

2.1. The committee consider the current h&f Sovereign Strategic, Change and Operational risks as outlined in the report.

2.2. The committee note the Tri-borough and Bi-borough risks such as they may affect h&f as outlined in the report.

2.3. The committee approve the Bi-borough Enterprise Wide Risk & Assurance register (**Appendix 1**).

2.4. The committee note the case studies provided on risk management within the Facilities Management and ICT Programmes.

3. REASONS FOR DECISION

3.1. This report updates Members on the risk management issues identified across council services and follows changes in the reporting process to Committee to meet Corporate Governance requirements for Enterprise Risk Management as outlined in the 2012 guidance ‘Delivering Good Governance in Local Government’. 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.

4. INTRODUCTION AND BACKGROUND

4.1. Local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to the continuing economic and financial challenge, the Localism Act and other key legislation has brought new roles, opportunities and greater flexibility for authorities.

4.2. Local authorities are changing the way in which they operate and undertake service provision. Public services are delivered directly, through partnerships, collaboration and through commissioning. Shared services and partnership boards have come into existence. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability.

4.3. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk.

5. PROPOSAL AND ISSUES

5.1. In the Bi-borough work environment, people have to be stretched in their decision making and “doing” role. If there is no allowance for taking managed risks in an appropriate control environment, this stifles the whole process, prevents innovation and breeds poor morale. So a balanced approach to Enterprise Risk Management should allow for risk taking in a managed environment.

5.2. **Layered approach**. We propose to continue to encourage our services to own and manage risk on a layered approach based on the risk in hand. The ultimate protection is to do a risk assessment on everything (every step, every plan, every piece of new kit etc) but that is hugely time consuming and counterproductive. This would leave no time for running the business. To do this “micro risk assessment only approach prevents spontaneity and ownership by the decision makers. The layers of controls are for the service to work out in their management process and depend on the risk presented and the environment.

5.3. **Introduction of “Macro risk assessment” and “Micro risk assessment”**

5.4. A “micro risk assessment” approach must be and is carried out for critical risks including where legislation demands that it should be undertaken. A “macro risk assessment” for all critical and non-critical risks updated on an “exceptions” basis when any of the controls or environmental influences change is appropriate for Enterprise, Portfolio or Strategic big picture risks.

5.5. For example consider a frequent activity such as BACS transfer of funds to a supplier for a regular order. A macro risk assessment is carried out on that activity once every so often. Included in this is consideration to those things that would highlight an anomaly such as a variance in amount in excess of 15% or the frequency of payment changes. These are your exceptions and if either of those triggers is encountered the system should call for a micro risk assessment.

5.6. Risks continue to be rated on a 5x5 matrix resulting in a scale of risk exposure of 1-25. (25 being the highest exposure). Key risks are ‘rolled-up’ and consolidated into the Bi-borough Enterprise Wide Register attached as **Appendix 1**.

5.7. The Council has a number of significant change and transformation programmes each managed by a programme board. The majority of programmes relate to the Tri-borough agenda. The individual programme boards produce a risk register identifying significant risks to the delivery of the specific programme.

5.8. Where appropriate, risks identified in the risk registers have been incorporated into the annual audit planning process to enable audit resources to be directed to the most appropriate areas that may affect business assurance.

5.9. **ENTERPRISE WIDE RISK AND ASSURANCE REGISTER**

5.9.1. The Enterprise Wide Risk and Assurance Register has been updated following the review of Tri-borough , Bi-borough and Departmental submissions and has been reviewed by the Management Boards of Hammersmith and Fulham and The Royal Borough of Kensington and Chelsea Councils. It remains an indicator of ‘Corporate Preparedness’. The full version accompanies this paper for Members information at **Appendix 1.**

5.10. **H&F - STRATEGIC RISKS PERSPECTIVE**

Tri-borough Facilities Management (TFM) programme. Case Study 1 accompanies this report

5.10.1. The Tri-borough Facilities Management (TFM) project was approved by Hammersmith & Fulham and Westminster cabinets on Monday 13 May. This follows approval from the Royal Borough of Kensington and Chelsea cabinet on 2 May.

5.10.2. Amey, one of the UK's leading public services providers, is the chosen supplier to manage the facilities management services on behalf of the three Tri-borough councils.

5.10.3. The TFM contract will run for ten years (with an option to extend for a further three years) and includes building security, maintenance and repairs as well as catering, landscaping, cleaning and reception services.

5.10.4. Transfer of Undertakings and Protection of Employment (TUPE) regulations will apply for facilities management staff across the three councils. Amey is expected to meet with staff between June and September, with TFM due to go live from October this year.

5.10.5. No services will be closed as a result of TFM. The greatest changes will be behind the scenes and these implementation risks will need to be carefully managed. These have been illustrated in the Case Study.

5.10.6. To ensure that Amey perform well and manage risk effectively a small Tri-borough client side team has been set up to manage the TFM contract. An appointment has been made for the Head of the Client Side Team. The Client Side Team will be made up of roughly 22 staff and will be hosted by the Royal Borough Kensington and Chelsea. The team will be led by a new head of Tri-borough Facilities Management, reporting into Michael Clark, Lead Director TFM.

Tri-borough Managed Services programme.

5.10.7. Tri-Borough Managed Services (sometimes known as Programme Athena) is the programme of work to develop a fully outsourced managed services solution for a number of corporate services. This includes Finance & Procurement, HR, Property and Asset Data Management, Business Intelligence and E-Sourcing.

5.10.8. In January 2013 the Tri-borough Managed Services Programme reached a significant milestone by awarding a framework agreement to British Telecom (BT) to provide Finance and HR services. This decision follows an intensive joint procurement phase with a selected panel from across the three Tri-borough councils.

5.10.9. The Managed Services Programme Management Office has produced a (draft) top level plan, known as the Blueprint, and a (draft) Microsoft project plan. The Finance and HR Project Managers (Michael Blythin and Francis Solomon-Knox) have been asked to provide detailed tasks that will support it. This will be followed by a workshop that will start to identify the various dependencies.

ICT Programme (Case Study 2 accompanies this report.).

Pace of Change risk.

5.10.10. As organisational changes are implemented, there is an expectation that ICT will respond and provide the enablers to the new service offerings but this is not always a straightforward exercise, as the requirements themselves can change quickly over time leading to the need to redesign ICT solutions. This comes with an element of risk.

Interdependencies risk.

5.10.11. A further risk area that is recognised as impacting on the complexity of delivering the new tri-borough service enablers, is the growing number of interdependencies between major change programmes such as Managed Services, Total FM, CLCH community services integration and the tri-borough ICT strategy implementation. These interdependencies take the form of multiple demands on the same skilled resource, the need to align ICT solutions and approaches to risk identification, delivery and communication between the programmes and to business stakeholders, including third parties. The cumulative impact of multiple programmes impacting on the same service areas within similar timeframes is also an identified risk. This can give rise to serious complexity which needs to be carefully navigated. Awareness, effective governance, active resource management and escalation is required to ensure all such interdependencies are captured and managed by each programme.

Accountability and service engagement risk.

5.10.12. ICT Programme governance has been established with clear accountability and senior leadership. The programme has changed the Chief Information Officer accountability, with Howell Huws in place as the lead CIO for ASC, Ben Goward for Libraries, Barry Holloway for TTS/ELRS and CHS and Jackie Hudson providing oversight as the tri-borough lead advisor for ICT. Customer feedback demanding a single point of contact for strategic development is being met by four strategic relationship managers, aligned with the four tri-or bi-borough services, on a secondment basis.

5.10.13. **Unplanned risk exposures.**

5.10.14. In February 2013 the Council's Finance System was placed at risk due to the administration of 2e2. 2e2 were a sub-contractor of the Hammersmith and Fulham Bridge Partnership and provided the data platform and disaster recovery for Cedar Olas and Collaborative Planning. In the period February to July 2013 the Corporate Finance Team supported by the Bi-borough Risk Manager responded rapidly to the threat and contingencies were identified and applied to stabalise the finance system that included but was not limited to;

- Identification of an alternate method of payments through the Treasury team and the Council's bankers.
- Identification of the critical suppliers and payments
- Off-line retention of an upto date Chart of Accounts
- Hard copy off-line printing and retention of critical finance information
- Hard copy alternate contingency journal transfer records
- Negotiation with alternate providers
- Review of the Council's approach to supply chain resilience
- Change freeze inposed to secure system stability
- Update of the Corporate Finance Resilience Plan
- Securing a data Escrow agreement with the National Computing Centre

5.10.15. Kitchen Extraction Systems: Contract Management and Health & safety concerns have been identified in relation to school kitchens, particularly in relation to gas safety and fire safety. E.C. Harris have been commissioned to undertake review and data collection process, required to ensure that all H&FC school catering Kitchens have permanent and fully compliant and integrated facilities (inc. all fixed cooking appliances, ventilation Hoods and ducts and all gas supply pipe-work and gas cut off valves).

5.10.16. School Asbestos Management: A Complaint has been raised by a School Site Manager. Subsequent investigation has identified concerns in relation to the quality of school Asbestos Management Plans and/or school surveys being provided by preferred contractor with some inconsistencies and decay in data. Issues also remain as to the approach to asbestos management with inception of 3BM and TFM. (Capabilities/competencies).

5.11. **H&F - OPERATIONAL PERSPECTIVE.**

Key risks.

5.11.1. <u>**Tri-borough Adult Social Care Services.**</u>

5.11.1.1. **Key risks (High risks only).**
Unplanned cuts to services as a result of further reductions in government grant for social care.

5.11.1.2. Unplanned cuts to services as a result of loss of funding from health.

Mitigating action.

- 1. Out of Hospital Strategies in place; Community budgets, sharing whole systems savings;
- 2. Operational integration with health will deliver staffing savings; review skill mix etc.
- 3. Hold reserves or balances to manage better.
- 4. Develop exit strategies for one off services.
- 5. Develop prioritisation strategy for all services.

5.11.1.3. Impact of proposed changes to long term funding of social care .

Mitigating action.

- 1. Work is being undertaken by the Director of Adult Social Care Finance and Resources to assess the magnitude of this risk.

5.11.1.4. Increasing demand for social care services.

Mitigating action.

- 1. Community budgets – sharing savings from acute sector.
- 2. Develop new model of personalisation to reduce costs.
- 3. Prevention / Info and Advice /signposting – deflect demand, enable individuals.
- 4. Reablement/rehab to reduce residential care admissions.
- 5. Review charging policies.

5.11.1.5. Not effectively establishing ASC 3 B personalisation model.

5.11.1.6. Risks of negative service outcome; lack of consistency across boroughs; reputation; negative impact on capacity and increased financial.

Mitigating action.

- 1. New common model of personalisation needs to be developed and agreed across 3B ASC and inform the next phases of TAS programme.

5.11.1.7. Not developing effective integrated commissioning with Clinical Commissioning Groups.

Mitigating action.

- 1. Out of Hospital Strategies agreed.
- 2. Community budget project, sharing savings.
- 3. ASC linked to Whole Systems workstream across the local health sector.
- 4. ASC involvement in review of contracts/commissioning plans re joint services reporting back to CCG OoH boards.

5.11.1.8. Unable to share information at necessary level with health partners to plan and evaluate.

Mitigating action.

- 1. Update information sharing and information processing agreements.
- 2. Explore shared access/stakeholder with CCGs and CLCH in NWL NHS data warehouse.
- 3. Shared consent process.

5.11.1.9. Death or serious injury of vulnerable residents.

Mitigating action

- 1. Effective safeguarding adults processes in place across tri borough.

5.11.2. **<u>Tri-borough Childrens Services risks (Medium risks only).</u>**

5.11.2.1. There is a Tri-borough risk that LAC numbers start to rise, increasing demand for placements. Even without a rise in overall numbers, ongoing or even increased demand for high cost placements, particularly for adolescents, will put pressure on placements budget.

Mitigating action.
- 1. The LAC numbers are rising in the rest of the country. Plans need to be put in place to monitor numbers and need.

5.11.2.2. There is a CHS Project risk that there is insufficient contingency time between the valuation of bids and political process to the award of contract. Also a tight time scale after award of contract to mobilise in time for start date.

Mitigating action.
- 1. Contract award processes have been planned.

5.11.2.3. There is a difficulty of using multiple systems for current combined systems for current combined services. If common ICS and processes are not developed, then there will be a risk to delivery for the next wave of combined services – one provider may pose a quality / time issue.

Mitigating action.
- 1. It is clear that a number of projects are dependent on ICS convergence. Work has started on what this might look like. PID has been developed.
- 2. The Project Board which was scheduled to take place on 2nd May was intended to highlight some of the key dependencies in relation to "family view" being available.

5.11.2.4. There is a CHS Portfolio risk of limited financial contingency to meet new unanticipated demands this will led to potential budget overspends.

Mitigating action.
- CHS Finance to monitor closely. Maintain sight of risk on register.

5.11.3. **<u>Bi-borough Environment, Leisure and Resident Services risks (Medium and Borough specific risks only).</u>**

5.11.3.1. There is a medium risk that increasing financial pressures and uncertainty leads to loss of staff, skills and knowledge, increase in workplace stress, high levels of sickness and ultimately affecting service delivery.

Mitigating action.
- 1. Communications with Tier 4 managers have begun; some reviews are still in progress, a few are at the start of implementation phase .
- 2. Workforce Development Working Group and Talent Management Plan in place.

5.11.3.2. There is a risk that contamination levels to the recycled waste stream continues to increase. Resulting in a potential financial implications running into hundreds of thousands of pounds. This means that the boroughs would pay twice for disposal, once at the recycling gate fee rate, and a second time at the higher incineration gate fee. Increased residual waste tonnages and falling recycling rates can also impact on disposal costs and recycling.

Mitigating action.
- 1. An action plan is in place and close monitoring of contamination levels is being undertaken.
- 2. April 2013 , Cory has reduced its gate fee for recycled waste. Research has been undertaken and service managers have developed action plans and communications appropriate for each borough in light of the research findings.

5.11.3.3. There is a H&F specific medium risk that theTrade Waste Income target will not be achieved - The shortfall in the invoiced amount, has created a gap of over £200k from the income target.

Mitigating action.
- 1. The new process that will be implemented, as part of the sales plan should have the following impact: Increased sales, robust debt recovery, focused sales activity and monitoring. The income will monitored on a monthly basis.

5.11.3.4. There is a H&F specific medium risk that a 6% increase in Cemeteries income target is not met.

Mitigating action.
- 1. The department is working with QSL to mitigate the risk

5.11.3.5. There is a H&F specific medium risk that if Fulham Palace Trust are given additional funding including the transfer of emergency £250,000 fund as a loan for their reserves, they may not be able to balance their budget and come back to the council for more funds.

Mitigating action.
- 1. Regular meetings.
- 2. Financial monitoring of Fulham Palace Trust and attendance at their finance board meetings. Quarterly monitoring with the Chief Executive.

5.11.4. **Tri-borough Libraries risks (Medium and low risks only).**

5.11.4.1. There is a medium risk of failure to realise Archives savings and inability to re-provide a service as part of tri-borough.

Mitigating action.
- 1. Regular meetings.
- 2. Monthly meetings with tri-borough and regular meetings with stake holder groups.

5.11.4.2. There is a low risk that the number of Library issues continue to decline.

Mitigating action.
- 1. Regular meetings.
- 2. Close monitoring of issue figures and analysis by customer and item type.

5.11.5. **<u>Bi-borough Transport and Technical Services risks (Medium risks only).</u>**

5.11.5.1. Tri/Bi-borough working - Pace and scale of change may adversely affect service delivery.

Mitigating action.
- 1. Regular communications.
- 2. Nigel Pallace Divisional briefings (floorwalks).
- 3. Ongoing programme of engagement.

5.11.5.2. Tri-Borough working arrangements.

Mitigating action.
- 1.Tri Borough Programme Boards.
- 2. Environment Family Programme Board.
- 3. TTS Programme Board.
- 4. Staff Forums held and service reviews underway. HR input and Union dialogue integrated into review process.

5.11.5.3. Adverse consequences of recession/downturn in economic environment.

Mitigating action.
- 1. BC Workload planning.
- 2. Planning Workload planning.
- 3. Corporate revenue monitoring.
- 4. Staffing to match workload.
- 5. Review of debt.

5.11.5.4. Adverse budget variances.

Mitigating action.
- 1. Regular finance & trading accounts monitoring.
- 2. Work with policy and planning to bring in funds .
- 3. Financial reporting by Quantity Surveyors, BTS, QA system, use of contingencies. Training plan for staff.
- 4. New criteria introduced to prevent blue badge fraud.
- 5. Review budget staffing level.
- 6. MTFS planning process.
- 7. Parking Control Board.
- 8. Recovery plan in place.
- 9. Recruitment approval restricted.
- 10. Review adverse variances and report action plan to DMT.

5.11.5.5. Health and Safety breaches affecting staff and others.

Mitigating action.

- 1. Safety audit.
- 2. Contractors managed.
- 3. CDM.
- 4. QA.
- 5. Learning and Development Plans.
- 6. Monitoring.
- 7. Maintenance and inspection schemes underpin the engineering response to risk
- 8. Ongoing training programme.

9. Established H&S Committee.
10. Departmental Policy.
11. Divisional PR.
12. Statutory responsibilities audit.
13. Guidance issued with respect to cross borough working and duty of care for both sets of employees.
14. Corporate Health & Safety currently under review in the bi-borough programme and protocol signed.

5.11.6. 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.

Health and Safety.

5.11.7. HFBB review a quarterly health and safety performance report for the organisation produced by the Corporate Safety Team. It includes recommendations for improvements, identified weaknesses, Corporate Safety activity and building performance information.

5.11.8. The Health and Safety Executive have scheduled an inspection in early August following the asbestos incident at Linford Christie Stadium in February. An update will be provided when more is known.

5.11.9. Significant progress in this area, across the corporate and schools portfolio, has been made in line with the council's legal and strategic objectives ensuring that each property has its own asbestos management plan and named responsible person. All schools funded through the dedicated schools grant have been written to regarding asbestos management advising them of the responsibilities of the council's contractor's, 3BM, corporate safety's and theirs. Training of key personnel in corporate buildings (52 to date) has commenced. Training for schools is ready for delivery in the new academic year, managed by 3BM and corporate safety. A Tri-borough strategy for asbestos management in school is under development.

5.11.10. A number of meetings with Tri-borough colleagues have been held between corporate safety, Amey (TFM) and the Intelligent Client Function (ICF) to agree the management of health and safety during mobilization and thereafter. Named Executive Directors/Directors (in accordance with agreed corporate policy) for each building will be identified as the responsible person where decisions are required by the ICF/Amey, for example, on identifying Chief Fire Wardens. It is proposed, where buildings are shared, that the Director with the majority stake hold adopts this responsibility.

Information Management.

5.11.11. Information security incidents are recorded by the Information Management team and are reviewed periodically by the cross departmental Information Technology Security Operations Group (ITSOG). A security incident is an event that has an actual or potential adverse effect on the computer, network or user resources, compromises data or where there has been damage or loss of equipment.

5.11.12. During the this calendar year, 2013, there have been 26 incidents compared with 37 in all of 2012. This is primarily due to increased awareness and improved reporting across staff as a direct result of Information Governance training and communications. The Childrens Services Department are attributed to 10 of the incidents. Issues are escalated by the Information Manager at ITSOG meetings together with any mitigations or actions necessary.

5.11.13. The Information Management incident experience is attached as **Appendix 2.**

Procurement.

5.11.14. The Bi Borough Procurement Board is apprised of key risks and issues as part of the new reporting format to the Board. Cabinet reports include a provision for comment on risk management. Key risks identified include;

- Not all procurement projects maintain risk logs.
- Separate Governance decision making processes.
- Separate Contract Standing Orders, although an exercise to harmonise them where appropriate is underway.

- Differing approaches to procurement exist in that a category management approach is the preferred WCC method.
- Optimum timing of contracts extensions to co-ordinate three borough procurement exercises.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. *Not applicable as the report is a representation of the business risks and opportunities to H&F council.*

7. CONSULTATION

7.1. *Not applicable as the report addresses the business risks to H&F council.*

8. EQUALITY IMPLICATIONS

8.1. *The responsibility to complete Equality Impact Assessment in relation to policy decisions is the responsibility of the appropriate departmental officer. The report highlights some of the risks and consequences of risk taking over a broad landscape and as such specific Equality and Diversity issues are referred to in the councils Enterprise Wide Risk and Assurance Register.*

9. LEGAL IMPLICATIONS

9.1. *Failure to manage risk effectively may give risk to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.*

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. *Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.*

11. RISK MANAGEMENT

11.1. *It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Enterprise Wide Risk and Assurance Register and subject to review as part of planned Audit work and the Annual Governance Statement.*

11.2. Implications verified/completed by: Michael Sloniowski, Principal Consultant Risk Management. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. *Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.*

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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.	Tri-borough Programme report updates	Michael Sloniowski 2587	TriBnet
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

*[**Note:** Please list only those that are not already in the public domain, i.e. you do not need to include Government publications, previous public reports etc.] Do not list exempt documents. Background Papers must be retained for public inspection for four years after the date of the meeting.*

LIST OF APPENDICES:

Appendix 1
Enterprise Wide Risk and Assurance register

Appendix 2
Information Management incident experience

Case Study 1 Facilities Management risk management
Case Study 2 Tri-borough IT Security risk management

BI-BOROUGH ENTERPRISE WIDE RISK REGISTER

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
1.	Strategic	Bi-borough Sovereign	Managing budgets **Common Sub-risks** • Threat posed by grant reductions and changes to local government finance • **NNDR** localisation of Business Rates – taking on financial risk of non-collection of NNDR plus the associated loss of government grant • Impact of a sluggish national **economic recovery** and cascade effect on social budgets * link to revenue forecast • **Pressure on demand led services** may occur mid-year resulting in unanticipated additional costs • Failure to achieve **VFM (cost reduction LBHF)** • **Creditworthiness** of some contractors may be downgraded as a result of the economic downturn **Sub-risks (H&F)** • **Grant application** is incorrectly calculated • **Unplanned growth** • **Accruals & reconciliations** • **Planned savings** not implemented • Insufficient **budgetary provision** and/or budgetary	• Negative effect on the requirement to deliver planned savings • Pressure on the authority to manage overspends • Departments have to manage cost pressures • Loss of financial benefit to the council • Contractors may go bust and cost s may be incurred putting in new arrangements for service delivery	• Budget proposals (growth and reductions) • Tri-borough Business and Financial Planning • High risk & volatile budget areas identified by the Royal Borough and H & F Finance Teams • E-Learning package for Finance Managers • 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	The Royal Borough Cabinet and Corporate Services scrutiny committee Annual Audit Letter Committees are given the opportunity to fully scrutinise budgets during January. Internal Audit reviews of National Non Domestic Rates, Financial Accounting System Ledger, Cost reduction Contracts HFBB, Audit Pensions and Standards Committee, External Audit, Financial Strategy Board Overview and Scrutiny Board	3	4	12	Medium	Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) Nicholas Holgate, Town Clerk and Executive Director of Finance (The Royal Borough of Kensington & Chelsea) All Executive Directors	Review August 2013

			under/overspend * • Incomplete/inaccurate **accounting records** • **Overestimation** of potential revenue streams		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 Bi-borough Procurement Strategy Board (RBKC & H&F) • Disposal of Assets • Sponsorship and advertising opportunities risk & reward exercise							

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
2.	Strategic	Bi-borough	Managing the Business Objectives (publics needs and expectations)	• 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	• Tri-borough 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 2013

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
3.	Strategic	Bi-borough Sovereign	Market Testing **Common Sub-risks** • Tri Borough or Bi Borough **procurement risk appetite** may vary • **Procurement procedures** may become unclear across Tri or Bi Borough services • **Uncertainty about the most appropriate procurement route,** lengthens processes due to reporting to 3 Member bodies **Sub-risks (H&F) Transforming Procurement Savings**	• Increase in threat of legal challenge on contract awards • Officers time away from other projects • 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.	• Implementation of BRAVO software solution scheduled for 1st October 2013 across H&F, RBKC and WCC • Harmonising Contract Standing Orders • Transforming Procurement work with Agilisys procurement processes to make them slicker and more efficient • Transforming Procurement Programme with Agilisys undertakes to improve the knowledge base and skills throughout H&F • Consultation with other boroughs • Project managing the process • Separation or joining of projects to maximise benefit potential • Realistic timetables agreed and	Bi-borough Procurement Board (RBKC & H&F) Transformation Board HFBB Dual Audit review conducted for the Contracts Register, report due in September.	4	3	12	Medium	All Executive Directors Bi-borough Procurement Strategy Board	Review August 2013

					reviewed at Bi-borough Procurement 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							

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
4.	Change.	Tri-borough.	Managing Portfolios Programmes, and Projects.	• The change environment became ever more complex with single, bi and tri-borough programmes of work requiring management alongside business as usual; • Senior Managers of combined teams became responsible for managing risks over a wider geography; • New risks emerged both as a result of and as a by-product to Tri-borough working; • Changing type or level of risk resulting from external pressures such as devolved responsibilities from Central Government and new legal requirements; • Governance has become ever more complex i.e. understanding who is responsible for managing some risks has been challenging.	• Common reporting tools for key Tri-borough programmes- this included highlight reports identifying identification and documentation of key risks and issues. • A Portfolio Delivery Group consisting of a cross section of Directors and designated Tri-borough lead specialists. This group was tasked with ensuring the successful set up of shared working arrangements and played a key problem solving role-managing and mitigating key risks experienced by both programmes and corporate support functions.	A fortnightly Chief Execs' Portfolio Management Board to oversee and manage portfolio delivery including managing key strategic risks and resolving operational risks where escalated. A Tri-borough Leaders' Board to oversee the delivery and development and to manage Political opportunities and risks.	3	3	9	Low	Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham). Nicholas Holgate, Town Clerk and Executive Director of Finance (The Royal Borough of Kensington & Chelsea). Marie Snelling Tri-borough Portfolio Director. Martin Nottage (Tri Borough Innovation and Change Management Division).	Review August 2013.
			• **Successful delivery of the Tri-borough Managed Services Programme.**		• Chief Executives Briefing to Managers. • Subject Matter Experts, Ambassadors	Joint Management Team (RBKC and H&F) Strategic						

					appointed • 4 Workstreams agreed (Change Management/ Enablement - Testing/ User Acceptance Testing -Service Design and Service Delivery - ICT Readiness/ Interfaces/ Data Migration) • Managed Services Programme Director and Management Resources in place • Managed Services Roadmap published • Detailed Tri-b requirements for the Agresso system and BT service agreed by July 2013 • Build Agresso system to the Tri-b specification by September 2013 • Complete system build and recruit and train the staff ready to provide the service by January 2014 • Sort snags and post-go-live appraisal of service and levels and quality by April 2014	Executive Board (WCC) The Royal Borough of Kensington & Chelsea Internal Audit WCC RSM Tenon Internal Audit Bi Borough Procurement Board Transformation Board Audit and Transparency Committee (RBKC) Audit Pensions and Standards Committee (H&F)						
			• **Successful delivery of the Tri-borough ICT Programme**	• 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 • Impact of staffing	• WCC in conjunction with H&F and RBKC intends to create a pan-London framework agreement. The intention is WCC entering into it immediately from contract award in January, moving straight into transition to have the new service providers in place from October 2014. • H&F have a contract with HFBP which terminates 31st							

					October 2016 so it plans to move to the new suppliers at that time. • RBKC will move to the new service providers, either in whole or in part, which is an option, wherever there is a compelling business case.							
			• **Successful delivery of the Tri-borough Total Facilities Management Programme**		• A small Tri-borough client side team has been set up to manage the TFM contract. An appointment has been made for the Head of the Client Side Team. The Client Side Team will be made up of roughly 22 staff and will be hosted by the Royal Borough Kensington and Chelsea							
			Sub-risks • **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 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		• The Innovation and Managing Change Team brings together portfolio and programme management skills from H&F and RBKC. • Portfolio ,Programme and Project management is supported by a recommended decision-making and governance process. • Projects and programmes are managed through the context of the Transformational portfolios. • Further training and capability is being advanced with RBKC and WCC. • Standard documentation is to be provided to							

					support Portfolio, Programme and Project Management. • Monthly reporting to Transformation Board (dashboard) • Bi-borough Procurement Strategy Board (RBKC & H&F) monitor aspects of project management compliance • Procedures for TUPE transfer have been included in project management instructions							

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
5.	Change	Sovereign	Public Health Service and NHS Provision **Sub-risks** • the Council remains concerned about the **impacts of proposals to change the hospital arrangements in North West London** • The **transfer of the Public Health Service from the NHS to local government** may not go well	The Council is remaining active in debate with NHS decision-makers to ensure the best possible deal for residents. The Council could face unexpected spending pressures from new responsibilities	• The new Director of Public Health will attend Housing, Health and Adult Social Care Select Committee • Dedicated officers implementing the setting up of a Health & Well Being Board • The Council has no obligation to cross subsidise Public Health Tri-borough Public Health service should be hosted at Westminster as agreed by the Leaders of the three councils	HFBB Education & Childrens Services Select Committee Cabinet	4	3	12	High	Derek Myers, Joint Chief Executive Director of Public Health	Review March 2013

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
6.	Operational	Sovereign	Business Resilience **Sub-risks** **IT resilience (RBKC)**	**If an event occurs** • 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.	• The Councils generic Contingency Management Plan and Business Continuity Plans are designed to be 'scaleable' in response to any size of incident, and linkages with the and neighbouring local authorities ensure that central government and local government mutual aid assistance will be forthcoming in the event of a large-scale attack. • 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 • TriBorough IT Programme • The Corporate Firewall restricts and	HFBB The Royal Borough of Kensington & Chelsea Internal Audit The London Borough of Hammersmith & Fulham Audit Pensions and Standards Committee The Royal Borough of Kensington and Chelsea Audit and Transparency Committee Service Resilience Groups for both Councils ELRS DMT London Regional Resilience Forum	4	3	12	Medium	Lyn Carpenter (Corporate Business Continuity) Bi Borough Director for Environment, Leisure and Resident Services with the Royal Borough of Kensington and Chelsea. Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) for HFBP. Nicholas Holgate, Town Clerk and Executive Director of Finance (The Royal Borough of Kensington & Chelsea) Jackie Hudson Tri Borough Information and Communications Technology Lead Advisor Barry Holloway Head of RBKC ISD. Tony Redpath	Review August 2013

					regulates network connections and communications on the perimeter of the RBKC private network with the public internet. • Request For Change process in use by Hammersmith and Fulham is being adopted under the Tri-Borough shared services initiative. • Business Continuity Recovery Group allocates resources between business groups for recovery							
			IT resilience (H&F) • Proposed move of the H&F IT from the East London site. • Systems not joined up and connected in the event of a H&F, Royal Borough or Tri-Bi Borough event. • Lack of top tier response plans. • Electronic information storage capacity. • Mobile Communications technology provider service failure. • Information Governance during the development of major programmes (Managed Services, FM). • H&F Openscape as a form of remote communications and working.	• Delays/ interruption to the service as a replacement is found. • Cost and time of re-procuring the service. • Protection of contributions to the H&F Pension fund as more outsourcing is undertaken.	• H & F Bridge Partnership have submitted a Local Service Recovery, a major incident process has been established by HFBP 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 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.							
			Contractor Liquidity	• Service interruption. • Property loss or damage. • Injury or harm.	• Creditsafe Financial checks. • Corporate Finance credit checking. • Contractor Business Continuity Planning. • Pension fund performance bond (H&F).	Bi Borough Procurement Board						
			Terrorist attack/Civil disturbance		• 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 focusing on supporting and protecting those who might be vulnerable to radicalisation. **NOTE** Please refer to BCP Risk Assessment for highlighted risks and controls	Cabinet Office COBRA						

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
7.a	Operational	Bi-borough	Managing statutory duty **Sub-risks** **Non-compliance with laws and regulations** **Breach of duty of care**	• 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	• The Royal borough Stock Conditions Surveys. • Capital Programme • Nigel Pallace is lead Sponsor on HFBB for Health & Safety • Pro-active Health, Safety and Welfare culture across the council. • Tri-borough - The Total FM contractor will manage a number of statutory and regulatory Health & Safety procedural, record and management processes. • Tri-borough 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 the council's constitution, budget allocation through MTFS (Now unified business & financial planning process). • Training and	Annual Assurance process Assurance requires that actions are being taken to ensure compliance with the law and regulations HFBB, Audit Pensions and Standards Committee H&F Safety Committee Tri-borough Safety Committees CHS and ASC Internal Audit 2012 2013 Review of Health & Safety Statutory & Regulatory compliance FSB, Executive Director of Finance and Corporate Governance, Chief Executive and Leader of the Council	4	3	12	Medium	Derek Myers, Joint Chief Executive Nicholas Holgate (The Royal Borough of Kensington & Chelsea) Responsibility for Health & Safety, Debbie Morris (The Royal Borough of Kensington & Chelsea) Nigel (London Borough of Hammersmith and Fulham) All Executive Directors	Review August 2013

					guidance packages and newly agreed performance management indicators. • Periodic reporting to HFBB. • Health & Safety campaign on slips, trips and falls. • Tri-borough 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. • FSB reviewed and approved a process to harmonise the Management Assurance process at Director and Divisional level with that of RBKC.							
			Equalities (public sector equality duty or 'PSED') and Human Rights (a budget challenge could be in whole terms or of a single line)	• Increased complaints, Ombudsman involvement, judicial review which can result in; quashing order, prohibiting order, mandatory order, declaration, injunction, damages, and potential further challenge to a budget.	• 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	Limited Assurance report April 2012 H&F Application of the Equality Act 2010 Officer Working Group						

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
					budget proposals to be drawn up and disseminated.							
7.b	Operational	Tri-borough	Standards and delivery of care **Sub-risks** • Breach in standard and delivery of care – caring and care homes • The Executive, and Management Teams may not have been apprised of significant controls weaknesses that appear in the service area. • A breach of information security protocols in relation to an individual **Corporate Parenting**	• Non-compliance may result in prosecution or a Corporate Manslaughter charge. • Injury or death to a member of the public. • Financial compensation may be claimed. • Harm to the professional or personal reptation of the Council or individual Officer. • may result in fines, harm to reputation and personal liability of Executive Directors. • Inadequate level of service. • Poor satisfaction with statutory services. • Increased complaints.	• Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims. • Legislative changes are adopted and reflected in amendment to the council's constitution, budget allocation through MTFS (Now unified business & financial planning process). • Training and guidance packages and agreed performance management indicators. • Periodic reporting to HFBB and the Royal Borough of Kensington and Chelsea Management Board. • All child protection cases have remained allocated to a social worker despite of the high demand. • A detailed action plan has been implemented in	ASC Tri-borough Management Team (TMT). ASC CoCo, the Home Care Board, TAS programme, Whole Systems review board H& F Housing, Health And Adult Social Care Select Committee Annual Assurance process The Royal Borough of Kensington & Chelsea Internal Audit The London Borough of Hammersmith & Fulham Audit Pensions and Standards Committee The Royal Borough of Kensington and Chelsea Audit and	4	3	12	Medium	Sue Redmond (Liz Bruce from October) Tri-borough Executive Director of Adult Social Care Andrew Christie Tri-Borough Executive Director of Childrens Services	Review August 2013

					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. • The number of qualified social workers delivering a child protection service has increased by two over the past year.	Transparency Committee Education & Childrens Services Select Committee Local Safeguarding Childrens Board, Unannounced Safeguarding Inspection, Ofsted , Local and London Child Protection Procedures Officer Working Group						
		Sovereign	**Sub-risks (RBKC) Service quality of the short breaks services for people with learning disabilities. Kingsbridge Road.**	• Medication errors. • Quality of reporting and recording. • Poor quality support plans and risk assessments. • Resource availability • Application of shift protocols	• Contract Management • Scrutiny by Officers in Contracts, Commissioning and Safeguarding. • The contractor has committed to self-funding immediate additional management and support staff for a minimum 6 months until the Royal Borough is satisfied with the service.	Kingsbridge Road Care Quality Commission inspection 29th May 2013.						

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
8.	Operational	Bi-borough	Successful partnerships & Major Contracts **Sub-risks** • Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability, governance or liability in the event of service failure • Local Housing Company • Differing procurement processes Financial Regulations and Contract Standing Orders across Tri-borough services	• Joint objectives are not met • Community expectations are not met • A business plan may not be concluded • Decisions may be made which contradict or challenge the Contract Standing Orders or Financial Regulations of H&F	• Governance arrangements are in place • Performance monitoring reports reported to Select Cttee's • The Cabinet Member will be closely involved in business plan discussions • Financial creditworthiness checks at Bi-borough Procurement Board (RBKC & H&F)	H & F Bridge Partnership Assurance process Internal Audit Substantial Assurance report 2011/12 Partnership Governance Bi-borough Procurement Board (RBKC & H&F) HFBB, Audit Pensions and Standards Committee	4	3	12	Medium	Derek Myers	Review August 2013

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
9.	Operational	Sovereign (H&F)	Maintaining reputation and service standards **Sub-risks** • **Multiplicity of external forces and initiatives** • **Breach of Officer or Member code of conduct** • **Information Management and Governance** • **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**)	• 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 • Harm to the council's reputation • Potential adverse media reporting • 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	• 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 • New Standards procedures are in place • Standards issues now covered under the Audit Pensions and Standards Committee • Information governance forms part of the Tri-borough ICT Programme • 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 Committees, HFBB & DMT's • Corvu Performance	Cabinet Ofsted, Care Quality Commission, Annual Audit letter HFBB, Audit Pensions and Standards Committee, Overview and Scrutiny Board Tri-borough Information Management Project Board ITSOG Management Letter has been issued (based on comparison to requirements under the Data Protection Act)	4	3	12	Medium	Jane West (London Borough of Hammersmith and Fulham)	Review August 2013

			• **Local information interconnectivity and data storage (hosting)**	service interruption, theft, loss or duplication	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 • New Egress system introduced to protect confidential e-mails going outside of Tri-borough							

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
10.	Operational	Bi-borough **(Tri-borough)** **(from April 2013)**	Managing fraud **(Internal & External)** **Sub-risks** **Misappropriation of assets** **Appointee ship/custodian or guardian** **Contracting** Gifts & Benefits Manipulation of performance data, collusion, billing, non-compliance with Financial and or Contract Standing Orders **Misrepresentation of Personal or Commercial Circumstances** **NNDR** **Payroll** **Cheque** **Grant award** **Treasury** **Housing and Tenancy Fraud** **Benefit Fraud**	• Loss of reputation • Financial loss • Loss of asset • Loss of revenue • Adverse regulatory /audit report	• An adaptable Bi-Borough corporate fraud function now exists which responds through a single professional and effective team to the challenging and changing range of fraud, both internally and externally executed. • CAFS teams use a risk assessment to assist in targeting and workload prioritisation • Literature, web presence and training is being reviewed to deliver to all levels of the authority • Information and guidance is available on the corporate intranet • Level of fraud is being tracked through FSB • Close working relationship is established with the Police, DWP and other enforcement agencies • Bribery Act Policy and Risk Register • Money laundering policies recently reviewed and amended.	Both H&F and RBKC Audit Committees receive biannual reports on Fraud HFBB receive quarterly summary information on anti-fraud activity	4	3	12	Medium	**Tri-borough** Nicholas Holgate RBKC Town Clerk and Executive Director of Finance and Business Lead, Internal Audit **H&F** Jane West (London Borough of Hammersmith and Fulham) All Executive Directors Bi-borough Director of Internal Audit, Risk, Fraud and Insurance	Review August 2013

OPPORTUNITY RISKS (Where the is in excess of £3Million Benefit to H&F)

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Opportunity Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
1.	Change	Tri-borough	Merging of education services (with Westminster Council and the Royal Borough of Kensington and Chelsea)	Savings due to removal of duplication across the councils • IT opportunities such as access and sharing of files and connecting to networks when at other sites. • HR workshops regarding specific topics such as Sick Leave, Pay etc. are currently being planned and more information will be available soon.	• Service Reviews, Looked after Children, Leaving Care • Tri-borough Managers Induction • 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.	Children, young people and their families Schools, partners and Health Services 3 x Cabinet Portfolio Holders for Children s Services 3 x Health and Well-being Boards 3 x Children s Trust Boards Bi-borough Business Board WCC Strategic Executive Board 3 x Children s Scrutiny Committees Local Safeguarding Children Board (Tri-borough)	• 2	4	8	Low	Andrew Christie	Review August 2013

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Opportunity Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
3.	Change	Sovereign (H&F)	Regeneration of King Street and Civic Offices **Sub-risks** **GLA do not approve the proposals**	• 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 • New office accommodation at no cost is being provided in exchange for land • A new modern building is also expected to save around £150,000 in energy costs • Jobs will be created in King Street • 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 • Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2	• The Leader of the H&F Council announced revised proposals regarding the height of buildings in the residential blocks. • 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. • Exhibition of 3 bid schemes 2007 • 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. • Consultation with statutory groups; GLA, HAFAD, Port of London Authority, LFEPA, Metropolitan Police, English Heritage & Archaeology, Natural England,CAA, BAA Airports, Thames Water, Environment	Cabinet Planning Applications Committee Mayor of London Greater London Authority Port of London Authority English Heritage	3	4	12	Medium	Nigel Pallace	Review August 2013

				million a year.	Agency, Tfl • 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, Ashcurch Residents Assoc. Old Chiswick Protection Soc. Digby Mansions 39-58a Residents Assoc. Submitted by the Planning Applicant; • Environmental Statement, Energy Statement, Flood Risk Assessment, • Air Quality Assessment, Environmental Noise Assessment, Lighting Strategy • Phase 1 Habitat Survey & ecological database search • Telecommunications assessment							

No.	Business risk Perspective (Strategic, Change or Operational)	Tri-borough Bi-borough or Sovereign risk	Opportunity Risk	Consequence	First line of defence (Management Controls)	Second line of defence (Independent Assurance)	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer or Group	Review
4.	Change	Bi-borough	Earls Court regeneration	• The Mayor of London has given his consent to the redevelopment of Earls Court and the surrounding area, paving the way for a £8billion investment enabling the creation of thousands of new homes and jobs. • 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. • Proposed guarantees for tenants and leaseholders include; - 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.	• Earls Court Regeneration Team supported by high quality advisory team comprising Jones Lang LaSalle, SNR Denton and PWC. • All major decision reports reviewed by Tim Kerr QC in relation to Judicial Review challenge risk. • Workshops in August 2012 to cover procurement, risk, finance, housing redevelopment, planning, legal and communications. • Comprehensive report submitted to and approved by Cabinet 3rd September 2012. • The council 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 completion of the CLSA not occur, the remaining £5m is not refundable under any circumstances	Project Group chaired by Executive Director HFBB and the Royal Borough Management Board Cabinet Housing, Health And Adult Social Care Select Committee Planning Applications Committee The Royal Borough Major Planning Development Committee The Royal Borough Planning Applications Committee	3	4	12	Medium	Mel Barrett	Review August 2013

				Comprehensive regeneration offers opportunity to secure major estate renewal across the West Kensington and Gibbs Green estates as well as offering major regeneration benefits including 7,500 new homes, 36,000 construction jobs, 9,500 permanent jobs and £99.5 million per annum of additional local expenditure, together with additional community facilities comprising new schools, leisure and health facilities, new open and play space and a significant increase in job opportunities.								

Note 1. All key risks have been extracted from(but not limited to) a number of sources for analysis by the Royal Brough of Kensington and Chelsea Management Board and Hammersmith & Fulham Business Board . The sources include;

i. Previous models of the Corporate Risk & Assurance Registers.
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, Programme and Projects 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 Bi-borough Risk Manager.
x. Data Quality and Integrity.
xi. Cabinet, Scrutiny and public domain reports.
xii. WCC H&F and RBKC Risk knowledge pooled information.
xiii. Zurich Municipal, Grant Thronton and Price Waterhouse Coopers reports.

Note 2. Categorised under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with BS31100/ ALARM/IRM/CIPFA best practice.

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

Information Management incident experience *(Appendix 2)*

Statistical summary of incidents

Total Incidents per year (by incident type)

	2010			2011			2012			2013		
Department	**Incident**	**Loss**	**Dept Total**	**Incident**	**Loss**	**Dept Total**	**Incident**	**Loss**	**Dept Total**	**Incident**	**Loss**	**Dept Total**
CHS	6	12	18	3	2	5	6	9	15	6	4	10
ASC	1	1	2	1	2	3	3	2	5	1	4	5
T&TS	0	2	2	0	1	1	1	2	3	1	1	2
FCS	7	1	8	4	0	4	6	1	7	1	1	2
HRD	0	0	0	5	2	7	1	0	1	1	1	2
HFBP	0	0	0	0	0	0	2	2	4	0	0	0
ELRS	0	0	0	0	0	0	0	1	1	0	0	0
Cross Dept	4	0	4	2	1	3	1	0	1	0	5	5
Yearly Total	**18**	**16**	**34**	**15**	**8**	**23**	**20**	**17**	**37**	**10**	**16**	**26**

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 ASC 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 2013

Department	Closed	Contained	Live	Total
CHS	4	6	8	**18**
ASC	1	6	2	**9**
T&TS	2		1	**3**
FCS	2	4	1	**7**
HRD	1	2		**3**
HFBP			1	**1**
ELRS		1		**1**
Cross Dept		2	3	**5**
Total (to date)	**10**	**21**	**16**	**47**

Note:

- The figures above include all active cases (Live and Contained) from previous years which have been carried over to 2013 for monitoring.
- The figures are updated each month to reflect new incidents which have been logged during 2013
- 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 for containment outstanding
- **Contained** = Active incidents with priority tasks to contain the incident completed, but with either remedial actions, lessons learnt, or the monitoring of residual risks outstanding

Case study 1. - Total Facilities Management (TFM) of Risk

1. **Background to the project**
    1.1. The drive for increased efficiency in procuring services, the challenge to reduce overall costs and the need to attain improving performance standards shaped the need for a more centralised, consistent and visible service delivery model.

    1.2. This initiative included a programme of work to look at a fully outsourced, managed solution for Facilities Management (FM) across 3 councils. TFM will align the delivery of facilities management services and will see services such as cleaning, security, reception, building repairs and maintenance delivered through Amey. TFM will go live on 1st October 2013 and Amey will provide services under a 10 year contract.

2. **FM Services across 3 Boroughs**
    2.1. LBHF – on the 1st April 2010 LBHF centralised its FM functions and 27 FTE staff manage the range of FM contracts of varying terms across the Borough
    2.2. RBKC – the Borough were engaged in centralising a disaggregated FM service into a more cohesive central, in-house team of 69 individuals. Recruitment and centralising plans were in progress at the time of writing the scope of the service.
    2.3. WCC – operated a mix of direct service provision and a Managing Agent function with external delivery contractors. There was a small 'residual' in-house, thin-client team of 6 FM staff managing the outsourced FM model.

3. **The Project Board**
    3.1. The Project Board is the Property Asset Management Board and is comprised of the Executive Director of Transport and Technical Services and the 3 Boroughs respective Officers with the Property Portfolio responsibility. Their responsibility includes the Strategic delivery risk for TFM. The delivery risk is managed by a Project Team of Officers. The Governance Structure is attached as **APPENDIX 1**.

4. **The Project Team**
    4.1. The Project Team are responsible for the overall risk management and mitigation of the project including during scoping, specification, procurement and delivery of the work across the three Boroughs. Project Management support was provided by Officers of the Royal Borough of Kensington and Chelsea, Raj Patel and Sue Cooper. The scale of the project was such that a number of workstreams were identified including procurement, Human Resources, Finance, IT, Data and communications. The Project Team produce Flash reports to members of the Project Board and Team by which progress is measured and is produced periodically. A copy of the report is attached as **APPENDIX 2.**

5. **Accountability**
   5.1. The Project Team reports into the Property Asset Management Board, and is comprised of the Heads of Property drawn from each of the three Boroughs with Nigel Pallace, Executive Director, London Borough of Hammersmith & Fulham acting as Lead Advisor. The Board is accountable for the delivery of the project in line with Tri-borough governance, Member and political engagement, ensuring alignment with other strategic initiatives and ownership of the business case.

   5.2. EC Harris were commissioned by the three Boroughs to conduct a high level review of the options including alternative operating models for the Boroughs' FM Services.

6. **Business Case**
   6.1. Key risks with the proposed solution were identified within the Business Case and Options Appraisal prepared in association with EC Harris LLP. WCC acted as the lead procuring borough.

7. **Primary areas of risk** were identified and recorded in the Project Risk Log attached as **APPENDIX 3** and updated in **APPENDIX 4**. These included the following risks;

   - **Governance** – failure to secure timely approvals and decision making, effective Member communications and authorisations throughout the procurement process.

   - **Political** – lack of consensus or delay in gaining approval from politicians across the three boroughs as well as the risk of changes in policy at local, regional or central government. Alignment of Data – failure to ensure that data sets are in a common format and describe each Borough's requirements adequately. Risk of sharing of data becomes overly complicated and not effective.

   - **Availability of Resources** – particularly a lack of funding, inappropriate level of the necessary skills and/or not releasing the required resources away from day-job duties to ensure that people can be deployed on this project. There is a potential clash with other initiatives – this project is one of several parallel projects. There is a need to allow for the likelihood of sharing internal resources across each of these initiatives. Others include West London Alliance Project Athena and the broader Tri-Borough programme.

   - **Alignment of Service Specifications** – unable to align or agree service specifications using a common vocabulary and with sufficient detail due to differing borough priorities.

- **Creation of a unitary Client Entity** – unable to establish a single point of contact and a unified contracting authority to keep the commercial engagement with the contractors as simple as possible.

- **Procurement** – inability to identify and secure a supplier of sufficient capacity and capability to deliver the service required.

- **Systems** – failure to align and integrate different IT systems across the Tri-Borough and supply chain organisations.

- **TUPE** – the transfer of the proper resources allocated to the new service delivery model will take place in accordance with the TUPE regulations, which impose certain restrictions and costs that potential suppliers may find off-putting.
- **Stakeholder Management** – failure to engage the key stakeholders and decision makers in a timely and effective manner.

- **Contract** – the most appropriate form of contract is not utilised resulting in the procurement and delivery of a sub-optimum level of service.

8. Risk Mitigation

Recommendations to mitigate these risks included;

1. Approval of the project Business Case including of the funding required
2. Endorsement of the proposed governance structure for the management of the project.
3. Approval of the timeframe outlined in the project plan.
4. Approval of the procurement strategy.
5. Agreement of the Competitive Dialogue OJEU process as the preferred procurement route.
6. Approval of the Contract Approach (i.e. Client Side Structure).
7. Endorsement of the proposed contract form.

9. Lessons Learned

9.1. A lessons learned exercise is now standing operating procedure adopted by the Bi-borough Procurement Strategy Board. The report will be prepared by a procuring consultant from Hammersmith & Fulham Council and presented to the Bi-borough Procurement Strategy Board for consideration.

10. Implementation

10.1. Steve Bowker, is the Senior HSEA (Health, Safety, Environmental and Assurance) Advisor for the Tri-borough contract. It is his job to ensure that safe environments exist for staff to work in.

10.2. Over the coming months Steve will also be focusing on establishing common standards for all areas of the contract to work from. This will include risk management, assurance, occupational health, as well as processes and procedures.

10.3. It is also will be ensured that Amey are compliant across the contract and that every asset, system and piece of equipment we look after has suitable maintenance regimes and inspections in place.

Case study 1, Appendix 1: Governance Structure

Project Board
(2-weekly at LBH&F)

Chair: Nigel Pallace

Mike Clark
Maureen McDonald-Khan
Richard Platt

Project Team rep Glenn Woodhead

Roles and responsibilities:	
• Overall accountability for the delivery of the TFM project • Approvals and sign-offs - £'s and process • Compliance with tri-borough governance • Integration with wider Property initiatives, and Project Athena • Risk Management	• Decision making and direction setting – political guidance • Approvals and sign-offs - £'s and process • Member briefing, engagement and sign-offs • Allocate resources • Ownership of Business Case

Project Team (weekly at RBKC)	
Chair: Glenn Woodhead, Project Manager: Raj Patel Project Support: tba FM Borough Leads: • WCC: Glenn Woodhead • LBHF: Mike Cosgrave / Chris Nolan • RBKC: Sue Cooper / Raj Patel Technical Advisers: EC Harris Others as required / requested	Functional Work stream Leads: • Procurement: Alan Parry • Legal: Sharpe Pritchard • HR: Keeley Cooper / Sue Hollingsworth • Finance: Dave McNamara • IT: Paul Kinnon • Communications: Kate Pierce • Processes: tba

Roles and responsibilities:	
• Project Planning / Management • Project Resource / Budget Management • Project Support / Administration • Communications and Consultation • Stakeholder management • Trade Union liaison • Business Case development / management • Risk Management and mitigation • Project monitoring and reporting • Decision making and escalation of issues • Compliance with legislative and tri-borough policy requirements • Business change management / Transition planning • Standardisation of FM processes, policy, standards, formats across tri-borough • Design of client side organisation	• Competitive Dialogue with suppliers • Data mining / collation / cleansing • Document Management • Sourcing supply chain • Strategic FM processes • TUPE / HR / Pensions / Finance / Legal / Procurement issues • Define outputs / specifications • Direct work streams • Systems and ICT • Problem solving / resolving technical issues • Best practice

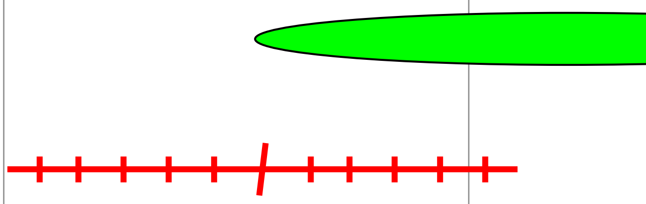
Case study 1, Appendix 2: Flash Highlight Report

Tri-Borough FM Transformation Project	**05 Feb 2013**

Achievements (since last review)

- Financial evaluation completed
- Meeting with SHSOP Project Team
- Stakeholder Engagement Officer recruited

Progress Against Plan



Work Streams

RAG	Work Stream Status
	Project Team – Financial evaluation completed. Meeting to discuss the SHSOP projects impact on TFM, workshop organised for the 7th Feb
	Procurement – Reviewing clarifications and supporting the evaluation process
	Legal – Supporting clarifications, evaluations and the ICF development
	Data – Concerns about the WCC property and TUPE data still remain and needs to be resolved before mobilisation
	Finance – Baseline budgets need to reflect change in project scope. Financial evaluation completed
	Technical – ICF and mobilisation planning and development of the enabling programme
	HR – Tri-Borough position on pensions outstanding
	Communications and Engagement – Stakeholder Engagement Officer recruited by RBKC

Benefits

RAG	Project Benefits
	At least £2 million saving per annum on the total revenue budget
	Reduce duplication and waste
	More efficient use and availability of occupied property across the three estates
	Enhanced capacity to respond to service demand
	Greater financial stability through enhanced forecasting and budgeting
	Significantly reduced risk of the property issues impacting on HR issues related to direct employment and non-compliance with statutory regulation

Risks/ Issues	RAG	Risks/Issues
		People – Need to recruit key positions within ICF ASAP. Timetable for recruitment required
		Finance and Commercial Work Stream – Baseline Budgets to be reworked to reflect current changes in project scope and TUPE list
		Schools – Approach to dealing with schools to be agreed
		Transition – Delay in the recruitment of the ICF team mean there is a requirement to establish interim mobilisation team (risk of knowledge loss and increased project costs) and resource plan
Enabling Programmes		**Enabling Programme Status Updates**
		Overall Position – workshop required to establish the deliverables to define a common programme for each Borough
		H&F – Plan submitted outlining key deliverables
		RBKC - EC Harris audit completed with no significant problems outlined in the report. Minor issues being resolved
		WCC – on hold until February 2013

Do Next	Action	Who	When	Status
	Project Team – Agree preferred bidder	Project Team	FEB 13	
	Mobilisation – Develop plan and costings	Project Team	MARCH 13	
	Key Milestones			
	Agree preferred bidder	Project Team	FEB 13	
	Audit	Project Team	MARCH 13	
	Contract closure activities and planning mobilisation	Project Team	MARCH 13	
	Resource and mobilisation plan	Project Team	MARCH 13	
	Savings and cost model development	Project Team	FEB 13	
	Stakeholder satisfaction baseline survey	Project Team	MARCH 13	
Development of the Framework				

Case study 1, Appendix 3: Project Risk Log, August 2012

Risk Description	Risk Number	Project Priorities	Principal Statutory Obligations	Consequences	Inherent risk: Impact	Inherent risk: Likelihood	Inherent risk: Total	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Total	How to Mitigate Risk	Proposed Action to Mitigate Risk	Action By Date	Who Responsible for Action	Open / closed
Governance															
a) Approvals from 3 Boroughs for Decisions (there is no known precedent for this)	1				5	4	20	2	3	6		Ensure Critical Path identified Ensure project programme meets Nov 12 deadline	15 July 2011		Open
b) Progress on Legal entity for Contracting. Driven by persons external to Project Team. Need to identify who lead is.	2				4	3	12	3	3	9		Resolve issue of Contracting Authority and Sign-offs	31 August 2011		Open
Data															
Availability and Integrity of Data	3				4	3	12	3	2	6		Begin data collation and identify gaps	29 July 2011		
Resources															
Project team resource availability	4				5	4	20	3	3	9		Allocate sufficient people with enough time to action the Project Stages	Ongoing		
Failure to create support PMO	5				4	3	12	4	2	8		Create PMO - escalate to Project Board to seek approval for action	26 August 2011		
Service Specifications															
a) Tailor these to meet all 3 Borough's needs. Fail to make first cut specs based on ECH template	6				5	3	15	5	2	10		Requires common data standards, common asset nomenclature, common room numbering etc	31 August 2011		
b) Fail to establish scope and scale 'fit-for-purpose'												Requires due diligence based on accurate and timely data collations	31 August 2011		Closed
Critical Dates															
Westminster Nov 2012 - 'burning platform'	7				5	5	25	4	3	12		Ensure Critical Path identified Ensure project programme meets Nov 12 deadline	30 November 2012		
Client Entity															
Fail to define size, function & roles within Client entity	8				3	4	12	3	3	9		Define requirement for entity, define adequate roles and responsibilities, level of authority, legal status and relationship with the 3 Boroughs	29 July 2011		
Clash with Other Initiatives															
a) Project Athena - independent procurement project	9				3	4	12	3	2	6		Agreement in principle for independent procurement has already been established but need to test in practice with publication of OJEU Contract Notice	29 July 2011		
b) Project Athena - Choice of IT Platform	10				2	4	8	2	2	4		IT platform for Integrated Property Management System is currently subject to Programme level discussion	31 August 2011		
c) Ongoing Individual Borough Programmes	11				4	4	16	4	2	8		Conflict of resource and timeframes, savings and contract novation need to be resolved	29 July 2011		
Procurement Risks															
a) Engaging with 3 Borough Procurement, Legal, HR, Finance and IT teams	12				4	3	12	4	2	8		i) Identify leads and relevant governance/authorities ii) Endorse and authorise selections	15 July 2011		
b) Competitive Dialogue - getting dialogue under way	13				4	3	12	3	2	6		Develop Procurement Strategy and write paper to seek endorsement of process	29 July 2011		
c) Managing Contractors Expectations - failing to define substantive economic interest to drive a successful procurement, failing to keep offer credible & clear. Need for unity of purpose across Boroughs	14				3	3	9	3	2	6		Use Memorandum of Information, soft-market testing and Bidders' Open Day to define scope & outline requirements. Ensure stakeholder alignment & avoid project 'scope creep'	29 July 2011		
d) Future Change - risk of policy shift or changes in participating clients, changes to specifications or volume of expenditure to be included in procurement	15				4	5	20	3	4	12		i) Define mechanism to manage all changes ii) Define paymech to join - % savings v lump sum	31 August 2011		
e) Risk of Project becoming a Framework	16				4	3	12	3	3	9		Protect timeframe and Tri-Borough 'Brand' by creating the 'vanilla' contract and all joining parties need to accept this. Endorse by Project Board	Ongoing		
f) Failure to choose appropriate Form of Contract	17				4	3	12	3	3	9		Prepare Procurement Options Appraisal for choice of Contract. Engage Legal opinion on choice. Endorse use of NEC3 as form of contract - familiar in use with Local Government procurements	29 July 2011		
Systems and Platform															
Risk of inconsistencies in data and priorities between Boroughs	18				3	5	15	3	3	9		Align data formats and choice of systems and/or systems parameters	29 July 2011		
Unsuccessful access to SharePoint or Data Room	19				3	4	12	3	2	6		Either senior IT Manager to resolve in short term or fund external options	29 August 2011		
TUPE															
Union and Staff opposition, costs, acquired rights issues. HR and Legal position requires clarification.	20				5	4	20	5	3	15		HR integrated approach across Boroughs, begin staff consultation early, engage HR and Legal to define requirements and develop risk profile	Ongoing		
Mobilisation															
Risks and costs of delay	21				4	5	20	4	3	12		Define early - avoid project scope creep	01 August 2012		
Internal Stakeholder Management															
a) Risk of objection or poor co-operation from Customer Directorates, Business Units and Staff affected by the project	22				4	3	12	3	3	9		Identify primary stakeholders, develop Communications strategy and keep feedback channels open	Ongoing		
b) Lack of Access to Stakeholders	23				4	4	16	3	2	6		Keep stakeholders informed of key progress stages	Ongoing		
c) Aligning 'Custom & Practice' in each Borough	24				3	4	12	3	3	9		Appoint lead on the Project Board to act as liaison	Ongoing		
Branding															
a) Fail to establish Brand Identity for Tri-Borough 'product' - adequately identify key differences between current delivery models in each Borough and the proposed TFM model.	25				3	4	12	3	2	6		Identify the What, When and How of the TFM model so that the Tri-Borough brand can be defined. Use existing contract registers and local management to describe transition programme	31 July 2012		
b) Westminster - risk of failure to identify what the change to a full TFM model means for the Council. Will it confuse contractors and stakeholders												Clarify commercial and delivery differences between the new TFM contract vs. current Csi contract. Manage existing suppliers	31 August 2011		Closed
General															
a) Ongoing risk to Public Services during transition to Tri-Borough operations	26				5	3	15	5	2	10		Create detailed transition programme allied to a robust Communications Plan and regular information updates to key stakeholders	01 August 2012		
b) Engaging with Schools - risk that schools will not opt into the delivery mechanisms under the TFM model.	27				3	4	[illegible]	3	3	9		Develop consistent message, aligned to Tri-Borough brand, for communication to Schools as a marketing campaign.	31 August 2012		

Case study 1, Appendix 4: Project Risk Log, March 2013

TFM Risk Register

Risk Description	Inherent risk: Impact	Inherent risk: Likelihood	Inherent risk: Total	Proposed Action to Mitigate Risk	Action By Date	Who Responsible for Action	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Total
Contract sign off is required for May 2013 for go live in September 2013. Risk remains that Members in each council are not in agreement to sign off to one position for this date leading to inability to mobilise, lost savings, supplier lack of confidence in tri-borough to deliver.	4	3	**12**	Stakeholder Engagement Manager in post and defining engagement strategy and plan. Senior Management to liaise with key Councillors to explain benefits of Programme to get buy in for Contract sign off	March- May 2013	RP/MC	4	1	**4**
Quality of the service is negatively impacted by the implementation of TFM across tri-borough.	4	2	**8**	Standardisation of output specifications and processes enable the delivery of savings whilst developing the opportunity to enhance the service(i.e. H&S processes and reporting on a robust basis). Further the PMS has been developed to ensure that the successful provider will be required to put £2m at risk and quality aspects are central to the PMS. In addition, as part of the Paymec, payments will be retained until agreed by the client. The client entity will recruit individuals with strong commercial skills to ensure vfm and quality is maintained.	Jun-13	Project Team	4	1	**4**
Failure to agree apportionment of savings leading to inability to obtain cabinet sign off between the three councils.	4	1	**4**	Engagement with Finance Directors and Project Team to ensure agreement across the Tri-Borough for Cabinet sign off in three boroughs	May-13	RP	4	1	**4**
Failure to obtain agreement to the inter authority agreement in time to finalise contract	3	2	**6**	Engagement with Finance Directors and Senior Legal Teams to ensure agreement on the ICF and the Project Governance across the Tri-Borough.	May-13	RP	3	1	**3**
Failure to obtain funding to resource the mobilisation team appropriately leading to time delay and contract start, currently scheduled for Sept/ Oct 2013	3	4	**12**	Resource required to secure mobilisation team will be provided by Senior Management	Apr-13	MC	3	2	**6**
Failure to close contract through preferred bidder consultation	4	1	**4**	Ensure regular communication with preferred bidder and engagement with senior management	May-13	MC	4	1	**4**
Union and Staff opposition to the changes due to job losses and potential changes in terms and conditions and additional challenges at a national level for instance by GMB	2	4	**8**	HR have integrated the process and have also began staff engagement at all three councils. Early engagement at preferred bidder stage will align transition process.	May-13	JO'R	2	2	**4**
Failure to agree the structure of the client side entity will block recruitment initiatives in advance of the contract mobilisation, resulting in undue operational risk, potential loss of knowledge, continuity and also the risk of staff challenge from staff to the recruitment process.	3	3	**9**	Application deadline for ICF Recruitment has closed with long listing and shortlisting to follow. Expect interviews to take place by May 2013. Full agreement to use H&F T&Cs is also required in order to progress a successful recruitment campaign.	Sep-13	MC	3	2	**6**
Challenge from unsuccessful bidders, for instance due to the leaking of sensitive information, disrupts the programme and confidence lost among stakeholders. If successful the challenge could result in a veto of the result and a requirement to retender.	4	3	**12**	From the start of the procurement we have ensured that the process for selection is to be endorsed by Sharpe Pritchard to ensure contract solutions are arrived at. This strategy has been successful to date, now the project team are proposing an additional day of dialogue to close out the process, mitigate risk of challenge, maintaining the agreed programme. Any financial and saving profiles that are circulated beyond the project team are indicative only ensuring that due process is followed	May-13	MC/ Sharpe Pritchard	2	1	**2**
Enabling Programme is not fully managed and controlled. This leads to difficulties in aligning business readiness	3	3	**9**	PMO are liaising with Enabling Programme leads to ensure key risks are escalated to Programme level. A Workstream lead has been appointed to oversee the programme and	Sep-13	SC	2	1	**2**

across the three boroughs leading to potential mobilisation issues and service delivery gaps				ensure key milestones are met effectively.					
Difficulty in engaging third party suppliers at this juncture leads to problems of decommissioning current contracts, implementing mobilisation plan, TUPE concerns and stakeholder dissatisfaction.	3	3	**9**	PMO are liaising with Enabling Programme leads to ensure key risks are escalated to Programme level. A Workstream lead has been appointed to oversee the programme and ensure key milestones are met effectively.	Sep-13	SC	2	1	**2**
Completed									
The Specifications are not fit for purpose to align the 3 Councils FM services	5	3	**15**	FM Leads to ensure that all specifications are circulated appropriately and comments made to ensure they are 90% correct prior to CD process. Further detailed amendments to follow	Feb-12	Project Team	2	2	**4**
The payment mechanism cannot be finalised/ modelled correctly due to poor specification/ data or failure to agree financial principles across Tri-Borough (data and specifications are within the remit of the project),	4	4	**16**	Ensure that a single and appropriately skilled and hierarchically positioned finance lead is appointed to form part of the CD dialogue	Jan-12	Project Board	2	2	**4**
Without Cabinet sign-off from all 3 Boroughs, the project will stop as it cannot enter into Competitive Dialogue. This implies an agreed approach across all three Boroughs.	5	3	**15**	Single Paper drafted to be processed though governance structures. Project Board to own and manage the senior stakeholder approvals. Meet with Mike More to outline project.	Cabinet Paper written by 8 December. Stakeholder approval during December for Cabinet approval by end of January 2012.	Project team to draft paper. Heads of Property to manage approval process	1	1	**1**
Inconsistency of data sets and failure to integrate systems across the three boroughs (Property and non-property systems) will result in poor MI and data integrity.	3	5	**15**	Align data formats and agree IT specification and integration strategy. Borough specific enabling programmes to be created and monitored to align data collection and associated strategies as per Board agreement 19/01/12	Jan-12	IT Leads and Project Board	2	3	**6**
Failure to agree a defined client side model and/ or get member endorsement of the model	4	4	**16**	Further develop the model including roles and message/ circulate to members. Hold Workshop to effect the above	Feb 12 onwards	Project Team	2	2	**4**
Failure to ensure that the competitive dialogue team have the correct skills and/ or members have sufficient time available	4	5	**20**	Serve and 'lock down' roles ASAP. Permit technical support to ensure that AD finance fully committed to projects	2 weeks	Project Board and Project Team	1	3	**3**
Failure to agree and endorse across all 3 Boroughs a fully defined project scope and specification will lead to budget and operational delivery issues. In addition this may impact on the TUPE list.	3	3	**9**	Specifications and broad scope have been agreed and amended iteratively but Board have not fully endorsed scope. Intention to take a further scoping report to Board on the 15th Nov for consideration and sign off.	15th Nov 2012 - Project Board	RP/GW	2	2	**4**
Is the project affordable? The savings and its apportionment across the Councils and service areas cannot be guaranteed until the CD process has been completed.	5	2	**10**	Throughout the CD process indications are that savings will be substantially greater than the original challenge as set in the business case. Although figures cannot be released until preferred bidder has been agreed indicative figures will be shared with senior stakeholders.	week ending the 16th November	GW	3	1	**3**
In the current economic climate bidders are encouraged to bid low in order to 'buy the contract'. This would result in operational and commercial risks.	4	3	**12**	Benchmarking to comparable industry rates for TFM indicate that savings between twenty and thirty per cent are achievable. Also bidders have priced within a similar ball park throughout the CD process giving validated to the savings profiles that have been submitted.	Jan-13	Project Team	4	1	**4**
The Framework does not deliver the anticipated growth resulting in less commissions and lower royalty payments to the tri-borough	3	4	**12**	Robust procurement ensures that the bidders competitively bid for access to the framework opportunity. This has resulted in guarantees of returns to the tri-borough for the life of the Framework irrespective of the turnover generated. Should the client entity commercially work in partnership with the provider this will assist the use of the framework and deliver additional royalties over and above those guaranteed.	Dec-12	Project Team	3	1	**3**

Case Study 2. Tri-borough Information security risk management

The Tri-IT Joint Review by Michael Sloniowski Bi-borough Risk Manager for the Royal Borough of Kensington and Chelsea, London Borough of Hammersmith and Fulham.
and Nick Byrom, Strategic Business Analyst, Corporate Finance

1. Executive Summary

1.1 The three Councils have three existing and separate internal management processes for capturing Information security risks. These have been reviewed and tested against recognised best practice as set out in the CIPFA Hazard Identification Documents for Information Technology that identifies 9 classes of risk. Following this exercise 5 Strategic key risk areas* (Page 3, As-is RAG) have been identified following an in-depth review of risk and exposure. A governance structure has been proposed to ensure that the Tri-Borough IT management teams have a consistent mechanism for reviewing risk within the service but also a route to escalate high impact or strategic issues to SEB and JMT and for onward scrutiny to Audit Committee.

2. Background

2.1 This report was commissioned by Jackie Hudson, Director for Procurement and IT Strategy for Hammersmith and Fulham and Tri-borough IT Programme Lead advisor. The brief was to analyse the current major IT risks (Appendices 5,6 &7) across Tri-Borough and then further examination of the current IT security risk assessments, (Appendices 2, 3 & 4) of the three authorities to identify common areas of concern with a particular focus on remote working. Further to this, it was agreed that a methodology be formulated that would allow for comparison of risk controls against industry standards and best practice.

2.2 The findings of the analysis would be fed into the IT Programme Board for consideration. A series of recommendations and prompts for further discussion are provided.

3. Methodology

3.1 The CIPFA Auditing Control matrices were used to assess the current controls in place across the three authorities, specifically the Hazard Identification Document (HID) for Information Technology. These systems-based auditing documents produced by CIPFA were developed in conjunction with Exeter City Council are inherently aimed for use in the sector. The HID provides a comprehensive assurance checklist for reviewing the effectiveness of controls in place to maintain a secure IT Service. Importantly, the HID sets out the main categories of threat in this area and also shows what the possible consequences are. The HID also clearly sets out the best practice requirements.

3.2 The three IT Security Managers across the Tri-Borough were asked to provide their top 10 IT risks from their local risk registers produced in line with local risk management policy and arrangements. These registers are appended for information. Managers were asked to refresh the current controls in place that protect from these risks. This was so up to date information was used in the cross-reference against the CIPFA Hazard Identification Document checklist.

3.3 Data Quality is considered low risk given the information coming back on current controls is provided directly from specialist staff with direct responsibility for IT security for the three authorities but it must be noted that the information in the risk registers was not validated by independent audit.

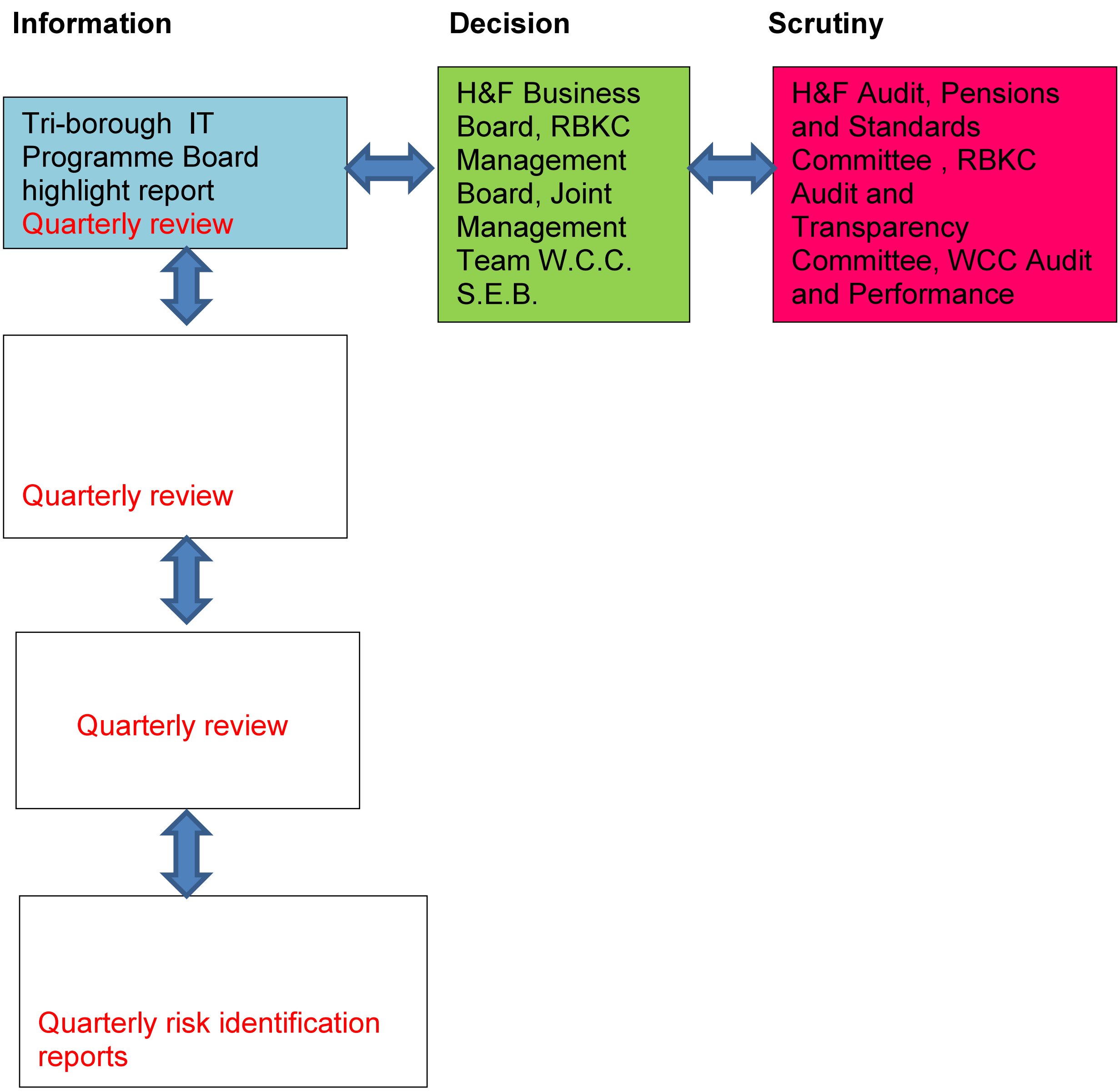
3.4 There are differences in the style and content of the three registers but the fundamental data and commentary are produced in line with best practice. It was fairly straightforward to align the risk types using the HIDS to form a shortlist of common risks facing the three authorities.

4. Review findings

4.1 IT is acknowledged that three differing appetites and attitudes to risk and response exist due to historic and separate working arrangements. This will need to be considered in any future Tri-borough IT provision. The review of the IT risk registers across the three authorities and using the HIDs to undertake the review 5 common risks have been identified from the following 9 classes that will require consideration by the relevant responsible officers.

Classes of IT risks
1. Data Protection
2. File controls
3. Freedom of Information
4. Procurement of IT
5. Personal Computing
6. Records Management
7. Information technology governance
8. Network security
9. Recovery and business continuity

Figure.1 The **Tri-IT risk management** proposed governance structure.


Information
Decision
Scrutiny
Tri-borough IT Programme Board highlight report
Quarterly review
H&F Business Board, RBKC Management Board, Joint Management Team W.C.C. S.E.B.
H&F Audit, Pensions and Standards Committee , RBKC Audit and Transparency Committee, WCC Audit and Performance
Quarterly review
Quarterly review
Quarterly risk identification reports

Agenda Item 14

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **26 September 2013**
Internal Audit Quarterly report for the period 1 April to 30 June 2013	
Open Report	
For Information **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance	
Report Author: Geoff Drake – Chief Internal Auditor	**Contact Details:** Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2013 as well as reporting on the performance of the Internal Audit service.

2. RECOMMENDATIONS

2.1. To note the contents of this report

3. REASONS FOR DECISION

3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2013 as well as reporting on the performance of the Internal Audit service.

4.2. In order to minimise the volume of paperwork being sent to Committee members, documents 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 has been made available to all members separately.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Coverage

5.1.1. 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

5.1.2. A total of 21 audit reports were finalised in the first quarter of 2013/2014 from 1 April– 30 June. In addition 8 management letters and 3 follow ups were issued.

5.1.3. Of the 3 follow ups undertaken, in one case all recommendations were found to be implemented. In the remaining two a number of recommendations were found to be partly implemented or not implemented (see Appendix A for detail).

5.1.4. 3 audit reports issued in this period received limited assurance:

5.1.4.1. The Fulham Primary School audit made 10 recommendations of which all have been reported as implemented;

5.1.4.2. The Leaseholder Services Charges audit made 4 recommendations of which 3 have been reported as implemented. The remaining P2 recommendation is due to be implemented by 30 September 2013;

5.1.4.3. The Health and Safety Risk Management and Assurance audit made 9 recommendations of which 7 have been reported as implemented. The remaining P2 recommendations are due for implementation on 30 September and 31 October 2013.

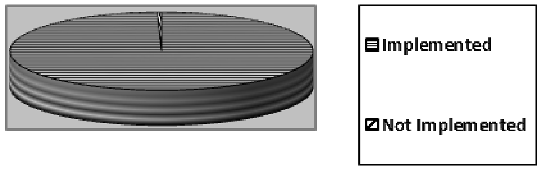
5.1.5. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.

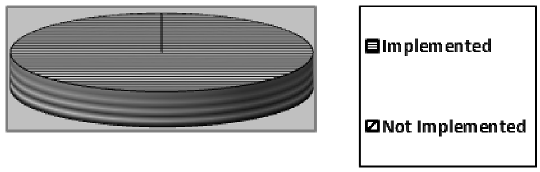
5.1.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently no reports outstanding that were due to be signed off on or before 30 June 2013.

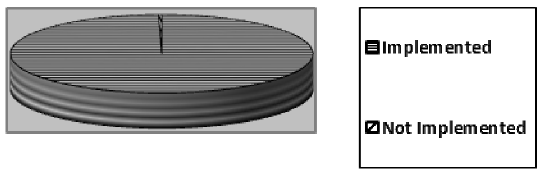
5.1.7. There are now 4 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to 2 outstanding as reported at the end of the previous quarter and represents a slight deterioration in the overall position. We continue to work with departments to reduce the numbers of outstanding issues.

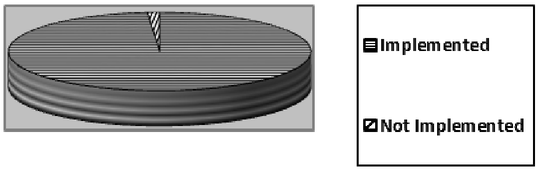
5.1.8. All of the outstanding recommendations is as follows relate to Corporate Services. One of the recommendations listed is over 6 months past the target date for implementation as at the date of the Committee meeting. This relates to Information Sharing – Partnerships. Internal Audit are continuing 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.

5.1.9. 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 2008/09 have been implemented)*

Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.	99.5%	426 recommendations implemented out of a total of 428 **2 recommendations outstanding**	

Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.	100%	238 recommendations implemented out of a total of 238 **No recommendations outstanding**	

Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.	99.7%	295 recommendations implemented out of a total of 296 **1 recommendation outstanding**	

Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.	98.6%	225 recommendations implemented out of a total of 228 **3 recommendations outstanding**	

5.2. Internal Audit Service

5.2.1. 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 2013 are shown below.

Performance Indicators 2013/14

Ref	Performance Indicator	Target	Pro rata target	At end of June 2013	Variance	Comments
1	% of deliverables completed (2012/13)	95%	24%	15%	**-9%**	17 deliverables issued out of a total plan of 117 (accounting for audits carried forward)
2	% of planned audit days delivered (2012/13)	95%	24%	21%	-4%	298 days delivered out of a total plan of 925 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	89%	**-6%**	16 out of 18 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%	95%	84%	-11%	4 out of 6 draft reports issued within 10 working days of exit meeting. Average time to issue draft is 7.5 days.
5	% of Final reports issued within 5 working days of the management responses	95%	95%	N/A		No 2013/14 final reports issued in period.

5.3. Audit Planning

5.3.1. Further to the plan agreed by the Committee, we have continued to liaise with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council with regards to the tri and bi-borough environment. Amendments that were made to the 2012/13 Internal Audit Plan have been shown in Appendix B.

5.3.2. The new bi-borough Internal Audit service combining the services for Hammersmith and Fulham plus Kensington and Chelsea will formally started on 1 July 2013. The service will is hosted from Kensington and Chelsea and the new Director of Audit is Moyra McGarvey. The service will continue to work closely with the Westminster council internal audit service to provide a co-ordinated and cost-effective service.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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

LIST OF APPENDICES:

Appendix A Audit reports issued 1 April to 30 June 2013
Appendix B Amendments to 2013/14 Internal Audit Plan

APPENDIX A

Audit reports Issued 1 April to 30 June 2013

We have finalised a total of 21 audit reports for the period to 1 April to 30 June 2013. In addition, we have issued a further 8 management letters and 3 follow ups.

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	2012/13	Hurlingham and Chelsea School	Andrew Christie	Substantial
2	2012/13	CHS - Departmental Management of Portfolio, Programmes and Projects	Andrew Christie	Substantial
3	2012/13	Personal Budgets - Income Recovery	Sue Redmond	Satisfactory
4	2012/13	TCES - Prepayment System	Sue Redmond	Satisfactory
5	2012/13	Quality Assurance	Sue Redmond	Satisfactory
6	2012/13	West London Housing Related Support Framework	Sue Redmond	Satisfactory
7	2012/13	Bridge Academy	Andrew Christie	Satisfactory
8	2012/13	All Saints School	Andrew Christie	Satisfactory
9	2012/13	Woodlane High School	Andrew Christie	Satisfactory
10	2012/13	Central Financial Management of Schools	Andrew Christie	Satisfactory
11	2012/13	Fulham Primary School	Andrew Christie	Limited
12	2011/12	Council Website	Jane West	Satisfactory
13	2012/13	Council Tax	Jane West	Satisfactory
14	2012/13	Partnership and Corporate Governance	Jane West	Satisfactory
15	2012/13	HRD - Departmental Management of Projects	Mel Barrett	Satisfactory
16	2012/13	Regeneration Governance	Mel Barrett	Satisfactory
17	2012/13	Leaseholder Service Charges Income Collection	Mel Barrett	Limited
18	2012/13	Commercial Waste Management	Nigel Pallace	Satisfactory
19	2012/13	Parking Enforcement	Nigel Pallace	Satisfactory
20	2012/13	EC Harris - Common Contract Issues	Nigel Pallace	Satisfactory
21	2012/13	Health and Safety Risk Management and Assurance	Nigel Pallace	Limited

Substantial Assurance There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

Satisfactory Assurance While there is a basically sound system, there are weaknesses and/or omissions 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 and / or omissions 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 Control is generally weak, leaving the system open to significant error or

Assurance 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
22	2013/14	Year-end summary report - Schools	Andrew Christie
23	2013/14	Year-end summary report - HoIA	Jane West
24	2013/14	Year-end summary report - IT	Jane West
25	2013/14	Year-end summary report - Finance	Jane West
26	2013/14	Year-end summary report - Programme and Project Management	Jane West
27	2013/14	Bribery Act Gap Analysis	Jane West
28	2013/14	Duplicate Payments (Part 1)	Jane West
29	2013/14	Street Enforcement Summary Report	Lyn Carpenter

Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
30	2013/14	Greenside Primary School	5	2	1	1
31	2013/14	Cambridge School Follow Up	4	4	1	0
32	2013/14	Mobile Phones Follow Up	7	0	0	0

APPENDIX B

Amendments to 2013/14 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate	Analysis of previous audit work on exemptions and reliefs	Addition	Work on reliefs and exemptions requested by Audit Pensions and Standard Committee
2	Corporate	Supply Chain Resilience	Addition	Added following instances of weaknesses in supply chain resilience.
3	Corporate Services	Local Taxation	Removed	Covered by other audits of Local Taxation (NNDR and Council Tax)
4	Corporate Services	Civica Purchase Ordering System	Removed	Will be redundant due to move to Managed Services
5	Environment, Leisure and Residents Services	Service Reviews	Removed	Proactive audit work. Removed at request of Director. TO be added in from contingency if required at later date.
6	Environment, Leisure and Residents Services	Register Office	Addition	Request from department due to concerns over control environment.