London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Thursday 10 January 2013
7.00 pm
COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL
King Street, London, W6 9JU

MEMBERSHIP

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

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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: 19 December 2012

Audit, Pensions and Standards Committee
Agenda

10 January 2013

If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.

At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.

5. PSOLVE MATCHING FUND REPORT 29 - 35

This report prepared by P-Solve, considers the continued suitability of the existing Matching Fund structure.

6. TREASURY MID-YEAR REVIEW 2012-13 36 - 44

This paper is a regulatory requirement in compliance with the CIPFA Code of Practice on Treasury Management and set out cash balances, investments and borrowing as at the 30th September 2012. It reprises the information reported to Cabinet at its meeting on 10th December 2012. The Council has designated the Committee as the body responsible for the effective scrutiny of the Treasury Management Strategy and policies.

7. ANNUAL GOVERNANCE STATEMENT AND AUDIT COMMISSION RECOMMENDATIONS UPDATE 45 - 55

This report summarises progress on implementing recommendations arising from the Audit Commission 2011/12 Annual Governance Report and the action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and progress in implementing these action plans.

8. REVISED ANTI-MONEY LAUNDERING POLICY AND PROCEDURES 56 - 75

This report provides updated policy and procedures for H&F in respect of Anti-Money Laundering, for approval by the Committee.

9. CORPORATE ANTI-FRAUD SERVICE SIX-MONTHLY REPORT 76 - 88

This report details the counter fraud work undertaken during the first two quarters of the financial year to 30th September 2012, by the Council's Corporate Anti Fraud Service (CAFS).

10. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT 89 - 102

This report informs the Committee on the overall arrangements for, and performance of, risk management across the Council.

11. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2012 103 - 114

This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2012 as well as reporting on the performance of the Internal Audit service.

12. EXCLUSION OF THE PUBLIC AND PRESS

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

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes

Thursday 27 September 2012

PRESENT

Committee members: Councillors Michael Adam (Chairman), Marcus Ginn, PJ Murphy and Lucy Ivimy.

Coopted Member: Eugenie White

P-SOLVE: John Conroy

Audit Commission: Julian McGowan

Trade Union Representative: Sheela Selvajothy

Officers: Jane West, Executive Director of Finance and Corporate Governance, Hitesh Jolapara, Bi-Borough Director for Finance, Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, Mark Jones, Bi-Borough Director for Finance, ELRS and TTS, Debbie Morris, Bi-borough Director for Human Resources, Christopher Harris, Head of Corporate Accountancy and Capital, Bob Pearce, Pension Fund Accountant, Geoff Drake, Chief Internal Auditor, Michael Sloniowski, Principal Consultant- Risk Management, George Lepine, HR Consultant, and Owen Rees, Committee Coordinator

19. MINUTES OF THE PREVIOUS MEETING

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, updated on actions from the last Committee. He said that information on fees was contained elsewhere on the agenda and had been forwarded to members in August. He said that the minutes of the meeting that had issued a mandate to Majedie's Tortoise Fund made clear that it was a long/short fund, and made no reference to emerging markets, though the mandate for MFS had been varied to give more exposure to emerging markets equities.

RESOLVED THAT

(i) The minutes of the meeting on the 28th June 2012 be agreed as a true and correct record, and that;
(ii) The outstanding actions be 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.

20. APOLOGIES FOR ABSENCE

There were apologies from Councillors Cartwright and Iggulden.

21. DECLARATIONS OF INTEREST

Councillor Murphy declared an other interest as a member of the Pension Fund in items 23, 24, 26 and 35.

22. REVISED TERMS OF REFERENCE

The Chairman noted that the appointment of the Vice-Chairman had been deferred from the previous meeting, and in line with the nomination made by the Opposition Whip, proposed that Councillor Murphy be appointed as Vice Chairman.

RESOLVED THAT

(i) The revised Terms of Reference be noted, and that;
(ii) Councillor Murphy be appointed as Vice-Chairman for the 2011-12 Municipal Year.

23. LEGAL AND GENERAL PRESENTATION

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, said that, in light of the full agenda, it had bene decided to defer the presentation by Legal and General to a future meeting.

24. PENSION VALUE AND INVESTMENT PERFORMANCE

John Conroy, P-Solve, introduced the quarterly report to the 30th June 2012, and set out the market conditions that had served as the background to that performance. He said that global markets were experiencing a period of unprecedented instability, in which attitudes to risk meant that assets were bought and sold at prices that did not necessarily relate to their underlying value. He said that this was particularly the case with US, German and UK index linked gilts, the last of which had a considerable impact on the fund.

He said that risk aversion had caused yields on index-linked gilts to fall to their lowest ever level. He said that a number of factors and uncertainties were contributing to this environment, including the problems in the Eurozone, the fiscal cliff faced by the United States and the possibility of a “hard landing” for the Chinese economy. He said that this had resulted in money flowing into UK gilts in search of a safe haven, even if the underlying position of the UK economy and government finances did not necessarily warrant this.

He said that, in the quarter year under review, the fund had underperformed the liability benchmark, though this underperformance should be set against the performance of the Legal and General benchmark, which illustrated the high rise in gilt prices. He then set out the performance of individual managers, outlining the chief factors affecting their performance.

Councillor Murphy asked how Majedie has performed against the FTSE All Share. Mr Conroy said that this could be seen by subtracting 2% from their performance. He said that this showed a clear underperformance in the most recent period, but that there had been out performance on a 1 and 2 year rolling basis.

Councillor Ivimy asked about the fund's lack of exposure to non-index linked government bonds. Mr Conroy said that funds in general did not hold a high quantity of that type of asset, and that there was uncertainty around the asset class, given the high prices for gilts.

Councillor Ivimy asked why, given that its intended purpose and ability to short stocks, the Tortoise Fund had not contributed stronger performance during the turbulent period. Mr Conroy said that Majedie would argue that this was a result of stock specific return, that shorts could fail, and that pricing of shares was showing extremes of valuation which might caused managers to purchase shares rather than sell. Bob Pearce, Pension Fund Accountant, said that the Tortoise Fund was home to around of 8% of the Council's investment with Majedie, so short positions taken would be relatively small.

Mr Pearce said that, with regards to the performance of the Fund as a whole, it had been in the 6th percentile of local authority funds in the previous financial year, with those funds that had outperformed it being closed funds, invested entirely in index-linked gilts. He noted the extreme fluctuation in markets, which had seen the fund's value rise to £650 million in the present quarter before falling back to £639 million at the date of the meeting.

Councillor Murphy asked, in light of the unusual and unprecedented market conditions, how well the fund's managers were able to cope, particularly if such conditions were to become normal. Mr Conroy said that there were both strategic and tactical considerations. He said that he was confident that the Fund had the right strategic position and that its assets were allocated appropriately. However, he said that there was the possibility that interest rates could remain as low as they were at present for the medium to long term, as had happened in Japan, and this would affect what position was taken on holding equities. He also drew attention to the debate around the inflation measurement. He said that any changes in the strategy, however, moving excess returns from the Matching Fund, would raise the issue of what was a more appropriate asset class for those funds to be used on, given the function of the matching fund. In response to a question from the Chairman, he said that the current market position meant that options would be extremely expensive, due to the difficulty of finding a counterparty. He said that it was his view, and that of officers, that the next valuation would be the appropriate time to review strategy and those charged with implementing it.

Mr Pearce said that, to give comparison, the fund had returned 8.2% for the financial year 2011/2012 which compared very favourably with other London Local Authorities whose returns ranged from 8.2% to 2.6%, with Majedie returning 6.5% against an average of 2.2% for managers in their class, placing them in the 5th percentile, while MFS returned 7.2% against 2.1% for managers in their class, placing them in the 1st percentile. He said that both Ruffer and Barings also outperformed the average fund return, at 4.8 and 4.7% respectively. Mr Conroy said that, notwithstanding any future changes to the structure of the fund, P-Solve were satisfied with the performance of the Dynamic Asset Allocation mandates.

Mr Conroy concluded by saying that two managers from Majedie's ex-UK equities team had departed, with the funds they managed to be wound up. He did not believe that this would have a direct impact on the management of the Council's funds.

RESOLVED THAT

(i) The report be noted.

(ii) That the Committee record a vote of thanks to Bob Pearce for the advice and expertise he had given during his service with the Council, and wish him luck for his retirement.

25. TREASURY MANAGEMENT 2011-12 OUTTURN

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report which set out the Treasury Management Outturn for the previous financial year. He set out the profile of the Council's debt, and its underlying borrowing need (Capital Financing Requirement). He also explained the structure of the Council's debt, including maturity dates.

The Chairman asked why the Council had held so much cash. Mr. Hunt explained that this was an issue of timing.

Councillor Murphy asked about the Council's loan to Birmingham City Council. Mr Hunt said that Birmingham was rated AAA, and that inter-authority lending was not uncommon, particularly given the poor rates of return available from other sources. In response to follow-up questions about Council's credit ratings, he said that a number of Councils currently possessed credit ratings, generally of AA+ or above. He said that this had occurred largely as those Councils had sought to borrow directly in the money markets, due to the high rates asked by the Public Works Loan Board (PWLB). The PWLB had subsequently lowered rates, meaning that the planned borrowing did not take place. Mr. Hunt said that given the costs involved, gaining a rating was only necessary if the Council planned to directly issue debt.

RESOLVED THAT

The report be noted.

26. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2011/12

Hitesh Jolapara, Bi-Borough Director for Finance, introduced the report, which set out the accounts for the 2011-12 year. He said that the accounts had been given a clean bill of health by the auditor, with no issues found on the Pension Fund accounts. He drew attention to some of the major changes that had taken effect during the year, including the inclusion of heritage assets and the repayment of £197 million of Housing Revenue Account debt.

Julian McGowan, Audit Manager, Audit Commission, said that the Auditor would be able to issue an unqualified opinion with no outstanding objections. He said that the process of the audit had gone very well with the accounts presented in good time and queries responded to quickly. He said that the accounts could be approved and that the recommendations made in the audit had received a positive response.

Eugenie White asked about the difference between the accounts as stated on page55 and on page 81. Christopher Harris, Head of Corporate Accountancy and Capital, said that the table on page 81 showed the balance sheet under International Financial Reporting Standards (IFRS). He said that this meant that impairments that were shown as due in their entirety, the Council's Pension Fund debt for instance.

Councillor Murphy asked, given the financial risks identified, whether the reserves were high enough. Jane West, Executive Director of Finance and Corporate Governance, said that it was her view that balances would need to be added to rather than reduced, but that they were already considerably higher than when she took the post.

Councillor Ginn asked Mr McGowan how the Council's performance compared to other boroughs. Mr McGowan said that it had been an easier process than the previous year had been, due to IRFS being better established. He said that, in his experience, the Council was among the top 10 percent in London for responsiveness and the quantity of adjustments required.

Councillor Murphy asked about the disposal of finance leases. Mr Harris explained that one related to the freehold for the Novotel in King Street, which had been sold during the year. He said that the other one related to the Metro building nearby, which while listed for disposal, was the subject of a complex legal position, making negotiation necessary and a timetable for that disposal uncertain. Officers agreed to send the Committee a briefing on the position of the site.

Councillor Murphy asked why, given the pay freeze for staff employed by the Council, senior staff had continued to receive pay rises. Ms West said that the rises had been contractual, and related to performance related pay; she said that all staff entitled to a contractual increase had received one, but that 92% were already at the top of their pay band. She confirmed that bonuses paid were pensionable.

The Chairman asked whether there was a breakdown of the £26 million in savings. Ms West said that the pay scales for senior officers and the breakdown of savings had been reported to full Council, and officers would circulate details.

The Chairman said that the degree of overspend was noteworthy, and wondered if it reflected issues with budgeting. Mr Jolapara said that managers, given the overall environment, had incentive to make savings early, and that there was no culture of spending to budget within the organisation. Councillor Ginn said that, if business objectives were met, underspend had to be considered a success.

Eugenie White asked about the issues with short term debtors identified in the auditor's report. Mr Harris said that there could be good reason for debts to remain on the Council's books, past the point at which they would normally be written off, giving the example of charges on property. He said that the report had identified that the Council needed to improve its record keeping however.

RESOLVED THAT

(i) That the content of the Auditor's Annual Governance Reports, which state 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, be noted, and;

(ii) That the Council's response to the Annual Governance Reports (AGR) be noted, and;

(iii) That the management representation letter (as included with the AGR) be approved, and;

(iv) That the Statement of Accounts for 2011/12 be approved.

27. <u>2011/12 WORMWOOD SCRUBS CHARITABLE TRUST ACCOUNTS</u>

Hitesh Jolapara, Bi-Borough Director For Finance, introduced the report, which set out the accounts, trustees' report and auditor's report for the Wormwood Scrubs Charitable Trust for 2011/12. He said that the audit had given the accounts a clean bill of health, not identifying any material issues.

Councillor Ivimy said that running the Trust running a deficit had been unfortunate. Mark Jones, Bi-Borough Director for Finance, ELRS and TTS, said that this represented investments made in the Linford Christie Stadium with a view to increasing income from the site. He said that there had also been a fall in pay and display income, a fall which had been in line with sites elsewhere.

In response to a question from Eugenie White, Mr Jones said that he did not know the source of the reserves, though it was likely to be a result of surpluses maintained over a long period. In response to further questions, he said that he did not believe that the car park area needed resurfacing at present, and that he would check and report back to the Committee on the duration of the Quadrant contract.

RESOLVED THAT

(i) The Wormwood Scrubs Charitable Trust's 2011/12 audited statement of accounts and Trustee's report be approved, and that;

(ii) The content of the Auditor's Annual Governance Report (AGR) stating that the accounts will receive an unqualified opinion be noted, and that;

(iii) The management representation letter (as included with the AGR) be approved, and that;

(iv)The 2012/13 contribution to the running costs of Linford Christie stadium up to a maximum of £115,500 be approved.

28. ANNUAL GOVERNANCE STATEMENT 2012

Geoff Drake, Chief Internal Auditor, presented the Annual Governance Statement. He said that it identified 5 extant control weaknesses, the remainder were included to close those identified last year that have been resolved. It was also explained that at future meetings of the Committee reports will be provided identifying the action plans to address these outstanding weaknesses plus External Audit recommendations from their Annual Governance Report, and progress made in miiplemnteting these plans..

Eugenie White asked whether the Statement included measures to combat fraud in schools. Mr Drake said that the alleged fraud had taken place in relation to voluntary funds, and as such had not been a control weakness for the Council. Work to promote awareness was undertaken as part of school audits.

With regards to gas safety certification, Mr Drake said that he would report to Committee members the wider risks and how they are being overseen, but that with regards to the allegations discussed at the last meeting, the Council had been convicted and fined £105,000, which was at the lower end of the available penalties.

RESOLVED THAT

That the Annual Governance Statement for 2012 be noted.

29. VOLUNTARY DISCLOSURE TO HMRC

George Lepine, HR Consultant, presented the report which set out the voluntary disclosure made to HMRC by the Council with regards to a group of workers whose employment status had been incorrectly judged. He said that following discussion with HMRC since the report was written, the figures for possible liability should be amended. He said that HMRC assessed the liability at £471,000, though this would be off-set against tax paid by the individuals affected; he said that this might mean a reduction of 50% or more in that element due on the basis that tax had been paid. In addition, the Council was likely to be charged an interest payment, and a penalty charge, although LBHF was negotiating with HMRC with a view to suspending the charge subject to the outcome of a further audit. He said that the worst case scenarios would see the Council paying £640,000 while the best case would see the Council paying £350,000.

Councillor Ivimy asked if the individuals involved had been notified. Mr Lepine said that HMRC did not allow the Council to contact the individuals on this matter.

Councillor Murphy noted that a penalty for “careless error” was likely. He asked what other penalties could have been charged. Mr Lepine said that there were four categories: error, careless error, where it was judged that reasonable care had not been taken to get things right , deliberate error, where the underpayment was knowingly committed, and deliberate and concealed error, where the underpayment was deliberate and there had been subsequent attempts to conceal the underpayment from HMRC.

Councillor Murphy asked when members had been informed of the decision to write to HMRC in February, stating that the Council was considering a voluntary disclosure. Jane West, Executive Director of Finance and Corporate Governance, said that she may have informed the Leader but would need to confirm this. She said that the possible need to make such a disclosure had been set out in the report agreed by Cabinet in January 2012 for a review of cases in which people might have been incorrectly dealt with as self employed for tax purposes and the provision of tax advice. She would give details of what steps were taken to inform Councillors once the decision to make a disclosure was made.

RESOLVED THAT

The report be noted.

30. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity undertaken in the previous period. He drew attention to the stress on the public sector as a whole as set out in 2.2, and for organisations generally, as the dependencies on IT increased. He drew attention to the work done by CIPFA on financial risks, by PWC on fraud risk and to the changes made to the Council’s risk register in the period.

Councillor Ginn asked what the largest area of risk for the Council was. Mr Sloniowski said that the unprecedented pace and scale of change was the largest source of risk, particularly in ensuring that process kept pace with organisational change.

The Chairman asked about the risk of cyber attack. Mr Sloniowski said that he understood the increased risk to be due to the seriousness of any disruption increasing, but that he would check with the Bridge Partnership how the Council was protected.

Councillor Murphy asked about the risks of a child protection incident, and the risks of embedding cultural change in that area of work. Mr Sloniowski said that it was a closely monitored area, and that it was an area with a wide range of risks. Jane West, Executive Director of Finance and Corporate Governance, said that the Council did work to improve productivity in the service.

Eugenie White noted that the prevalence of social media meant that any incident had the potential to escalate in terms of media attention, and suggested that this was not fully reflected in the risk register. Councillor Murphy asked whether the Council had access to a crisis management service, in the event of an incident with media attention similar to the then current story in East Sussex. Mr Sloniowski said that he would check with the relevant director.

RESOLVED THAT

The report be noted.

31. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out Internal Audit performance in the previous period. He said that of 16 reports and 3 management letters issued in the period, 5 limited assurance reports had been issued, one of which formed a separate report on the agenda. He said that all recommendations from the other reports had been reported as implemented. He also identified that 5 reports and 2 recommendations remained outstanding beyond their due dates, a worsening of the position since the last two Committee meetings had none past their due dates which shows the quality of delivery of the Audit Manager who had recently left. It was further reported that the draft internal audit plans for the 20013/14 year have started to be developed in preparation for reporting to the Committee in February 2013.

RESOLVED THAT

That the report be noted.

32. FINAL INTERNAL AUDIT REPORT FOR NATIONAL NON-DOMESTIC RATES (NNDR)

RESOLVED THAT

The report be noted.

33. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

Under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 1, 3 and 7 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

34. EXEMPT MINUTES OF THE MEETING HELD ON 28TH JUNE 2012

RESOLVED THAT

The exempt minutes of the meeting held on the 28th June 2012 be agreed as a trued and correct record.

35. FUND MANAGEMENT FEES

RESOLVED THAT

The report be noted.

36. FINAL INTERNAL AUDIT REPORT FOR NATIONAL NON-DOMESTIC RATES (NNDR)- EXEMPT ASPECTS

RESOLVED THAT

The report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.35 pm

Chairman ....

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h&f putting residents first	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13 December 2012**
PENSION FUND VALUE AND INVESTMENT PERFORMANCE	
Report of the Executive Director of Finance and Corporate Governance	
This report is open to the public	
Classification: For Information **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 Pensions and Treasury	**Contact Details:** Tel: 020 7641 1804 E-mail: Jonathanhunt@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30th September 2012. 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

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.	P-Solve quarterly fund manager reports	Jonathan Hunt, 020 7641 1804	**16th Floor, Westminster City Hall,**

LIST OF APPENDICES:

Appendix 1- P-Solve Quarterly Report

London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 3 2012

November 2012

CAMRADATA
Pension Reporting

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	*Goldman Sachs Benchmark*
Legal & General	*L&G Benchmark*

Private Equity

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

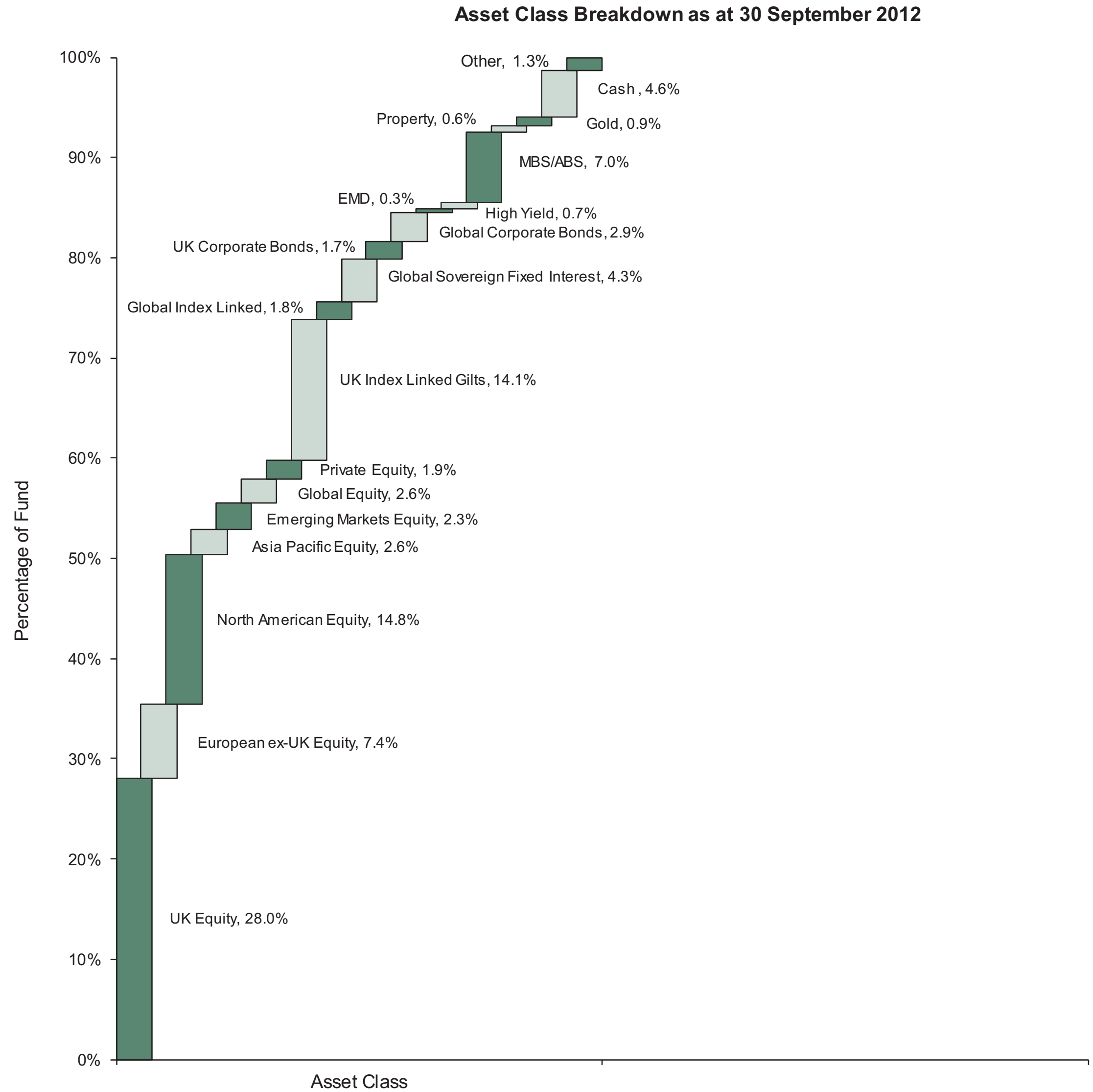
Breakdown of Fund Peformance by Manager as at 30th September 2012								
Fund	**Manager**	**Market Value (£000)**	**% of Total Fund**	**Target % of Total Fund**	**3 month return (%)**	**1 year return (%)**	**2 year return (%) p.a.**	**3 year return (%) p.a.**
Total Fund		**637,012**	**100.0**	**100.0**	**2.0**	**11.6**	**7.1**	**7.6**
New Liability Benchmark + 2.2% p.a.					*(2.0)*	*7.4*	*10.7*	*11.5*
Difference					*4.0*	*4.2*	*(3.6)*	*(3.9)*
UK Equity Mandate		**153,085**	**24.0**	**22.5**				
	Majedie				7.0	16.2	9.1	9.2
FTSE All Share + 2% p.a.					*5.2*	*19.6*	*8.0*	*10.2*
Difference					*1.8*	*(3.4)*	*1.1*	*(1.0)*
Overseas Equity Mandate		**150,011**	**23.5**	**22.5**				
	MFS				4.3	19.6	8.7	9.2
MFS Custom Benchmark					*4.2*	*19.1*	*6.7*	*8.3*
Difference					*0.1*	*0.5*	*2.0*	*0.9*
Dynamic Asset Allocation Mandates		**185,599**	**29.1**	**30.0**	**1.4**	**5.4**	**4.3**	**6.5**
	Barings	115,042	18.1	18.8	1.8	6.4	4.9	6.4
3 month Sterling LIBOR + 4% p.a.					*1.2*	*5.0*	*4.9*	*4.8*
Difference					*0.6*	*1.4*	*0.0*	*1.6*
	Ruffer	70,558	11.1	11.2	0.7	3.6	3.2	7.3
3 month Sterling LIBOR + 4% p.a.					*1.2*	*5.0*	*4.9*	*4.8*
Difference					*(0.5)*	*(1.4)*	*(1.7)*	*2.5*
Matching Fund		**136,325**	**21.4**	**25.0**	**(4.6)**	**5.3**	**5.6**	**4.8**
Liability Benchmark + 1% p.a.					*(2.3)*	*6.2*	*9.5*	*10.4*
Difference					*(2.3)*	*(0.9)*	*(3.9)*	*(5.6)*
	Goldman Sachs	61,248	9.6	12.5	2.7	5.2	2.3	2.7
Goldman Sachs Benchmark					*0.7*	*3.0*	*2.9*	*2.8*
Difference					*2.0*	*2.2*	*(0.6)*	*(0.1)*
	Legal & General	75,077	11.8	12.5	*(9.8)*	*5.4*	*8.5*	*6.7*
L&G Benchmark					*(5.3)*	*16.4*	*21.4*	*18.5*
Difference					*(4.5)*	*(11.0)*	*(12.9)*	*(11.8)*
Private Equity		**11,992**	**1.9**	**0.0**	**1.3**	**8.8**	**13.7**	**13.0**
	Invesco	6,813	1.1	0.0	0.5	14.6	18.0	17.4
	Unicapital	5,179	0.8	0.0	2.4	1.4	8.3	7.3

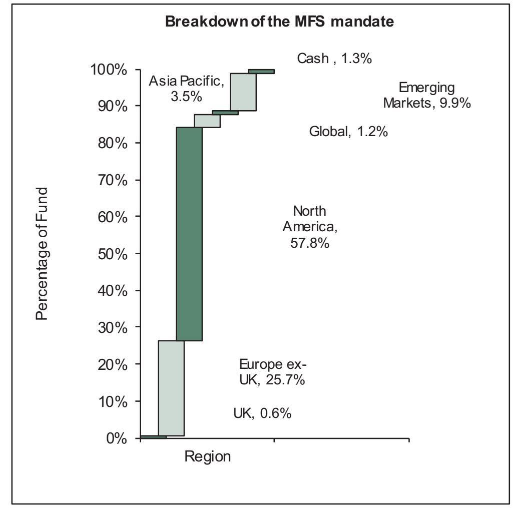
Notes:

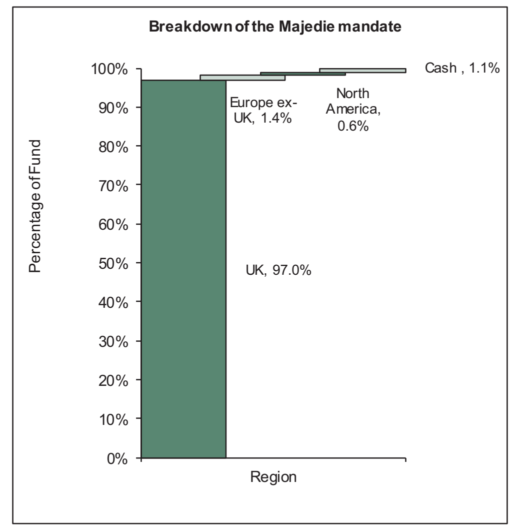
1) Over the 3 months to 30 September 2012, 3 month LIBOR returned 0.2%, over a 12 month period the return was 1.0%.
2) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.
3) Returns are shown gross of fees throughout.
4) Figures may be affected by rounding.

Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 30th June 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th September 2012 £000	% of Total Fund	Target % of Total Fund
Total Fund		**626,189**	**100.0**	**(1,439)**	**9,436**	**2,726**	**0**	**637,012**	**100.0**	**100.0**
UK Equity Mandate	**Majedie**	**143,121**	**22.9**	**-**	**8,159**	**1,781**	**-**	**153,085**	**24.0**	**22.5**
Overseas Equity Mandate	**MFS**	**143,807**	**23.0**	**-**	**5,658**	**523**	**-**	**150,011**	**23.5**	**22.5**
Dynamic Asset Allocation Mandates		**183,088**	**29.2**	**-**	**2,061**	**421**	**-**	**185,599**	**29.1**	**30.0**
	Barings	113,029	18.1	-	1,967	28	-	115,042	18.1	18.8
	Ruffer	70,060	11.2	-	94	393	-	70,558	11.1	11.2
Matching Fund		**142,901**	**22.8**	**1**	**(6,599)**	**(0)**	**0**	**136,325**	**21.4**	**25.0**
	Goldman Sachs	59,654	9.5	(0)	1,584	-	0	61,248	9.6	12.5
	Legal & General	83,246	13.3	1	(8,184)	(0)	-	75,077	11.8	12.5
Private Equity		**13,271**	**2.1**	**(1,440)**	**157**	**2**	**-**	**11,992**	**1.9**	**0.0**
	Invesco	7,742	1.2	(966)	36	0	-	6,813	1.1	0.0
	Unicaptial	5,529	0.9	(473)	121	2	-	5,179	0.8	0.0

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







Notes: Breakdown has been estimated by CAMRADATA based on the available manager data.

Overall Performance

Historical Fund Performance

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.96	11.55	7.09	7.61	3.82
Target	-1.96	7.40	10.70	11.47	2.81

The Fund outperformed its liability benchmark by 3.92% over the quarter, returning 1.96% compared to the target of -1.96%. The return of an on-risk attitude for many investors drove this strong relative return. The Fund's performance of 11.55% over the year was ahead of its target by 4.15%. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

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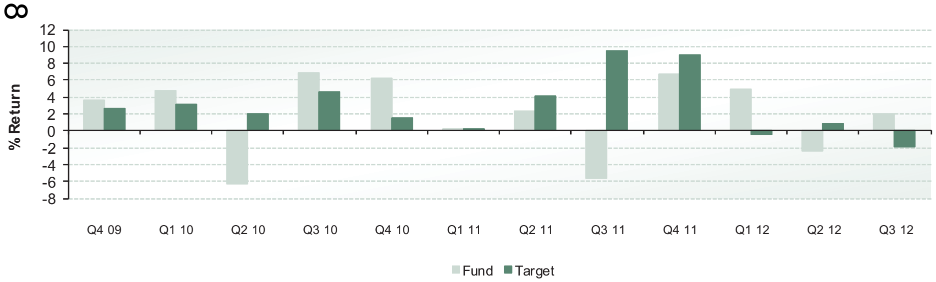
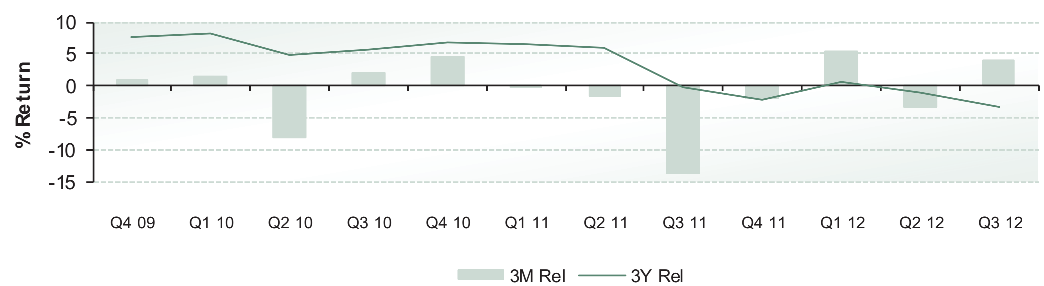
Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96
Target	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96

Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00
3Y Rel	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46

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

Majedie

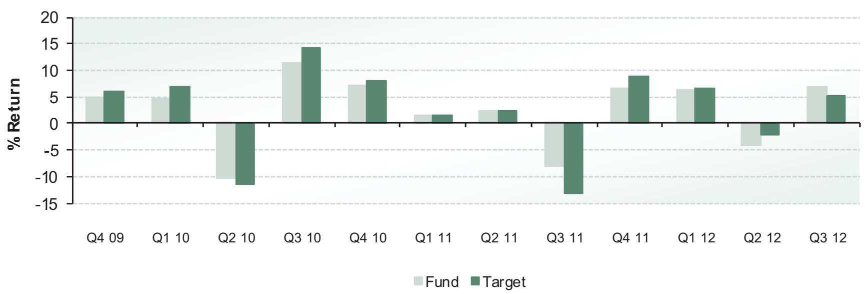
Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	6.96	16.20	9.09	9.20	9.22
Target	5.21	19.56	8.00	10.19	7.44

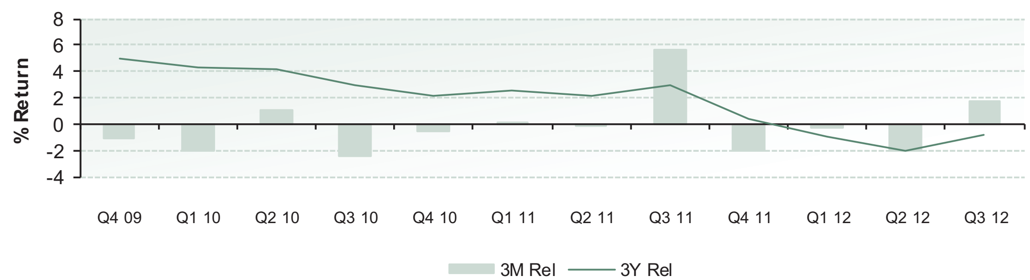
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 6.96% over the quarter, 1.75% ahead of its target. Over 12 months, the portfolio was 3.36% behind its target. The portfolio's long position in Barclays, who benefited from some signs of improvement in economic outlook, and position in Nokia, who have started to meet market expectations, aided performance. However, the portfolio's positions in ENRC and Hewlett-Packard hindered the overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	4.80	4.73	-10.47	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96
Target	5.99	6.93	-11.35	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21

Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	-1.12	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66
3Y Rel	4.96	4.35	4.11	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90

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

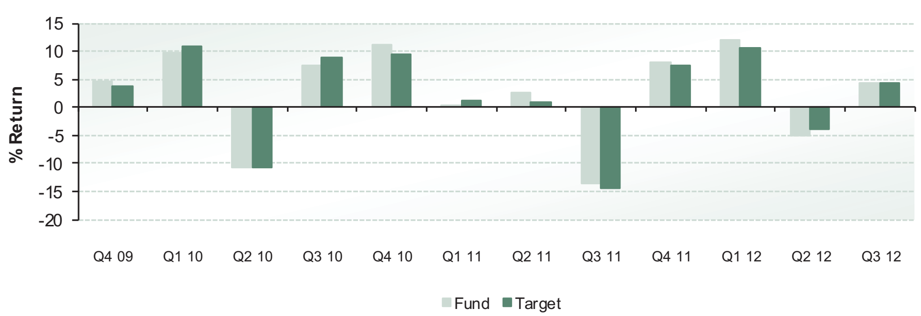
MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	4.31	19.62	8.67	9.21	9.05
Target	4.20	19.08	6.65	8.31	7.83

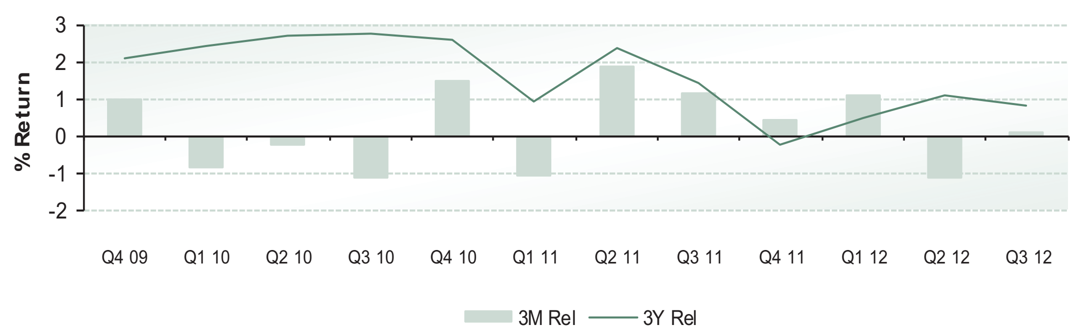
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was 4.31%, 0.11% ahead of the target. Over 12 months, the fund was 0.54% ahead of its target. Stock selection in technology, special products & services and industrial goods & services as well as individual stocks: Publicis Groupe, Inditex and BM&F Bovespa aided performance. However, stock selection in basic materials and health care as well as the portfolio's currency position and individual stocks: Li & Fung, Danone, LVMH, Expeditors International of Washington and being underweight in Apple detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	4.74	9.83	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31
Target	3.73	10.80	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20

Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	0.98	-0.87	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11
3Y Rel	2.11	2.39	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83

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

Historical Fund Performance

The performance of the group over the quarter was 1.37%, the LIBOR-based target returned 1.17%. The strong performance of equity markets over the quarter helped drive this outperformance. Over the past 12 months, performance has been 0.42% ahead of the target, as Barings has beaten its target and has a higher target allocation than Ruffer.

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.37	5.41	4.30	6.51	9.08
Target	1.17	4.99	4.91	4.84	4.97

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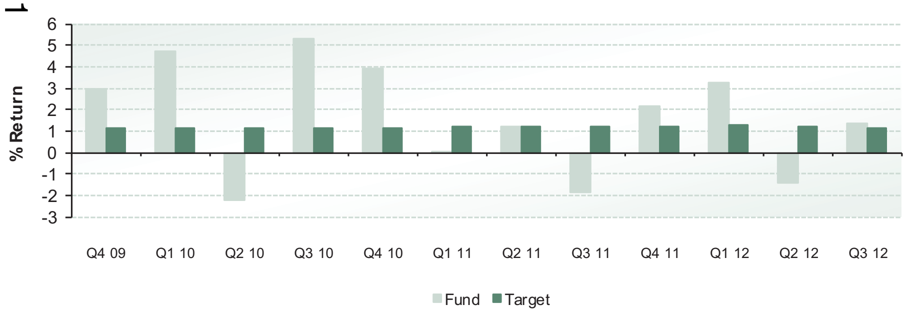
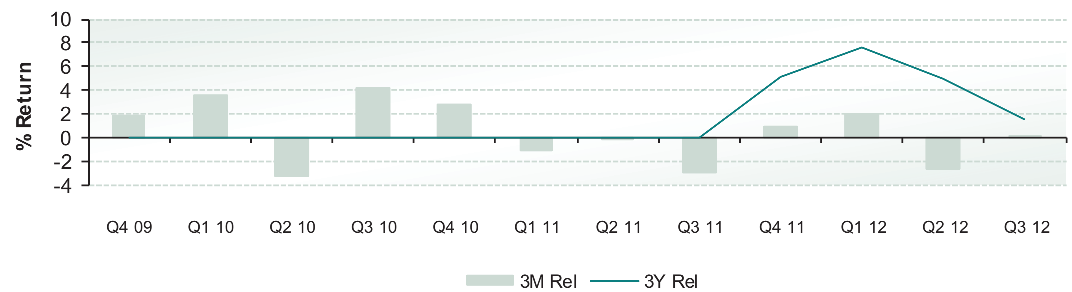
Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



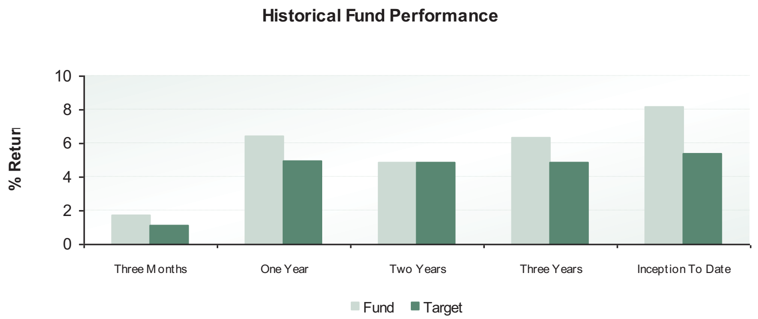
	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37
Target	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17

	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20
3Y Rel	-	-	-	-	-	-	-	-	5.10	7.54	4.97	1.59

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	1.78	6.40	4.87	6.37	8.19
Target	1.17	4.99	4.91	4.84	5.36

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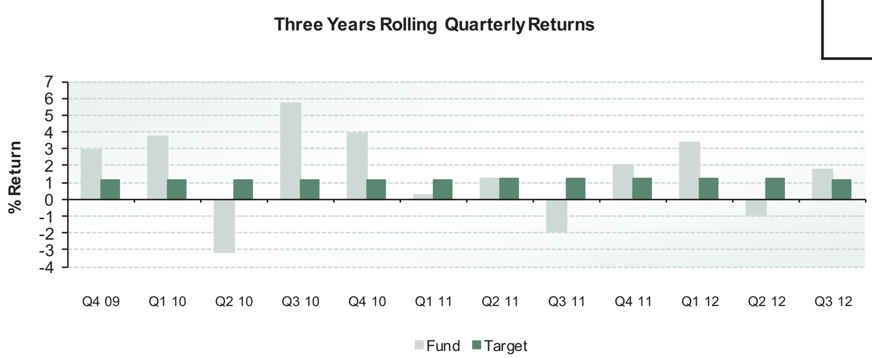
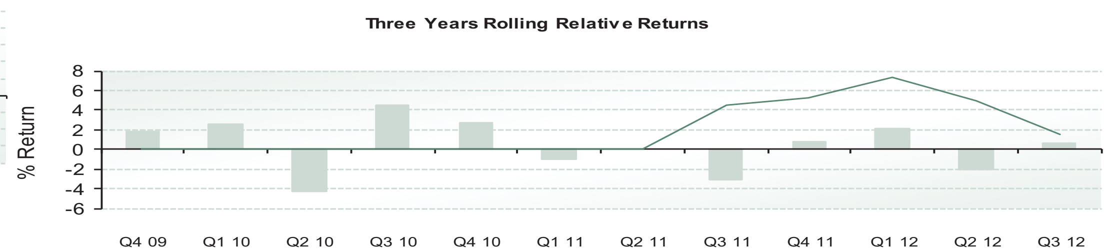
Quarterly Manager update

Organisation	Christopher Mahon has been hired as the replacement for Toby Nangle who left Barings late last year. Mahon has over 13 years' experience in financial markets and joins from Momentum asset management where he was head of investment strategy.
Product	No significant changes over the quarter.
Performance	The fund performance was 1.78% over the quarter, 0.61% ahead of its target. Over 12 months, the fund is 1.41% ahead of target. The strongest returns in the quarter came from equities in the Pacific region and Europe. Greek stocks and banks soared in price as investors started to believe that disaster might be averted after all. However, "safe haven" government bonds fared poorly, with the US long bond badly hit, while the UK index linked market suffered from fears that the government might change the way inflation is calculated for the Retail Price Index.
Process	Barings have made changes to their operational and administrative procedures, intended to improve the control and visibility over these operations and increase the security of the assets. These changes include: 1. From 31 October, all disinvestments from the DAA fund will only be paid into bank accounts. 2. All standard investments and disinvestments will be managed directly by the fund administrator, Northern Trust, with Barings continuing to monitor the trading process. 3. From October 2012, valuations and contract notes will be emailed directly from Northern Trust.



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	2.94	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78
Target	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	0.60
3Y Rel	-	-	-	-	-	-	-	4.51	5.26	7.38	4.90	1.46

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.

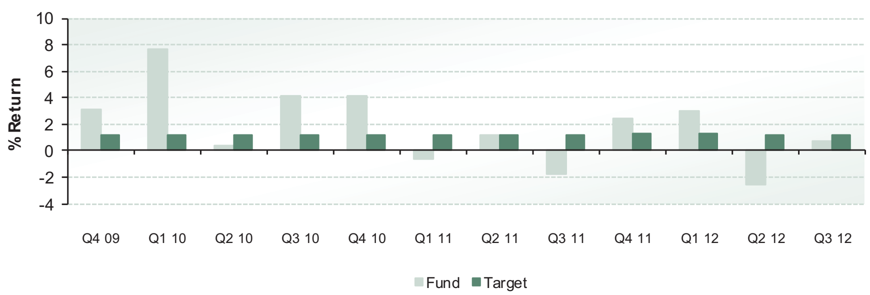
Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Fund Performance

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	0.71	3.59	3.18	7.30	12.30
Target	1.17	4.99	4.91	4.84	5.36

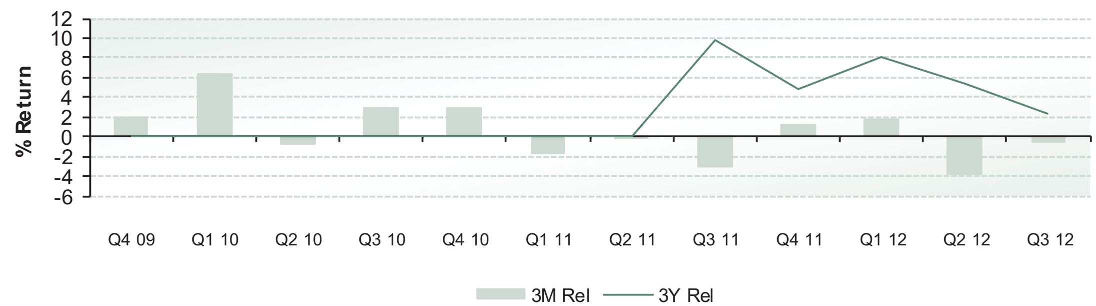
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.71% over the quarter, 0.46% behind its target. Over 12 months, the fund was 1.40% below the target. The portfolio made losses from its significant exposure to long-dated index-linked gilts as did its US Dollar position. However, gold prices benefitted from expectations of further QE this along with strong equity stock selection aided performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	3.12	7.64	0.41	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71
Target	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17

Three Years Rolling Relative Returns

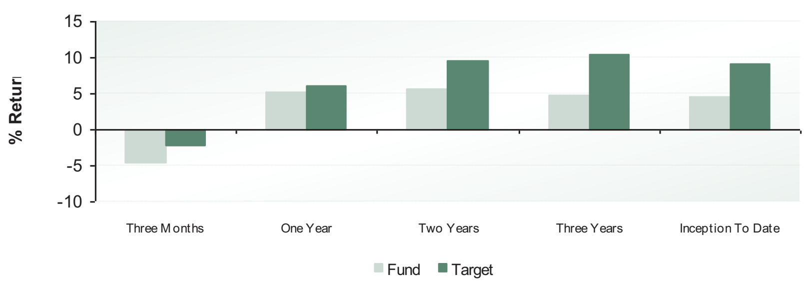


	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45
3Y Rel	-	-	-	-	-	-	-	9.79	4.86	8.01	5.34	2.35

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

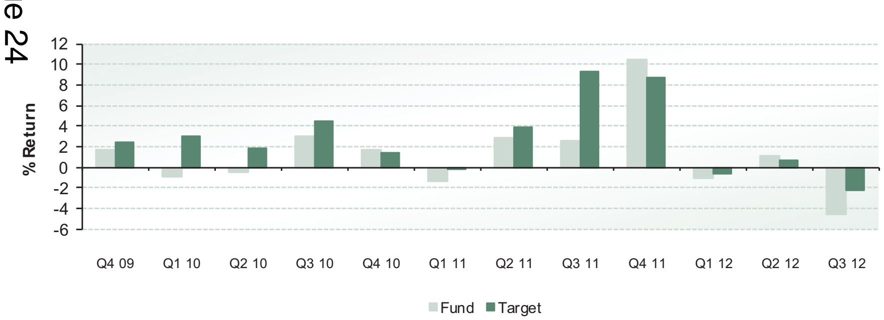


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-4.60	5.32	5.60	4.82	4.62
Target	-2.25	6.15	9.53	10.42	9.21

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

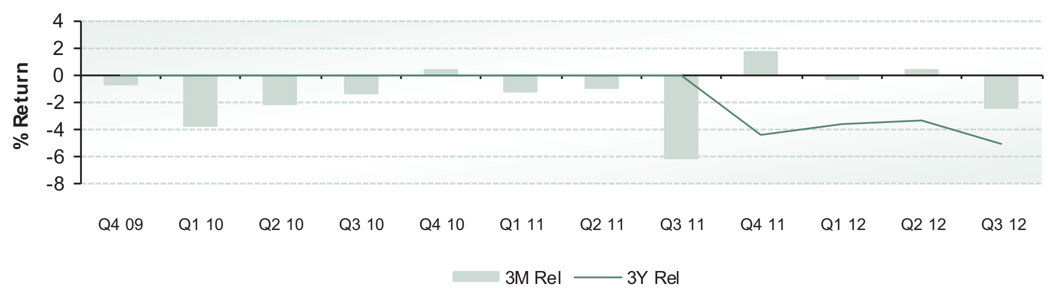
The performance of the Matching Fund over the quarter of -4.60% was 2.35% behind its gilts-based liability benchmark. The Matching Fund return of 5.32% over the year was 0.83% below target.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60
Target	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25

Three Years Rolling Relative Returns



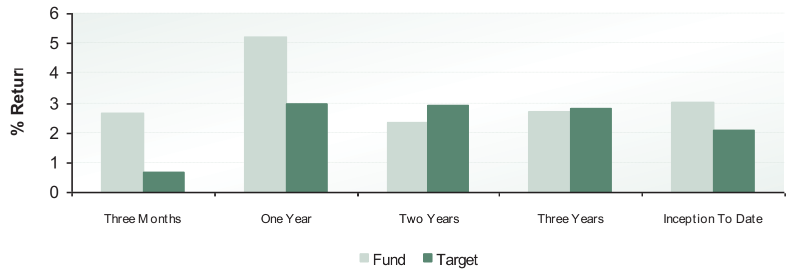
	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40
3Y Rel	-	-	-	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07

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.

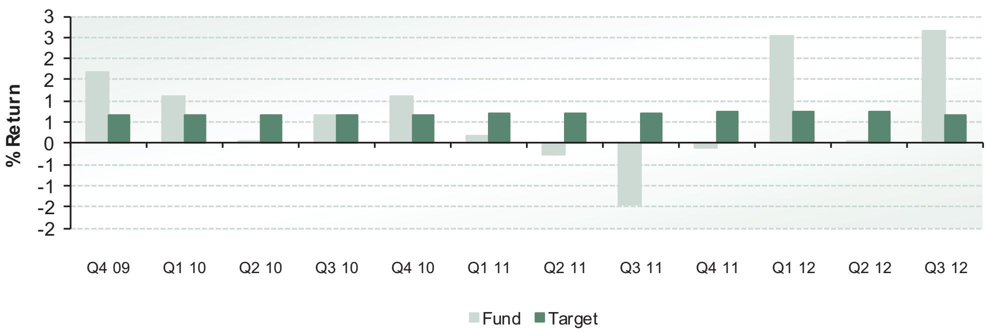
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.67	5.20	2.33	2.72	3.05
Target	0.68	2.97	2.90	2.82	2.11

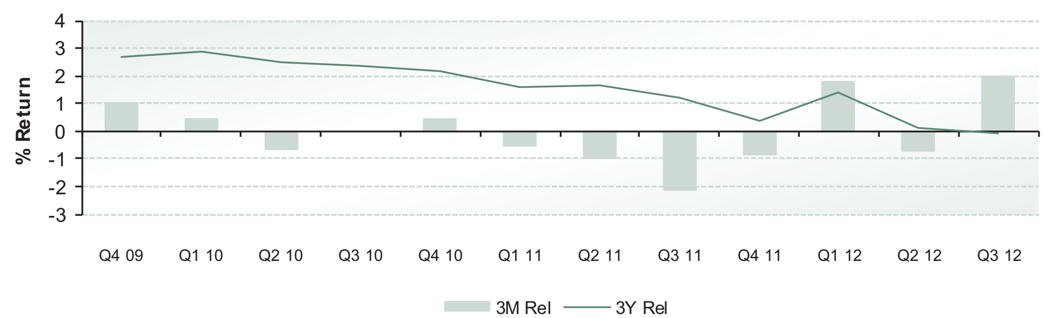
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.67% over the quarter, 1.99% ahead of its target. Over 12 months, performance was 2.23% ahead of the target. The outperformance was led predominantly by the fund's cross-sector and collateralised selection strategies, whilst the corporate selection strategy offset some of the outperformance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	1.66	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67
Target	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68

Three Years Rolling Relative Returns

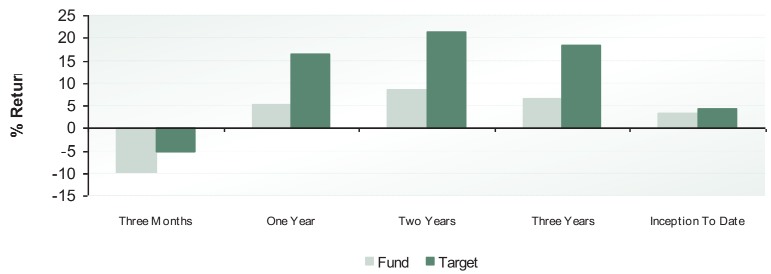


	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98
3Y Rel	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10

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 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.

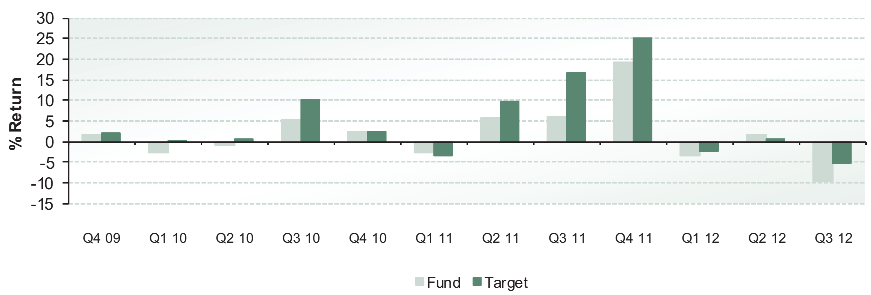
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-9.81	5.43	8.52	6.67	3.43
Target	-5.27	16.37	21.40	18.54	4.30

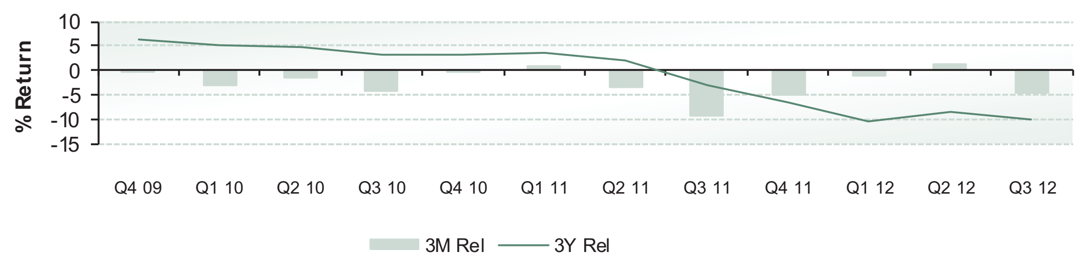
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -9.81% over the quarter, 4.54% behind its bespoke target. Over 12 months, performance was 10.94% behind the target.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fund	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81
Target	2.08	0.36	0.39	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27

Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Rel	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79
3Y Rel	6.29	5.20	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01

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.

After a difficult second quarter, Q3 2012 brought the return of an on-risk attitude for many investors, driven largely by expectations of central bank policy response. Late in the quarter, and after months of speculation, the European Central Bank (ECB) and the US Federal Reserve (Fed) both delivered in respect of these expectations to provide increased liquidity to markets in the coming months. While this is welcome news, questions remain over the long-term sustainability of the recovery in risky asset prices as economic fundamentals are still struggling to match the market upturn.

Global equity markets performed well in general over the quarter with emerging markets returning 5.5%. Elsewhere, European equity markets were up 8.0%, whilst UK and US equities rose 4.7% and 6.3% respectively. In credit markets, both emerging market debt and high yield corporate credit continued to perform strongly, returning 6.9% and 3.3% respectively. In addition, after falling for much of the second quarter, yields on UK gilts and US Treasuries rose across most maturities over quarter 3.

In the UK, the Bank of England (BoE) responded to the continued anaemic growth in the UK by expanding its quantitative easing programme by a further £50bn in July. Economic indicators continue to paint a mixed picture as business confidence hit its highest level for fifteen months and unemployment remained relatively stable, but house prices look to have fallen over the period. As the asset purchase programme comes to an end in November, and with inflation remaining relatively stable below 3%, all eyes are on the BoE as minutes from the monetary policy committee (MPC) meeting in September hint at a further stimulus package in the coming months.

In Europe, ECB president Mario Draghi continued to take steps to try and bring down the cost of borrowing for the peripheral economies. This began in July with a cut in interest rates to a record low of 0.75% and continued with a commitment to “do whatever it takes to preserve the euro”. This, together with the ratification of the ECB bond-buying programme by the German constitutional court, had the effect of reducing borrowing costs for much of Europe over the quarter and ease short-term pressure on struggling economies. Economic indicators for Europe as a whole, however, continued to worsen as unemployment reached a new high of 11.4%, the Eurozone Purchasing Managers Index (PMI) fell to its lowest level since Q2 2009 and business confidence deteriorated further. With general strikes in Greece and Spain also providing a cause for concern, it looks likely that the implementation of structural reforms needed to preserve the future of the monetary union will continue to be problematic for many governments.

In the US, in what was a widely anticipated move, a third round of quantitative easing was announced in mid September. With output low and unemployment stubbornly high at 7.8%, the Fed revealed that it plans to spend close to $40bn per month indefinitely on mortgage-backed securities in the hope of lowering long-term interest rates and boosting the American housing market. The move was not without controversy, however, with many republicans criticising the intervention as risking an increase in inflation and being unhelpful to the long-term growth prospects of the economy. The move certainly seemed to help fuel inflation expectations, with the price of gold rising by 10.9% over the quarter.

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Fund Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION

h&f putting residents first	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13 December 2012**
PSOLVE MATCHING FUND REPORT	
Report of the Executive Director of Finance and Corporate Governance	
This report is open to the public	
Classification: For Information **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 Pensions and Treasury	**Contact Details:** Tel: 020 7641 1804 E-mail: Jonathanhunt@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report prepared by P-Solve, considers the continued suitability of the existing Matching Fund structure. It is attached as Appendix 1.

1.2. Officers agree with the conclusions and recommendation in the P-Solve report at this moment in time but feel that the question of the Matching Fund should be part of a wider look at the whole asset allocation of the fund once the result of the 2013 Actuarial Valuation is known.

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

6. OPTIONS AND ANALYSIS OF OPTIONS

7. Not Applicable

8. CONSULTATION

8.1. Not Applicable

9. EQUALITY IMPLICATIONS

9.1. Not Applicable

10. LEGAL IMPLICATIONS

10.1. Not Applicable

11. **FINANCIAL AND RESOURCES IMPLICATIONS**

11.1. Not Applicable

12. **RISK MANAGEMENT**

12.1. Not Applicable

13. **PROCUREMENT AND IT STRATEGY IMPLICATIONS**

13.1. 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.	P-Solve File	Jonathan Hunt, 020 7641 1804	**16th Floor, Westminster City Hall,**

LIST OF APPENDICES:

Appendix 1- P-Solve Matching Fund Report

Matching Fund Considerations

London Borough of Hammersmith & Fulham Pension Fund

Introduction

This paper is addressed to the Audit & Pensions Committee (the "Committee") of the London Borough of Hammersmith & Fulham Pension Fund (the "Fund") and considers the continued suitability of the existing Matching Fund structure. We firstly provide a recap of the Fund's investment strategy and overall objectives before discussing how the Matching Fund fits within these objectives. We have also provided an overview of the performance of the Goldman Sachs Asset Management ("GSAM") portfolio since inception before going on to discuss the continued suitability of the Matching Fund structure.

In conclusion, we believe the existing Matching Fund continues to be appropriate for the Fund and do not recommend making any changes at this time. The rest of this paper discusses the reasoning for this recommendation.

Current Investment Strategy

The table below outlines the Fund's broad investment strategy:

Asset Class	Manager	Asset Allocation	Objective (p.a.)
Investment Fund	**-**	**75%**	**LB + 3%**
UK Equities	Majedie	22.5%	FTSE All Share + 2%
Global Equities	MFS	22.5%	FTSE World ex UK + 2%
DAA	Barings	18.8%	3 Month £ LIBOR + 4%
DAA	Ruffer	11.2%	3 Month £ LIBOR + 4%
Matching Fund	**-**	**25%**	**LB + 1%**
Bonds Portfolio	GSAM	12.5%	3 Month £ LIBOR + 2%
Gilt Portfolio	LGIM	12.5%	2 x LB - LIBOR
Total Fund	**-**	**100%**	**LB + 2.5%**

** LB refers to the Liability Benchmark, a portfolio of Gilts designed to perform broadly in line with the Fund's liabilities, according to their respective sensitivity to changes to interest rate and inflation expectations.*

Overall, the Fund's investment strategy targets a return of LB + 2.5% p.a. (with the Investment Fund and Matching Fund targeting 3% and 1% respectively of outperformance).This is in line with the return required for the Fund to be fully funded by the end of the Recovery Plan in 2026.

Matching Fund overview

The purpose of the Matching Fund is predominantly to provide the Fund with protection against changes in interest rates and inflation (which will affect the value of the Fund's liabilities). The Matching Fund also aims to outperform the Fund's liabilities by 1% p.a. in order to help meet the Fund's overall target of LB + 2.5%.

50% of the Matching Fund assets are invested in a bond portfolio managed by GSAM. The current GSAM portfolio has been in place since February 2009, when assets were transferred from a conventional bond mandate, benchmarked against gilts and corporate bonds, into a more flexible bond fund targeting an absolute return of 3 Month £ LIBOR + 2% p.a.

The remaining 50% of the Matching Fund assets are invested with LGIM in a portfolio aiming to control risk by investing in a portfolio of gilts and derivatives that broadly matches the Fund's liabilities. The current LGIM solution was implemented over Q1 2012. As the Fund only allocates 12.5% of overall assets to LGIM, it is not possible to hedge the total level of the Fund's liabilities. Therefore, LGIM targets two to three times leverage, meaning that the Fund gets two to three times the interest rate and inflation exposure implied by the assets invested. Considering these restrictions, the hedge was designed to be as efficient as possible, which translates into LGIM hedging 40% of the Fund's liability cashflows falling between 2027 and 2056. This design was chosen to have a similar duration to the Fund's liabilities and excludes the Fund's short term liabilities (which are relatively less sensitive to changes in interest rates and inflation) and very long term liabilities (which make up a very small proportion of overall liabilities). For performance monitoring purposes, LGIM are measured against a leveraged version of the Fund's LB. However, in reality LGIM are only hedging a subset of the Fund's liabilities and therefore comparing their performance relative to this objective should be done with care.

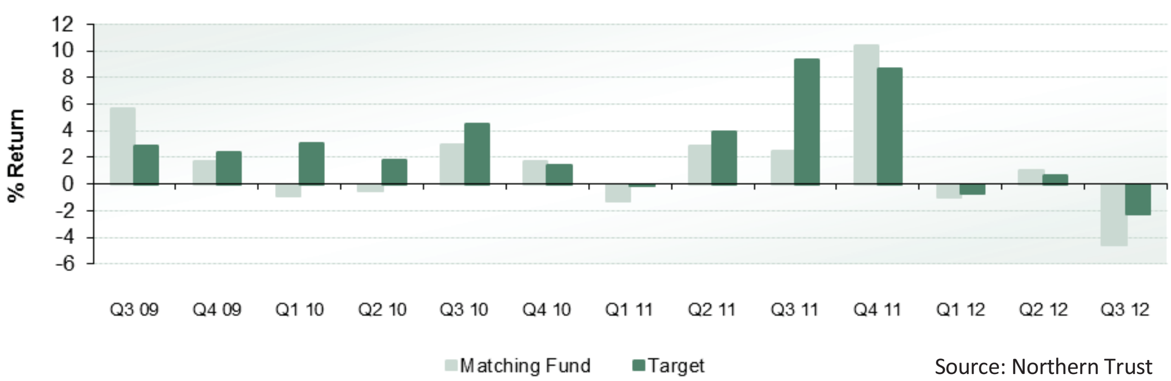
We will continue to review the Fund's matching strategy as appropriate and advise the Committee when the level of hedging could be amended to achieve further objectives.

Holding GSAM and LGIM together provides the LB + 1% objective the Matching Fund targets.

Performance

The chart below shows the historical performance of the Matching Fund relative to its target (LB + 1%) over the last three years:

Three Years Rolling Quarterly Returns



Source: Northern Trust

The current Matching Fund solution was only put in place with LGIM over Q1 2012 and therefore this history shows mainly the previous, less precise Matching Fund strategy. Taking this into consideration, the Matching Fund is 0.9% behind its target over the last 12 months and 5.6% p.a. behind its target over the last 3 years. However, this is largely a result of the LGIM portfolio underperforming the Fund's LB, for the reasons discussed above (i.e. only managing a limited spectrum of the Fund's liabilities). The GSAM portfolio has generally outperformed its target over this period, which we discuss further in the following section.

GSAM

History

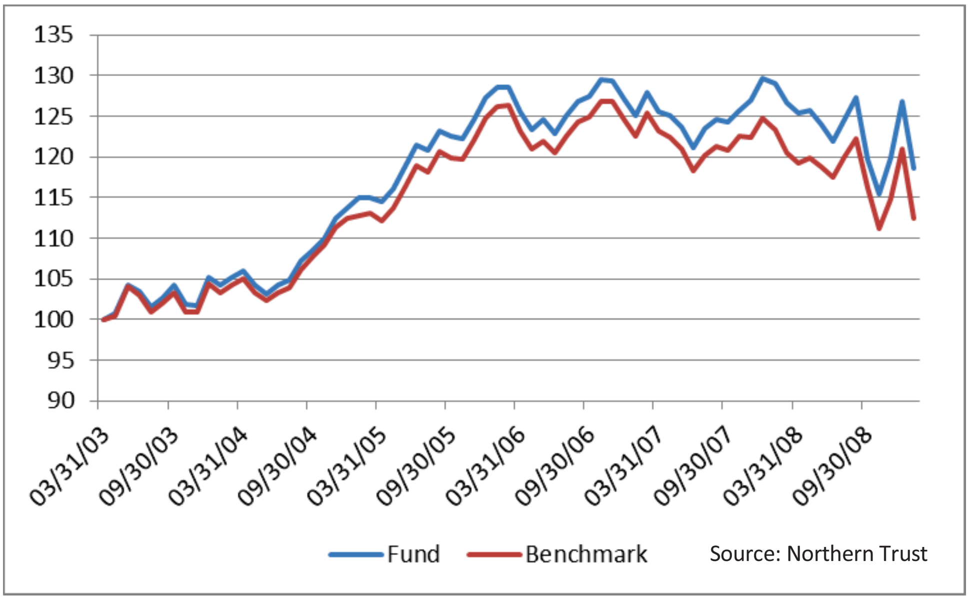
The Fund has had an active mandate in place with GSAM since April 2003. Originally GSAM were appointed to manage a balanced mandate on behalf of the Fund investing in both equities and bonds; in 2005 this mandate was amended to only include bonds. More detailed information on the mandates that GSAM have managed are shown in the table below:

		01/04/2003 – 30/06/2003	30/06/2003 – 01/11/2003	01/11/2003 – 12/05/2005	12/05/2005 – 06/02/2009
Benchmark	**Asset Class**	**Weighting**			
FTSE All Share	UK Equity	49%	44%	35%	-
MSCI World ex-UK (unhedged)	Global Equity	26%	29%	35%	-
FTSE UK Gilts Over 15 Years	UK Gilts	5%	5%	5%	16.67%
ML Over 10 Year Sterling Non-Govt	Sterling Corporate Bonds	20%	22%	25%	83.33%
Target		+ 1.15% (net)	+ 1.15% (net)	+ 1.15% (net)	+ 1.00% (gross)

On 6 February 2009, assets were transferred to the Global LIBOR Plus I Portfolio (later renamed the Strategic Absolute Return Bond I Portfolio) targeting 3 Month GBP LIBOR + 2% p.a. (gross of fees).

Performance

The chart below shows the performance of GSAM from April 2003 through to transferring the Fund's assets into the Strategic Absolute Return Bond I Portfolio in February 2009 (more below):



The Benchmark in the graph is as described in the table on the previous page, and does not include the additional outperformance in the target. Over this period GSAM were ahead of their benchmark by 0.9% p.a., placing them slightly behind their outperformance target – which varied between c.1% – 1.15% over this period.

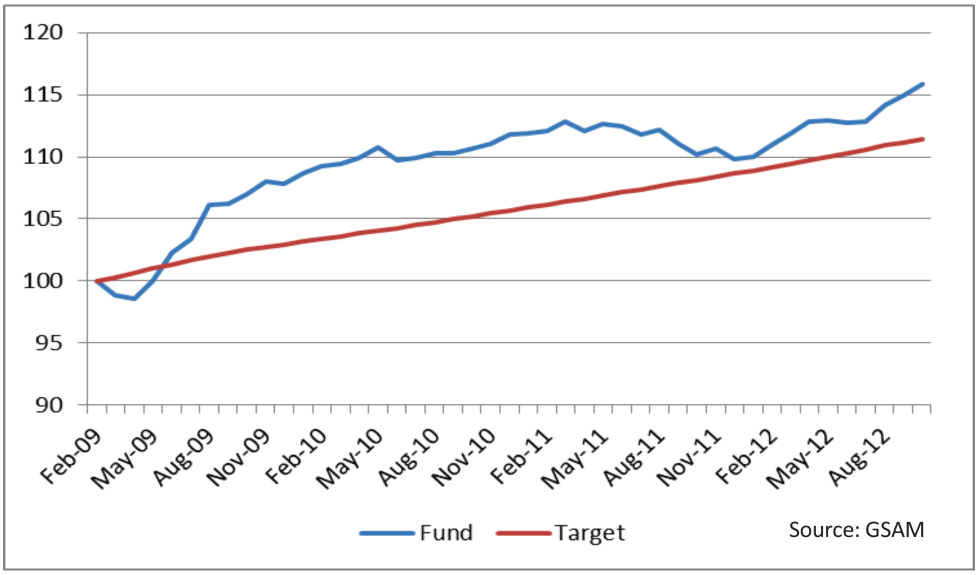
Strategic Absolute Return Bond I Portfolio

In 2008, we recommended the Committee adjusted GSAM's benchmark to be cash-plus rather than bonds-based, whilst maintaining the existing mandate. This solution had the following advantages:

- It was straightforward to implement
- The removal of the gilts-based benchmark freed up capital invested in these assets to be deployed more efficiently
- The risk budget was maintained

GSAM then proposed the alternative solution of investing in their pooled LIBOR Plus funds. These funds invest on a global basis across a range of bond assets, including government and corporate debt as well securitised assets. Following a discussion at their meeting, the Committee agreed to invest in the Strategic Absolute Return Bond I Portfolio and this mandate was funded in February 2009.

The chart below shows the performance of GSAM since the Fund's inception in this portfolio:



The portfolio performed strongly over 2009 and 2010 and was ahead of its target over this period (i.e. LIBOR + 2%). However, the portfolio struggled in 2011 and finished the year 4.5% behind its target. Contributors to this included the portfolio's pro-growth positioning in the corporate credit sector (at a time when credit spreads widened further) and a high allocation to securitised assets, which suffered in the face of rising risk-aversion and bank deleveraging.

So far in 2012, GSAM's portfolio positioning has seen it outperform its target by 3.0% (to 30 September). Therefore, coupled with strong performance over 2009 and 2010, the Strategic Absolute Return Bond I Portfolio has outperformed its target by 1.1% p.a. since inception.

Conclusion

Over the last few years, the Committee has made a number of changes to the Matching Fund to enhance its ability to meet the Fund's investment objectives. Namely, to protect the Fund from changes in interest rates and inflation and to generate the necessary outperformance to support the Fund's overall investment objective of LB + 2.5% p.a.

By implementing a new bespoke liability hedging solution with LGIM in Q1 2012, the Fund has significantly enhanced its ability to manage interest rate and inflation risk. However, this is not to say that this solution could not be extended in future to better meet the Fund's objectives. In addition, the decision made to transfer assets into GSAM's LIBOR benchmarked fund, a decision made to increase returns, has proven successful thus far and GSAM are ahead of their target by 1.1% p.a. since inception.

Gilt and corporate bond yields are currently at historic lows, which have led to strong performance in the LGIM and GSAM portfolios. Disinvesting from these assets now would crystallise the profits made to date. However, Gilts (invested through LGIM) are included in the investment strategy not to generate outperformance but to provide the Fund with protection against falling interest rates and rising inflation. Selling these assets now would compromise the liability hedge the Committee has implemented over the last few years and increase the Fund's exposure to interest rate and inflation risk. If (and when) yields do rise from their current levels, the Fund will experience a loss on its bond assets. However, by continuing to follow a matched investment strategy, this fall in asset value should be compensated for by a fall in the Fund's liabilities, resulting in an broadly neutral impact on the Fund's funding level (as the liability hedge is designed to do).

With regards to the risk of losing the gains made from the fall in corporate bonds yields (invested through GSAM), the management of this risk is delegated to the manager: it is expected that GSAM would rotate between different bond assets and cash to preserve the gains made. By delegating this decision, the manager is able to react to market conditions in a more dynamic manner to the benefit of the Fund.

Recommendation

For the reasons outlined above, it is not appropriate to alter the Matching Fund at this time. The LGIM solution is designed to provide the Fund with interest rate and inflation protection not to generate outperformance – even if the value of this portfolio falls, this should happen at times when the Fund's liability value is also falling. In addition, GSAM are on track to meet their outperformance target of 3 Month £ LIBOR + 2% p.a.

What is more pertinent is that we should address the objective for the overall Matching Fund and its consistency with the objectives at a mandate level for the LGIM and GSAM portfolios.

We look forward to discussing this further with the Committee.

P-Solve

November 2012

For more information, visit our website at www.p-solve.com or get in touch with your usual P-Solve contact

Agenda Item 6

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 13 December 2012	
Treasury Mid-Year Review 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 Services	
Report Author: Rosie Watson **Treasury Management Officer**	**Contact Details:** Tel: 020 8753 2663 E-mail: rosie.watson@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1 Annual Investment Strategy

Cash investment is focused on Security, Liquidity and Yield in that order.

1.2 Investment Summary

As at the 30th September 2012, the council had £162 million invested at an average interest rate of 0.94%. There is no change proposed to the current strategy. The list below sets out the investments as at the 30th September.

	Balance (£m)	Yield (%)
DMO	6	0.25
Money Market Funds (Constant NAV)	40	0.50
Bank Call Accounts	33	0.87
Total Liquid Investments	**79**	**0.64**
Total other investments	**83**	**1.21**
Grand Total	**162**	**0.94**

1.3 Borrowing

As at the 30th September, the total external borrowing all from the PWLB was £262m at an average interest rate of 5.60%. There have been no changes in borrowing since the start of the year.

1.4 Compliance with Treasury Limits and Prudential Indicators

All investments and borrowing operations were within the treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report approved by the Council in February 2012

2. RECOMMENDATIONS

2.1 To note the Council's debt, borrowing and investment activity up to the 30th September 2012.

3. REASON FOR DECISION

3.1 This paper is a regulatory requirement in compliance with the CIPFA Code of Practice on Treasury Management and set out cash balances, investments and borrowing as at the 30th September 2012.

3.2 It reprises the information reported to Cabinet at its meeting on 10th December 2012. The Council has designated the Committee as the body responsible for the effective scrutiny of the Treasury Management Strategy and policies.

4. BACKGROUND

4.1 This report presents the Council's Treasury Management Mid Year Report up to the 30th September 2012 in accordance with the Council's Treasury Management Practice.

4.2 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This Mid Year review has been prepared in compliance with the Code of Practice. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead, a Mid-Year Review Report (this report) and an Annual Report covering activities during the previous year.

  Delegation by the Council of the role of scrutiny of Treasury Management Strategy and policies to a specific named body. For this

Council the delegated body is the Audit, Pensions and Standards Committee.

5. ANNUAL INVESTMENT STRATEGY

5.1 The Treasury Management Strategy for 2012/13 was approved by Council on 29th February 2012. The Council's Annual Investment Strategy, which is incorporated in the overall strategy, outlines the Council's investment priorities as follows:

- Security of capital
- Level of liquidity in its investments appropriate to the Council's need of funds over time.
- Subject to meeting the other two requirements, achieving an optimum return on investments.

5.2 In the current economic climate it is considered appropriate to keep all new investments short term, and only invest with highly credit rated financial institutions. The Council's policy has not changed this year.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

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

7. INVESTMENTS

7.1 The table below provides a breakdown of the cash Council deposits as at the 30th September 2012.

	Balance (£m)	**Yield (%)**
Bank Call Accounts	33	0.87
Money Market Funds	40	0.50
DMO	6	0.25
Total Liquid Investments	**79**	**0.64**
Banks and Local Authorities	83	1.22
Total/ Average Rate	**162**	**0.94**

Treasury officers are not making any investments for a period more than three months, without prior authorisations from the Executive Director of Finance and Corporate Governance.

7.2 The Council makes use of a number of MMF's as set out in the list below. Money Market Funds (MMF) are pooled investment vehicle with assets of various cash type instruments. All the Money Market Funds with which the Council has investments with are AAA rated and have instant access.

Fund	Weighted Average Life (Days)	Weighted Average Maturity (Days)	Amount Invested (£m)	Net Return (%)
Blackrock	83	57	10	0.47
Goldmans	45	45	10	0.45
Insight	38	38	10	0.46
Prime Rate	35	35	10	0.61

7.3 The DMO is part of the Treasury, guaranteed by the Government. As a result the DMO is rated AAA by all three credit ratings agencies. Council funds are invested with the DMO between a minimum of overnight to a maximum of six months at a rate of 0.25%.

7.4 The Council has number of term deposits with two UK Banks, as set out below. The Council has a call account with Nat West which provides instant access at a rate of 0.87%.

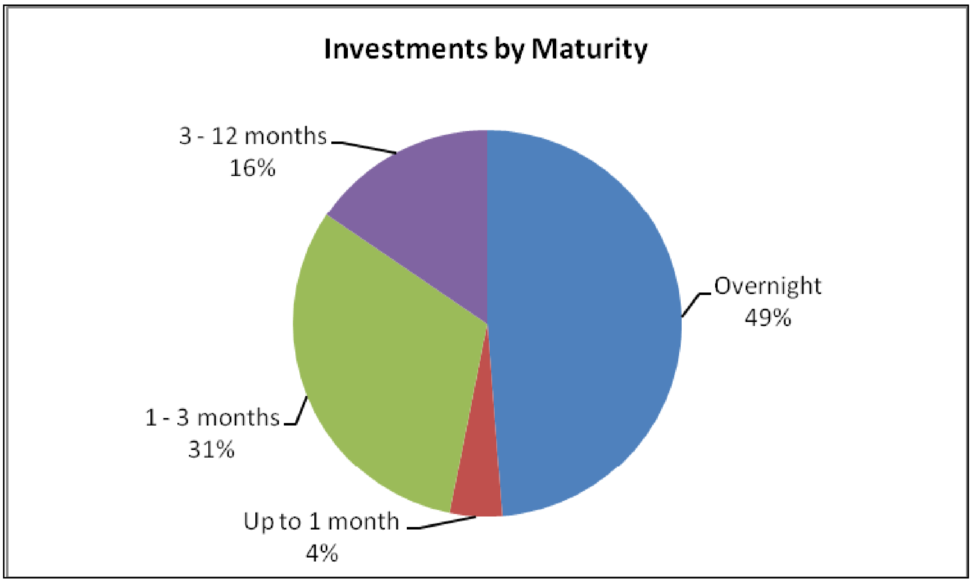
Counterparty	Credit Rating (S&P/Moody's /Fitch)	Maturity Date	Balance (£m)	Return (%)	Days to maturity
Lloyds	A/A2/A	05/11/2012	5	1.35	36
Barclays	A+/A2/A	08/11/2012	5	0.67	39
Barclays	A+/A2/A	15/11/2012	5	0.67	46
Lloyds	A/A2/A	16/11/2012	5	1.35	47
Lloyds	A/A2/A	14/02/2013	5	1.75	137
Lloyds	A/A2/A	04/06/2013	5	3.00	247
Lloyds	A/A2/A	04/07/2013	15	3.10	277
Total/Average			**45**	**1.70**	**118**

7.5 Lloyds and RBS (as owners of Nat West) are on the Council's lending list, with limits of £35 million because of their credit ratings but because of the fact that they are part nationalised.

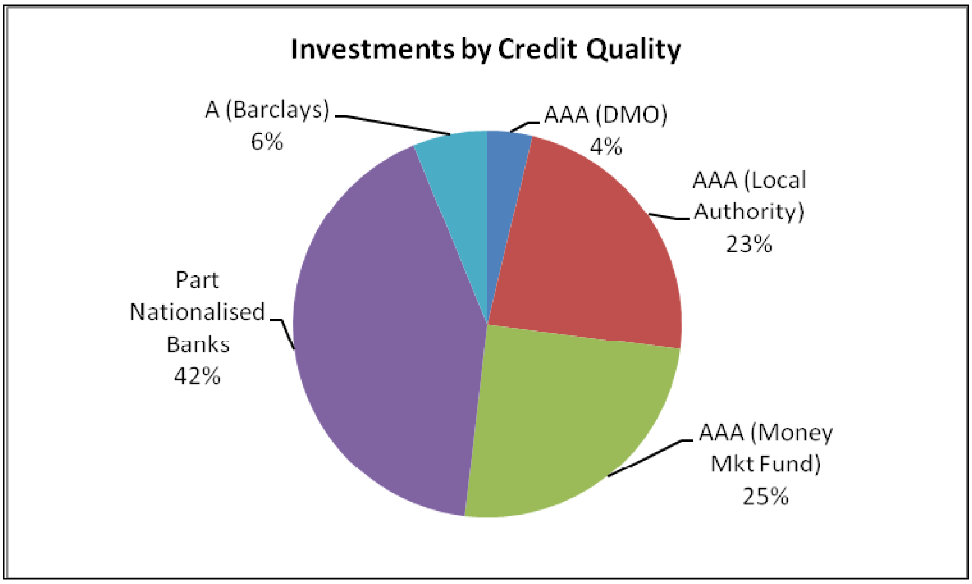
7.6 The Council will first invest surplus funds with UK bank and Money Market Funds as approved in the Council's Strategy Report. When the Council has reached its limits with these counterparties it will look to invest with certain local authorities. Under the guidance issued by CLG investing with local authorities is defined as high credit quality (LG Act s23) and that the credit risk attached to these authorities is an acceptable one. Below is the list of local authorities that the Council invested with as at 30th September 2012.

Counterparty	**Maturity Date**	**Balance (£m)**	**Return (%)**	**Days to Maturity**
Herefordshire	15/10/2012	2	0.27	15
Kingston Upon Hull	31/10/2012	5	0.31	31
Cornwall	02/11/2012	7	0.31	33
Aylesbury Vale	05/11/2012	5	0.27	36
Salford	29/11/2012	4	0.27	60
Wolverhampton	30/11/2012	5	0.30	61
Dumfries & Galloway	05/12/2012	2	0.27	66
Woking	10/12/2012	3	0.29	71
Salford	21/12/2012	5	0.27	82
Total		**38**	**0.28**	**51**

7.7 The chart below shows the duration exposure of the Council. 53% of investments can be accessed within one month's notice.



7.8 The chart below shows the Credit rating exposure of the Council's investment by counterparty. Part Nationalised banks refers to RBS and Lloyds (both rated A/A3/A).



8. BORROWING

8.1 The borrowing strategy for the year 2012/13 was not to incur any new borrowing and given the prevailing low levels of interest rates, consider voluntary early repayments of borrowing as a way of making more efficient use of funds in the short term.

8.2 The table below shows the details around the Council's external borrowing (as at the 30th September 2012) is £262m split between General Fund and HRA at an average rate of 5.60%

Loan Type	General Fund (£m)	Average rate	HRA (£m)	Average rate	Total external borrowing (£m)	Average Rate
PWLB loans maturity	44.78	5.60%	217.38	5.60%	262.16	5.60%

9. ECONOMY AND INTEREST RATES

9.1 In August the Bank of England lowered its forecast for the rate of growth over the coming months and amended its forecasts for 2012 and 2013. The UK economy is influenced by worldwide economic developments, particularly in the Eurozone where ongoing problems could affect the UK's economic performance.

9.2 In the UK Consumer Prices Index (CPI) inflation has fallen to 2.5 per cent in August, however Gross Domestic Product (GDP) also fell by 0.4 per cent in the quarter to 30 June, the third quarterly fall in succession.

9.3 The Monetary Policy Committee (MPC) has kept bank rate at 0.5 per cent throughout the period while quantitative easing was increased by £50 billion to £375 billion in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

9.4 UK sovereign debt however remains a safe haven and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not much higher out to ten years.

9.5 World economies remain unstable. The United States will need to take action in early 2013 to address its debt position. In the Eurozone, whilst the ECB measures regarding short term bank purchase increased confidence it is uncertain if all Governments concerned will accept the conditions attached to this initiative.

9.6 In the UK the Bank of England has adjusted its financial forecast for a return to growth. Weak export markets (mainly in the EU, the UK's main trading partner) will continue to affect recovery.

9.7 Low growth in the UK is expected to continue, bank rate is unlikely to rise in the next 24 months this, coupled with a possible further extension of quantitative easing, will keep investment returns depressed.

9.8 The longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increase in yield.

10. PRUDENTIAL INDICATORS

10.1 As part of the Strategy the Council sets a number of prudential limits for borrowing. This section shows the Council's position against the prudential indicators for 2012/13 agreed by Council in February 2012. These are outlined below.

10.2 During the half year to the end of September 2012, the Council operated within the treasury limits as set out in the Treasury Management Strategy. The outturn for the Treasury Management Prudential Indicators are shown below.

£000's	2012/13 Limit	30 September 2012 Actual
Authorised Limit for external debt[1]	350,451	100,620*
Operational Limit for external debt[2]	283,537	100,620*
Limit of fixed interest rate exposure based on net debt	330,000	100,620*
Limit of variable interest rate exposure based on net debt	66,000	Nil
Principal sum invested >364 days	20,000	Nil

*PWLB debt minus investments

10.3 Maturity structure of borrowing – This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is not necessary to include variable rate debt because local authorities do not face substantial refinancing risks.

	Upper Limit	Lower Limit	Actual
Under 12 months	15%	0%	0.04%
12 months and within 24 months	15%	0%	4.41%
24 months and within 5 years	60%	0%	9.80%
5 years and within 10 years	75%	0%	12.62%
10 years and above	100%	0%	73.13%

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

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

11. EQUALITY IMPLICATIONS

11.1 There are no equality implications as a result of this report

12. FINANCE AND RESOURCES IMPLICATIONS

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

13. LEGAL IMPLICATIONS

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

14. RISK MANAGEMENT

14.1 There are no direct risk management implications as a result of this report.

15. PROCUREMENT AND IT STRATEGY IMPLICATIONS

15.1 There are no procurement or IT strategy implications as a result of this report.

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

No.	Description of Background Papers	Name/Ext of File/Copy	Department/Location
1	Borrowings and Investment spread sheets	Rosie Watson Ext. 2563	Westminster City Hall, Treasury and Pensions, 16th Floor

h&f putting residents first	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13 December 2012**
Audit Commission recommendations updates & Annual Governance Statement Action Plan	
Open Report	
Classification: 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:

- Progress on implementing recommendations arising from the Audit Commission 2011/12 Annual Governance Report
- The action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and progress in implementing these action plans.

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. In September 2012 the Audit Commission issued their 2011/12 Annual Governance Report. The report contained 4 recommendations for implementation by management.

4.2. The Council's Annual Governance Statement (AGS) also contained issues that required action by management. Action plans are a necessary result of the AGS and should provide sufficient evidence that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.

4.3. Failure to act effectively on the significant control issues would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

5. PROPOSAL AND ISSUES

5.1. Update on Audit Commission report recommendations

5.1.1. The table attached as Appendix 1 shows the progress reported by the responsible managers in implementing recommendations from the Audit Commission 2011/12 Annual Governance Report. Updates on 4 recommendations have been sought for this report and all recommendations have been reported as in progress. We will continue to report progress on all outstanding recommendations from this and any newly received reports at future meetings.

5.2. Annual Governance Statement Action Plan

5.2.1. Attached as Appendix 2 are the action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and reports on progress.

5.2.2. The action plans for all 4 AGS entries have been reported as in progress. We will continue to report progress on all outstanding actions at future meetings.

5.2.3. The schedule at Appendix 2 shows the current stated position as reported by the identified responsible officers. Unless otherwise stated, Internal Audit has not verified the current position reported in either appendix and can therefore not give any independent assurance in respect of the reported position.

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

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.	External Audit report recommendations progress update	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU
2.	Annual Governance Statement Action Plan	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A Audit Commission Recommendations
Appendix B 2011/12 Annual Governance Statement Action Plan

Audit Commission Recommendation updates

Report	Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
2011/12 Annual Governance Report				
National Non Domestic Rates (NNDR)				
	R1 - Ensure management responses to the Internal Audit recommendations on National Non Domestic Rates are obtained and the recommendations implemented in a timely manner.	The Internal Audit report has been finalised (inclusive of management responses) and will be presented to the Audit Committee in September 2012. This report contains a detailed action plan which will be implemented with high priority. *Implementation of recommendations will be ongoing in accordance with the action plan set out in the Internal Audit report*	Director, H&F Direct	See AGS entry for 'Local Taxation' in Appendix B for detailed action plan and progress update.
	R2 Strengthen arrangements concerning the capitalisation of expenditure as follows: • Establish controls to ensure all expenditure capitalised meets the definition of IAS16 Property, Plant & Equipment. • Expand instructions to valuers to ensure the valuation of Council Dwellings takes into account capital schemes to be completed during the year.	The Council's capitalisation guidance will be reviewed as a priority and refined as necessary – in particular it will include more worked examples which the Services have identified as a means to help clarify their understanding of what can be a complex issue. Corporate Finance will work with Children's Services to ensure that this guidance is issued to, and understood by, the Council's schools. The Council will also review its guidance to valuers. *Guidance to be issued September 2012; review mechanism will be ongoing (quarterly)*	Bi-Borough Director of Finance	Capital Accounting Guidance has been updated and disseminated to staff on 27 September 2012 In addition, to further manage the risk identified by the audit, the Corporate Finance Team will be undertaking a detailed capitalisation review as part of the Quarter 3 close process.

Report	Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
	R3 - Review debtor listings and ensure all irrecoverable debt is written off.	Guidance on reviewing aged debtors will be reviewed by Corporate Finance and reissued to service departments as a priority. *Guidance to be reviewed and reissued in October 2012; review process – ongoing*	Bi-Borough Director of Finance	A review of debtors will be undertaken as part of the Period 9 closedown exercise where debt assessed as irrecoverable will be written off. This will take place in January/February 2013.
	R4 Enhance the integration of tri-borough risks into the Authority's risk management arrangements and, to support internal control, establish effective arrangements for ongoing internal audit.	A formal programme has been developed to move towards a tri borough internal audit and risk management function. The outcome of the current proposals will further enhance current arrangements to facilitate a robust risk management framework to support both the integration of tri, bi and sovereign borough risks and will improve on existing effective internal audit arrangements. *Process ongoing*	Bi-Borough Director of Finance	There is a tri-borough project currently under way to develop long term solutions and in the interim there are regular meetings between the lead officers for audit and risk management to ensure that this continues to work effectively to meet the needs of the sovereign organisations while coordinating activity across the boroughs to achieve value for money. The Enterprise Wide Risk & Assurance register has been retabulated to recognise specific aspects of Tri/Bi and mono risks. This has now been in place for 2 meetings of the H&F Business Board and Audit, Pensions and Standards Committee.

2011/12 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
Health and Safety There is some evidence that health & safety action plans are not being implemented and that implementation is not effectively monitored. While proposals to improve the controls have been agreed and will being monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time.	Bi-Borough Director for Environmental Health	1. Corporate Safety Team Action plan 2012 2104 to be developed and agreed by H&F Business Board 2. Departmental 'Statements of Intent' to be developed and agreed 3. Quarterly Health and Safety update report to be provided to H&F Business Board. 4. Corporate Safety Team business plan to be developed to set out the team's objectives to identify the core risks across the organisation 5. Rolling programme of audits of Departmental Health & Safety management Arrangements to be put in place. 6. A Health & Safety Risk Management Profile is being drafted for organisation that is envisaged will feed into the Corporate Risk Register 7. A further audit of Health and Safety and Risk Management and Assurance	1. Action plan developed and agreed 2. • Children's Services – H&S Statement of intent for tri-borough agreed • Adult Social Care – H&S Statement of intent for tri-borough agreed • ELRS and TTS – H&S bi-borough statement of intent agreed • FCS - H&S policy and plan in place • HRD – H&S Divisional plans in Place 3. Quarterly report provided to H&F Business Board provides a monitoring tool of the overall position in terms of organisational health and safety by Department: Reporting on core Activity and Building Related KPIs, accident statistics, training and the status of audit findings and recommendations - detailing responsible Director. 4. In progress 5. Rolling programme of Audits now in place. 6. In progress 7. Internal Audit of Health and Safety Risk Management and Assurance is in progress will report to a future meeting of the Committee.

Entry	Responsible Officer	Action Plan	Progress To date
Theft of Materials Metal theft increases when worldwide prices for scrap metal rise. Metal items are stolen for their value as raw materials and are ultimately scrapped, or recycled, to provide material for making new products. The recent instances of theft of metals in the White City Estate area affected 24 properties. The council is currently exploring the idea of using technology to mark valuable metals which would allow them to be identified as Council property. An Internal Audit report concludes that there is only a limited assurance in this area and that a number of control improvement recommendations need to be made.	Director Building and Property Management & Director of Property Service and Asset Management	1. It is proposed to carry out a stock condition survey as part of the development of an Asset Management Strategy. This information will be placed on Codeman and will include data on metal building elements. 2. Where replacement of metal parts are needed those historically at risk of theft, are being replaced with non-desirable components and this is being be undertaken as part of our on-going maintenance programme. 3. Discussions are continuing with colleagues in insurance to ensure that where Council is not covered in the event of metal theft, consideration should be given to updating security arrangements or amending the policy to ensure adequate insurance cover is in place. 4. Communication will be increase with TRAs and resident Groups to increase the awareness of the issues and damage caused by Metal thefts,. 5. The department is now sharing information regarding thefts and/or attempted thefts with other Council departments and neighbouring Local Authorities at the corporate Asset Delivery Team (CADT) meetings and is included as an agenda Item. We have included the theft of metal on the Corporate Asset Delivery Team (CADT) risk log and the Director of Property Service and Asset Management will provide a monitoring report to CADT *6.* All incidents of metal theft from Council premises' will be promptly reported to the BMRA.	1. Stock condition survey currently being tendered 2. This is currently the process and is continuing 3. Discussions are continuing 4. This is underway, with regular updates in 'Your Home' magazine planned. 5. This is underway 6. This will happen as it occurs.

Entry	Responsible Officer	Action Plan	Progress To date
Housing Repairs and Maintenance Following recent investigations undertaken by Internal Audit, it has been established that there are some historic control weaknesses relating to the financial administration of the repairs and maintenance function. Work in this area is being conducted to gauge the extent to which charges have been correctly validated, and to refresh management procedures to ensure risks are appropriately mitigated.	Director of Finance and Resources (Housing and Regeneration)	1. Review definition of 'What is an RR repair' and train all involved with order raising. 2. Review potential RR to PR conversions at weekly Operational Meetings. 3. High Value Repair Panel to meet weekly to review jobs exceeding the PR financial limit. 4. Introduce a 'Commitment Accounting' regime for budget monitoring in 12/13 5. Establish regular monthly finance meetings with Repairs contractors 6. External Audit review to be carried out	1. Definition clarified and joint training with Partner contractors carried out in 11/12. Further training scheduled for 24/10/12. 2. RR to PR weekly review process introduced, and is proving beneficial and work is on-going. Current situation is that there is a backlog on WDP but Kier up to date. 3. HVRP is proving to be effective work is continuing in this area. 4. Commitment accounting introduced and is proving beneficial On going reviews of invoiced costs of PR work against order value are continuing and have revealed a number of variations in excess of the original quote. Following discussions on these areas, WDP have agreed to move to an Agreed Maximum Price from October with Kier negotiations on-going. Forecast to year end is currently suggesting a possible budget overspend. However additional measures have been introduced on revenue PR orders. The wet summer has increased the number of responsive repair orders above the volumes forecast. 5. Monthly meetings established. Further in-house operational forecasting meeting established to meet in the first week of each month. 6. Ernst & Young appointed and audit completed on Kier. Findings are subject to on-going negotiation with Kier.

Entry	Responsible Officer	Action Plan	Progress To date
Local taxation A significant internal control issue has been identified in the council's system for business rates collection. A subsequent internal audit of the system concluded that there is only a limited assurance in this area currently. A number of control improvement recommendations have been made that are in the process of being implemented. Once these recommendations are addressed, the significant control issue will have been resolved.	Director H&F Direct	Phase 1 – implementation by 1 November 2012 1. Review access rights to the Academy system 2. Second review / certification of reconciliations 3. Review of top 250 outstanding debtors every month, and an action plan produced 4. Review of all suppressed accounts Phase 2 – implementation by 31 December 2012 5. Completion of Inspections and quality of inspections monitored regularly 6. Definition of level of evidence required to support granting of relief (where a physical inspection is not possible) 7. All retrospective reliefs reviewed and approved by a senior officer Phase 3– implementation by 1 March 2012 8. Evidenced check of NNDR bills prior to main billing Phase 4– implementation by 1 April 2013 9. Develop comprehensive procedure manual 10. Review amendments to accounts by staff to ensure procedures are being complied with 11. Refunds authorised in line with scheme of delegation and Monthly reconciliation to ensure all refunds have a corresponding authorised form 12. All withdrawn summonses independently reviewed/authorised 13. Monthly reconciliation to ensure all write-offs have a corresponding authorised form	**Phase 1** A review of rights has been completed. Secondary review / certification of reconciliations regarding direct debits and cash posting files is complete and in place. The recommendation regarding debits/main billing will be February 2013. List of top 250 debtors being reviewed by Database Manager on monthly basis. Actions planned on any late payments – in place. List of suppressed accounts produced and reviewed by database manager on monthly basis in place. **Phase 2** Spot checks are in place for all reliefs granted on the section This phase requires additional resource in the interim pending the reorganisation and additional resources that will then be recruited to. An application for this has gone to the PAWS team at 10/10/12 **Phase 3** The existing process for checking NNDR bills will be enhanced to include evidencing by the officer undertaking the checks & subsequent review & evidencing by the Head of Revs & Bens **Phase 4** The additional resources required will require a formal reorganisation of the section – which will take until February to implement due to consultation requirements under the Council's reorganisation procedures. Then any necessary recruitment will need to be completed The procedural manual will include all of the actions from this audit report

Agenda Item 8

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 13 December 2012
REVISED ANTI-MONEY LAUNDERING POLICY AND PROCEDURES	
Report of the Chief Internal Auditor	
Open Report	
Classification: For information **Key Decision: NO**	
Wards Affected: None	
Accountable Executive Director: Jane West, Executive Director of Finance	
Report Author: Kirsten Quinn, Head of Corporate Anti-Fraud Service	**Contact Details:** Tel: 0208 753 2551 E-mail: kirsten.quinn@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report provides updated policy and procedures for H&F in respect of Anti-Money Laundering.

1.2. The current set of policies and procedures were now out of date and need to be updated to meet current legislative requirements. The documents provided are based on the CIPFA model set to help ensure that they are appropriate and up to date, personalised where necessary to meet the needs of H&F.

2. RECOMMENDATIONS

2.1. That the report be noted.

3. REASONS FOR DECISION

3.1. As previously stated, a decision is needed because current policy and procedures are no longer fully up to date and need to be replaced.

4. INTRODUCTION AND BACKGROUND

4.1. The council already had a policy and procedures that were published on the council's intranet site. These had been in place for some years and a recent review has identified that they were no longer fully up to date, so it is necessary to replace them with a version that is as soon as possible.

4.2. The updated set of documents is provided at Appendix 1 and is based on the model version provided by CIPFA so are reliable, they have been personalised to meet the needs of H&F which is principally at paragraph 4 to identify the Money Laundering reporting Officer (MLRO) and their deputy.

5. PROPOSAL AND ISSUES

5.1. Failure to have a set of policies and procedures that are not legally fully compliant would have left the council exposed to avoidable risk.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not appropriate.

7. CONSULTATION

7.1. Not appropriate.

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable to this report

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. None.

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.	Previous Anti Money laundering policy. Published on intranet	K Quinn 2551	CAFS

Appendix 1

LONDON BOROUGH OF
Hammersmith and Fulham

ANTI-MONEY LAUNDERING POLICY

2012

CONTENTS

LONDON BOROUGH OF Hammersmith and Fulham
ANTI-MONEY LAUNDERING POLICY

1. INTRODUCTION

1.1 The Money Laundering Regulations 2007 have updated the position for the Council in terms of the legal responsibilities concerning money laundering. These regulations, together with the Proceeds of Crime Act 2002 (POCA) and the Terrorism Act 2000 (TA) as amended by the Anti-Terrorism and Security Act 2001 and the Terrorism Act 2006), outline the preventative measures intended to eliminate the funding of terrorism and crime.

1.2 Although Local Authorities are not legally obliged to apply the Money Laundering Regulations 2007, the Council is bound by the provisions of both the Proceeds of Crime Act and the Terrorism Act. It is good practice to comply with the main measures of the Regulations as part of the governance process. As such, the London Borough of Hammersmith and Fulham has established this policy to ensure compliance.

2. AIMS AND SCOPE OF THIS POLICY

2.1 This policy applies to all employees and Members of the Council and aims to maintain the high standards of conduct, which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures that must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council, its members and employees to comply with its intention to voluntarily comply with the legal requirements of the Regulations.

2.2 Further information is set out in the accompanying Procedures Guidance document. Both the policy and the procedural guidance document sit alongside the Council’s Anti-Fraud and Corruption Policy.

2.3 Failure by a member of staff to comply with the procedures set out in this policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Procedure. Failure by a Member to comply with the procedures set out in this policy may be referred to the Standards Committee.

3. What is Money Laundering

3.1 Money laundering is any attempt to use the proceeds of crime for legitimate purposes. Anyone who becomes involved with an activity which they know, or have reasonable grounds to suspect, is related to the proceeds of crime may be guilty of money laundering.

3.2 Money laundering is an attempt to use the proceeds of crime for legitimate purposes. Anyone who becomes involved with an activity which they know, or have reasonable ground to suspect, is related to the proceeds of crime may be guilty of money laundering.

3.3 The term money laundering is often used to refer to the complex and large scale procedures used by organised crime and terrorist groups to conceal the illegal nature of their assets by the careful and staged introduction of the proceeds of crime into legitimate financial and commercial streams. The legislation, however, is very broad and applies to the proceeds of any crime no matter how large or small.

3.4 The risk of the Council contravening the legislation is, however relatively low and some aspects of the legal and regulatory requirements do not apply to public authorities.

3.5 The Terrorism Act 2000 (TA) and the Proceeds of Crime Act 2002 (POCA) place obligations on all of us. The statutory provisions relating to money laundering, in so far as they affect the Council, are summarised in Appendix A to this policy, together with references to further information.

4. The Policy

4.1 This policy is complemented by the Council's Anti Money Laundering Procedures, which set out the details of how the policy is to be applied. The aims of the Policy and Procedures, taken together, are to:

- assist the staff and Members of the London Borough of Hammersmith and Fulham to understand money laundering and their personal legal obligations and responsibilities arising from the requirements of the legal and regulatory provisions
- prevent Council services being used for money laundering purposes, and
- set out the procedures which must be followed to enable the Council and its staff to comply with their legal obligations.

4.2 The London Borough of Hammersmith and Fulham will do all it can to:

- prevent the Council and its staff being exposed to money laundering;
- identify the potential areas where it may occur; and
- comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.

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4.3 All employees are required to:

- report promptly all suspicions of money laundering activity to the Money Laundering Reporting Officer (MLRO) or a Deputy MLRO. This may initially be by a direct discussion or by using the form provided in the Anti- Money Laundering Procedures.
- follow any subsequent directions of the MLRO or Deputy.

4.4 The nominated officers for reporting issues are:

- MLRO: Executive Director of Finance
- Deputy MLROs: Head of Corporate Anti Fraud Service
- Full contact details are provided in the Anti- Money Laundering Procedures.

4.5 The MLRO or Deputy must promptly:

- evaluate all concerns raised by staff to determine whether it is appropriate to make a report to the Serious and Organised Crime Agency (SOCA)
- if appropriate, ensure that an internal report is completed, using the form provided in the Anti- Money Laundering Procedures.
- if appropriate, submit a Suspicious Activity Report to SOCA.

4.6 Those receiving, or arranging to receive, cash on behalf of the Council must ensure they are familiar with the Council's Anti-Money Laundering Procedures.

4.7 No payment to the Council will be accepted in cash if it exceeds £13,000.

4.8 Although there is no legal requirement for the Council to have formal procedures for evidencing the identity of those they do business with, staff should be alert to potentially suspicious circumstances. Where there may be doubt and in particular, when forming a new business relationship or considering a significant one-off transaction, the identification procedures in the Council's Anti- Money Laundering Procedures should be followed.

4.9. The Council will:

- make all staff aware of the obligations placed on the Council, and on themselves as individuals, by the anti-money laundering legislation
- give targeted training to those most likely to encounter money laundering activity.

5. Summary

5.1. Members and staff of the London Borough of Hammersmith and Fulham need to be vigilant for signs of money laundering. The Council has a mechanism for report suspicious activity, will provide appropriate training and has procedures for identification checks

Appendix 1

Money Laundering: Legal and Regulatory Framework

1. The Terrorism Act 2000

This Act applies in full, as it does to all individuals and businesses in the UK. If, in the course of business or employment, you become aware of information, which provides knowledge or gives reasonable grounds for belief or suspicion that proceeds have come from or are likely to be used for terrorism, it must be reported. This will prevent commission of the money laundering offence relating to being implicated in illegal activity.

2. The Proceeds of Crime Act 2002

This Act defines six principal money-laundering offences, only the first four of which are likely to apply to the Council:

- concealing, disguising, converting, transferring, or removing from the UK, any criminal property (S327)
- becoming concerned in an arrangement, which you know or suspect, facilitates the acquisition, retention, use, or control of criminal property (S328)
- acquiring, using, or possessing criminal property (S329)
- doing something that might prejudice an investigation (for example, falsifying a document) (S342)
- failing to disclose known or suspected money laundering offences (S330-332)
- tipping off", by giving information to someone suspected of money laundering in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation (S333A).
- The offences of failing to disclose and tipping off will not apply so long as the Council does not undertake activities which might be interpreted, under POCA, as falling within the regulated sector. The regulated sector refers to activities which should be regulated under the Financial Services and Markets Act 2000.

3. The Money Laundering Regulations 2007

The Regulations are not legally binding on public authorities because they are neither ‘relevant persons’ (as defined in the MLR) nor part of the ‘regulated sector’ (as defined in POCA 2002). There is, however, a distinct reputational risk for any authority that does not have adequate policies and procedures in place. Following CIPFA’s guidance, a “prudent and responsible” council will adopt “appropriate and proportionate” policies and procedures designed to “detect and avoid involvement in the crimes described in the legislation and regulations”.

Appendix 2

Anti-Money Laundering Procedures

1. What are the obligations on the Council?

1.1 The Chartered institute of Public Finance and Accountancy (CIPFA) guidance advises that Councils should:

- maintain robust record keeping procedures.
- make those members and employees who are likely to be exposed to or suspicious of money laundering activities to be aware of the requirements and obligations placed on London Borough of Croydon, and on themselves as individuals, by the Proceeds of Crime Act and related legislation.
- provide targeted training to those considered most likely to encounter money laundering activities e.g. how to recognise and deal with potential money laundering offences.
- implement formal systems for members and employees to report money laundering suspicions to the MLRO.
- establish internal procedures appropriate to forestall and prevent money laundering and make relevant individuals aware of the procedures.
- report any suspicions of money laundering to Serious Organised Crime Agency (SOCA) (this is a personal legal obligation for the MLRO).
- put in place procedures to monitor developments in the 'grey' areas of the legislation and to keep abreast of further advice and guidance as it is issued by relevant bodies.

1.2 The safest way to ensure compliance with the requirements of these legislations is to apply them to **all areas** of work undertaken by the Council; therefore, **all Members and employees** are required to comply with the policy and these procedural guidance notes.

2. The Money Laundering Reporting Officer (MLRO)

2.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Head of Governance, who can be contacted as follows:

Executive Director of Finance and Corporate Services
London Borough of Hammersmith and Fulham
Hammersmith Town Hall,
King Street
Hammersmith

W6 9JU
Telephone: 0208 753 1900

2.2 Disclosures by staff to the MLRO should, where appropriate, be made through their Executive Director, Director, or Head of Service.

2.3 In the absence of the MLRO, the Head of the Corporate Anti Fraud Service is authorised to deputise for her.

2.4 The MLRO will determine whether the information or other matters contained in the report he has received give rise to a *knowledge* or *suspicion* that a person is engaged in money laundering.

2.5 In making this judgement, he will consider all other relevant evidence (information) available to the Council concerning the person or business to who the initial report relates. This may include reviewing other transaction patterns and volumes, the length of the business relationship, and referral to identification records held.

2.6 If after completing this review, he is *satisfied* with the suspicions that the *suspect* is engaged in money laundering, then the MLRO must ensure that the information is disclosed to the SOCA.

3. Disclosure Requirements - Reporting to the Money Laundering Reporting Officer

3.1 Where you know or suspect that money laundering activity is taking / has taken place or is about to take place or become concerned that your involvement in a matter may amount to a prohibited act under the legislation, you must disclose this as soon as possible to the MLRO.

3.2 The disclosure should ideally be made within "hours" of the information coming to your attention wherever practicable, not weeks or months later.

3.3 Your disclosure should be made to the MLRO using the *proforma* attached at Appendix A of these guidance notes. The report should enclose copies of any relevant supporting (evidence) documentation and must contain as much detail as possible which should include the following:

- full details when known of the people involved (including yourself, if relevant), i.e. name, address, company names, directorships, phone numbers, etc.
- full details of the nature of their/your involvement:

If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 – 329 or s342 of the 2002 Act, (explained in the Anti-Money Laundering Policy) then your report must include all relevant details, as you will need consent from the SOCA, via the MLRO, to take any further part in the transaction - this is the case even if the party giving rise to concern gives instructions for the matter to proceed before such consent is given.

- You should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline.
- the types of money laundering activities involved
- the dates of such activities and a note stating whether the activity has happened, on-going or imminent.
- the location where the activity took place i.e. department, section, depot etc.
- how the activities were undertaken.
- the (likely) amount of money/assets involved (if known).
- why, exactly, you are suspicious of the activity– the SOCA will require full reasons.
- along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering.
- to enable him to prepare his report to the SOCA, where appropriate. You should also enclose copies of any relevant supporting documentation.

4. Recognition of Suspicious Transactions

4.1 As the types of transactions which may be used by money launderers are almost unlimited, it is difficult to define a suspicious transaction.

4.2 Sufficient guidance will be given to staff to enable them to recognise suspicious transactions. The Council will also consider monitoring the types of transactions and circumstances that have given rise to suspicious transaction reports, with a view to updating internal instructions and guidelines from time to time.

4.3 The Council has set a general transaction limit of £13,000 (in line with the 2007 Regulations) over which any transaction or group of transactions from the same source should automatically be classified or deemed as suspicious. This does **not** however mean to say that any transactions under these limits on which you have suspicions should not be reported. All suspicious transactions irrespective of their values should be reported.

5. Reporting of Suspicious Transactions

5.1 The Council has a clear obligation to ensure that Members and employees know to which person(s) they should report suspicions and that there is a clear reporting chain under which those suspicions will be passed without delay to the MLRO.

Once a member or an employee has reported his/her suspicions to the MLRO, he/she has fully satisfied their own statutory obligation.

6 Record Keeping Procedures

6.1 Each section of the Council conducting relevant business must maintain appropriate records of:

- Client identification evidence obtained; and
- Details of all relevant business transactions carried out for clients for at least five years. This is so that they may be used as evidence in any subsequent investigation into money laundering.

6.2 The precise nature of the records to be held is not prescribed by law however they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the party giving rise to concern and the relevant transaction and recording in what form any funds were received or paid.

6.3 In practice, the business units of the Council will be routinely making records of work carried out for various parties, customers and clients in the course of normal business and these should suffice in this regard.

7. Conclusion

7.1 The legislative requirements concerning anti-money laundering procedures are lengthy and complex. The policy and these procedural guidance notes have been written so as to enable the Council to meet the legal requirements in a way that is proportionate to the Council’s risk of contravening the legislation.

7.2 Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO or his deputies.

Appendix 3

CONFIDENTIAL

Report to Money Laundering Reporting Officer

Re: money laundering activity

TO: **MONEY LAUNDERING REPORTING OFFICER**

From: …………………………………………
[insert name of employee]

Department/Division: ………………………………………. Ext/Tel No:……………………………..
[insert post title and Service Unit]

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved: *[if a company/public body please include details of nature of business]*

Nature, whereabouts, value and timing of activity/property involved: *[Please include full details eg what, when, where, how. Please include whereabouts of the laundered property, so far as you are aware. Continue on a separate sheet if necessary]*

Nature of suspicions regarding such activity: *[Please continue on a separate sheet if necessary]*

Has any investigation been undertaken (as far as you are aware)? ☐ Yes ☐ No
[Please tick the relevant box]

If yes, please include details below:

Have you discussed your suspicions with anyone else? ☐ Yes ☐ No
[Please tick the relevant box]

If yes, please specify below, explaining why such discussion was necessary:

Have you consulted any supervisory body guidance re: money laundering? (e.g. the Law Society) *[Please tick the relevant box]* ☐ Yes ☐ No

If yes, please specify below:

Do you feel you have a reasonable excuse for not disclosing the matter to SOCA? (e.g. are you a lawyer and wish to claim legal professional privilege?) *[Please tick the relevant box]* ☐ Yes ☐ No

If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act under sections 327- 329 of the 2002 Act or Section 18 of the 2000 Act and which requires appropriate consent from SOCA?

[Please tick the relevant box]

☐	Yes	☐	No

If yes, please enclose details in the box below:

Please set out below any other information you feel is relevant:

Signed:……………………………………………………

Dated:…………………………………

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MONEY LAUNDERING REPORTING OFFICER

Date report received: ……………………………………………….

Date receipt of report acknowledged: ………………………………….

CONSIDERATION OF DISCLOSURE:

ACTION PLAN:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity? **Do you know the identity of the alleged money launderer or the whereabouts of the property concerned?**

If there are reasonable grounds for suspicion, will a report be made to SOCA? *[Please tick the relevant box]* ☐ Yes ☐ No

If yes, please confirm date of report to SOCA:
and complete the box below:

Details of liaison with SOCA regarding the report: **Notice Period:** …………………….. **to** ……………………….. **Moratorium Period:** …………………….. **to** ……………………

Is consent required from SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts? ☐ Yes ☐ No

If yes, please confirm full details in the box below:

Date consent received from SOCA:
…………………………………………………………

Date consent given by you to employee:
…………………………………………………..

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to SOCA, please set out below the reason(s) for non-disclosure:

[Please set out any reasonable excuse for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed: **…………………………………………………**

Other relevant information:

Signed:………………………………………………….. **Dated**:…………………………………

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

Agenda Item 9

h&f putting residents first	**London Borough of Hammersmith & Fulham** **Audit, Pensions and Standards Committee** **13 December 2012**
Corporate Anti Fraud Service Report 1 April to 30th of September 20112	
Open Report.	
Classification: For Information	
Wards Affected: None	
Accountable Executive Director: Jane West	
Report Author: K Quinn Head of Corporate Anti Fraud Service	Contact Details: Tel: 0208 753 2551 E-mail: kirsten.quinn@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1 This report details the counter fraud work undertaken during the first two quarters of the financial year to 30th of September 2012, by the Council's Corporate Anti Fraud Service (CAFS).

1.2 Performance is measured in numbers of sanctions (prosecutions, penalties, formal cautions or other action taken directly) delivered. CAFS has delivered 72 sanctions (including 7 prosecutions) in the first half of the year including 35 properties recovered or prevented from fraudulently being allocated. Of the 260 cases referred to CAFS for potential investigation 98 were closed due to resource constraints, representing 37% of all referrals. This will mean that higher quality referrals only will have been investigated, part of the reason for this is several investigations requiring significant investigator resource input.

1.3 The service has recovered £165k additional income to the council from its operations with additional recoverable debt of £422k identified. Applying the Audit Commission's recommended values for property recoveries, as well as calculating the value of overpayments generated and penalties applied to offenders, the value of CAFS work to the council for the first half year stands at £3.2 million,(against an annual projected operating cost of £690k.) On top of these figures we also still pay a percentage of funds to the police and to the CDRP (Crime & Disorder Reduction Partnership), which amounted to a further £13.5k in the period.

2 RECOMMENDATIONS

2.1 That the report be noted.

3 REASONS FOR DECISION

3.1 To inform the committee of the actions of the councils counter fraud response.

4 INTRODUCTION AND BACKGROUND

4.1 The service provides a full, professional counter fraud and investigation service for fraud attempted or committed against the council. It is an intelligence led operation covering 3 areas. Corporate fraud, which also includes our proactive response and our financial investigators, Benefits fraud and a Housing fraud. We work closely with other law enforcement units including the Met Police and UKBA. The unit also successfully manages the National Fraud Initiative programme on behalf of the council and other projects that intelligently use the data held within the council systems all officers within the CAFS unit work on a generic bases. Their cases span all aspects of our work and look at the full criminality rather than restricted areas of work.

4.2 The Housing & Regeneration Department review tenancies and have been working with Experian to cleanse issues within the tenancy stock. CAFS deal with any reactive allegation received and seek to recover tenancies in misuse and prosecute where there is believed to be criminal activity.

4.3 Joint working with the police continues aimed at targeting known criminals, we have approximately 5 joint cases live at this time. Discussions are now starting on expanding coverage of this programme to include problem residents using wider council data

5 PROPOSALS AND ISSUES

5.1 CAFS has delivered 72 sanctions in the first half of this year, including 7 prosecutions, against a mid-year target of 75. The full set of performance figures are provided at Appendix 1, Figures 2 and 3 shows the outturn for Quarter 1 and Quarter 2, for each type of fraud, and by sanction delivered. It should be noted that of the 260 cases referred to CAFS for potential investigation 98 were closed due to resource constraints, representing 37% of all referrals. This will mean that higher quality referrals only will have been investigated, part of the reason for this is several investigations requiring significant investigator resource input.

5.2 The unit has continued its pro-active projects programme resourced by two officers who are also the financial Investigation resource. They split their time between the two functions depending on the priority of the case. The research involved in pro-active projects and their results, along with other intelligence, will help to inform our future business planning. It is hoped it will also attract new business to the service and create a better informed fraud risk register.

Tenancy Fraud

5.3 The funding to investigate tenancy fraud has remained static this year, with the additional £200k funding from the DCLG being directed to HRD to fund their projects. Tenancy fraud remains high risk and high profile both locally and from central government and will remain a high priority for the CAFS service.

5.4 The Fighting Fraud Locally agenda produced by the National Fraud Authority and supported by Government advises that Prevention Activities should form the bases of any effective fraud response. CAFS are working hard on including better use of intelligence, pro activity and fraud awareness projects to shape our response.

Corporate fraud

5.5 The referrals needing CAFS intervention have remained high and we have one member of staff who works full time in this area of work with additional resource available when required. One particular investigation has resulted in an officer being allocated to it full time with additional support from the Financial Investigators, plus we also have temporary resource from operational unit providing technical support.

5.6 The Proactive Officers have a full timetable of projects and are actively testing areas of concern to better inform the risk register and to more effectively target the valuable resources of the unit. Their work will better inform our work going forward and should provide us with innovative opportunities for new work within the council as well as joint working with other boroughs and law enforcement agencies.

5.7 Two officers are fully accredited to undertake financial investigations. LBHF has the ability to launch its own financial investigations under the Proceeds Of Crime Act (POCA) legislation and any financial gain will be directly of benefit to LBHF. We have also purchased the software to support this function which cuts the amount of time required to process financial information. We have established a model service level agreement to sell these services in the future and we are currently investigating two cases on behalf of two other authorities.

Benefits Investigations – Proposed changes

5.8 Universal Credit is scheduled for introduction in April 2013, with Housing Benefit being phased out completely by 2017. Consultation on these changes is still ongoing. The pilot projects begin work at the beginning of November 2012. Hillingdon is the nominated Authority to represent London Boroughs. The projects are due to report back next year. A proposed timetable for the whole process to be concluded is still to be finalise however it is likely the re branding of Benefits investigation work to SFIS will begin in April 2013 and the whole change will be complete in 2015. As more information becomes available it will be reported to future Committee meetings.

5.9 Partially as a consequence of the uncertainty created by SFIS, and partially as a move towards up skilling our investigation resource, the investigation staff are entirely generic and can investigate what ever is required of them. One of our experienced officers has resigned and has not, been replaced. There will be interim coverage for this post from December provided by Agency staff and the complement will be reconsidered as part of the Bi Borough process.

Financial value of counter fraud work

5.10 The financial value of Counter fraud work for the first 6 months of the year is included at figure 4 in Appendix 1. This shows the funds that are recovered by the council totalling £165k, this includes for the first time the recovered Housing Benefits overpayments as identified in the following paragraph which increased the total income form CAFS work for 6 months by a minimum of £20K. There are additional funds that may be recovered of £423k, making a total that is recoverable by the council of £642k. The table also puts a nominal value on properties recovered based on an average calculation produced by the Audit Commission of £75k a property. This increases the value delivered by the service to £3.2 million.

5.11 At the last Committee meeting we were requested to produce figures on the level of Housing Benefit debt raised and the values recovered. We are pleased to be able to report that figures are now available.

Year	Amount raised	Amount recovered
2007-08	460,534.62	303,646.39
2008-09	255,364.57	136,281.14
2009-10	376,159.63	212,765.26
2010-11	432,253.36	232,584.27
2011-12	462,410.81	103,765.71
2012-13 (6 months)	55,277.12	20,335.36
TOTAL	**2,042,000.11**	**1,009,378.13**

The table shows the total value of overpaid benefits identified as a result of CAFS investigation and the amount recovered based on the year the debt was raised, which means that recovery this year is a minimum of £20k but may be much higher. As all overpaid benefit is retained by the council these represent additional income to the council. The table at Appendix 1 figure 4 also shows a further £73k relating to Single Person Discount, it is not possible to identify how much of this is recovered as these debts cannot be identified as relating to anti-fraud work.

Nation Fraud Initiative 2012 – 2014

5.12 The next NFI Initiative is due to begin in December 2012. We will send the required data and the results will arrive in the council in March 2013. The data will then be distributed to the relevant parties. The CAFS unit will manage the process and will deal with any fraud matters that arise from the data. Output data and financial savings will be noted in the next report.

Major Service Changes

5.13 CAFS are part of the Internal Audit Bi-Borough project. Substantial management and officer time has gone into producing the data required to complete the Target Operating Model and move towards a shared resource.

Any required changes will be built into the business planning for the next financial year as the changes are due to begin in April 2013.

Future Plans

5.14 More resources are being used in the provision of pro-active and prevention projects. This is in line with the advice issued via central government and the National Fraud Authority. .

5.15 November has been chosen as National Fraud Awareness month. LBHF in partnership with Westminster and RBKC are launching a high profile fraud awareness month. There will be joint projects, national publicity and new posters/advertising supplies. Productivity information will be gathered and shared between the participants. LBHF will use the experience gained to inform the business planning for next year.

5.16 We are working with Call Credit (a data company) and other West London Councils to build a Hub. This will provide ability for each of the councils to compare housing tenant's information and submit data on tenants who have been evicted. It will allow the member authorities to check either singular applications to be provided with Housing or larger scale matching exercises. This will be the first hub in the country and consideration will be given to widen the hub to pan London in the future.

5.17 We have created a post for a Court officer. This provides a single point of contact for all out dealings with legal, barristers and the court system. It tasks one officer with the responsibility for collating court files and any additional information which is later required by our legal representative and liaises with communications on publicity. We will review the effectiveness of this post at the end of the year.

5.18 Filming has taken place for another television series which will be aired later this year and concentrated on the Kellaway case.

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

5.20 Discussions are underway to make a more targeted effort to recover debts which have been raised as a consequence of fraud investigation. The repayment of these debts is part of the deterrent factor and safeguards the council's finances in a time of financial austerity.

5.21 We are working in partnership with RBKC, Westminster and Peabody Housing Association in Q3 on a Fraud Awareness Project which is supported by the NFA. It will received national press coverage and will raise the profile of Local Government investigation units

6. OPTIONS AND ANALYSIS OF OPTIONS

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.	Operational and performance management papers.	K Quinn	HTH

Appendix 1

CAFS performance tables

Fig. 1 Cases Opened, Rejected, and Closed 2012-13 (to Q2)

	01/04/11 – 30/09/11
Cases referred	260
Cases rejected due to poor quality	36
Cases rejected due to overload of case	98
Cases closed with a successful sanction/outturn	72
Total number of cases closed	396

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

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	6	1	12	19
Tenancy	1	13	22	36
Corporate	0	7	10	17
Grand Total	7	21	44	72

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

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Benefits	7	20			
Tenancy	23	36			
Corporate	6	16			
Total All	36	72			
Target 2012/13	38	75			
Previous Years' Comparatives					
Total 2011/12	40	76	114	210	210
Total 2010/11	45	45	99	194	194
Total 2009/2010	55	92	132	278	278
Total 2008/2009	31	54	98	186	186
Total 2007/2008	32	65	97	130	130

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

		Recovered		Recoverable		Additional value to the Council	Recoverable to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by CAFS	Recoverable by LBHF	Value of properties recovered or lets avoided or salaries ceased	Recoverable	Value of Assets Currently Restrained
Benefits	Penalties							
	Costs, Compensation, POCA	11,271.71		48,889.69				
	HB Overpayments		20,335.36		122,581.73			
	40% Bounty on HB O/Ps		57,166.83					
Tenancy	Tenancies recovered (13)					975,000		
	Housing Register removals (22)					1,650,000		
	Right to Buys prevented (1)					16,000		
Corporate	Corporate cases		5,025.00					
NFI*	HB Overpayments				177,405.31			
	40% Bounty on HB O/Ps		70,962.12					
	CTax: Single Person Discount				73,525.09			
Income support overpayments								
Assets Restrained								270,000
Total		11,271.71	153,489.31	48,889.69	373,512.13	2,641,000		
Total recovered		164,761.02						
Total balance recoverable				422,401.82				
Total overall recoverable value to the council		587,162.84						
Total value to council due to CAFS work		3,228,162.84						
Total value to the public purse		3,228,162.84						

Appendix 2

Prosecutions

Imanwel Smith

Mr Smith has been in receipt of HB/CTB since at least April 2002 on the basis that he was seeking work and claiming Jobseekers Allowance from the DWP.

An investigation carried out by CAFS in relation to his Council tenancy uncovered that Mr Smith had owned a property in Ipswich since 17/05/07.

The mortgage application form was obtained from the bank showing that he borrowed £135,000 and placed a deposit of £15,000 of which was from his own savings. He declared that he was self-employed trading as an electrician and that his pre-tax annual income was £45,000.

The property in Ipswich was rented out, and Mr Smith also failed to declare two bank accounts showing a number of unexplained deposits, mostly in cash.

He was prosecuted for benefit fraud against LBHF and the DWP, totalling £18,000.Mr Smith was sentenced on 17.4.12 to 16 months imprisonment for each offence, suspended for 12 months , with a requirement of 200 hours of unpaid work. Mr Smith was also ordered to pay the prosecution costs in the sum of £850

Marian Littlejohn

Miss Littlejohn has been in receipt of HB/CTB since at least December 2001 on the basis that she was a single parent receiving Income Support. From 2006 onwards she was awarded Incapacity Benefit as she was not available for work due to ill health.

Her case came to light when the Council tax department confirmed to CAFS that Miss Littlejohn owned a property at Lillie Road, Fulham. The investigation found she jointly owned the property with her brother and that they had a mortgage on it; the application for the mortgage identified a job that Littlejohn had held sine 1999 without declaring it to the benefit authorities. Her wages were paid into a bank account hidden from the DWP and the Housing Benefit office.

Littlejohn pleaded guilty to 5 counts of benefit fraud, totalling some £26,000. She was sentenced on 27.4.12 to 24 weeks' imprisonment suspended for 12 months, together with 'structured supervision for women' course, as recommended in Pre Sentence Report. A confiscation process was also commenced under the Proceeds of Crime Act.

Katerina Kouassi

Kouassi claimed HB and CTB since at least 2002, declaring her partner and her children on her claim...

A data match from the NFI scheme indicated her adult daughter Maira had started work for LBHF in 2008, this had not been declared
.
The investigation found that Maria PAU had been employed by LBHF since March 2008 and an overpayment for the period 07/04/2008 to 07/02/2011 was calculated which totalled £7,000.

Kouassi pleaded guilty to benefit fraud. She was sentenced on 25.4.12. The Judge stated that as Miss Kouassi could not carry out unpaid work, he imposed a curfew against Miss Kouassi for 30 days from 9pm to 6am which involved electronic tagging.

The Defendant was ordered to contribute to the prosecution's costs in the sum of £150.00. The Defendant was ordered to pay £5.00 per week and this amount would be deducted from her income support.

Lamia Alilou

Subject claimed with her partner Mr OULAMARA. Their Income Support claim was in the partner's name; however, due to the tenancy being in Ms ALILOU'S name, she was made the main applicant on the HB claim. They claimed HB and CTB from OCTOBER 2007.The only income that was declared when claiming HB was the claim for Income Support and Child benefit.

Mrs ALILOU was invited to attend an interview. When she attended, she admitted that she had been working for a number of salons and that this had not been declared, she stated that she knew that it would affect her benefit and blamed the troubles that she and her husband were having for not being honest and declaring her true circumstances. In this first interview under Caution, she revealed that she had worked for more establishments that we had initially been aware of. The interview was terminated so that further investigation could be carried out.

Mrs ALILOU attended a further two interviews under Caution, and she was accompanied by a solicitor on these occasions. In these interviews, she changed her story and now stated that she was not aware that she had to declare that she was working.

Alilou pleaded guilty to 7 benefit fraud offences relating to £7,500 of fraudulently obtained benefit.

On 11.9.12 she was sentenced to a 12 month community order, with 120 hours unpaid work for the benefit of the community, and was informed that she must cooperate with probation, otherwise she could be brought back to the court and punished. Alilou was also ordered to contribute to the prosecution costs in the sum of £200.

Donna McConnell

McConnell claimed Income Support and Housing and Council Tax Benefit on the basis of being a lone parent whom the Council had accepted a housing duty towards and who had been provided with temporary accommodation.

Investigators found that in November 2008 McConnell had moved to Wales (to start living with her partner) and enrolled her child with a school there, She continued to apply for a permanent Council tenancy and made 27 bids after this change in her circumstances and eventually secured a permanent Council tenancy.

Investigators arranged for the recovery of the tenancy, and McConnell faced criminal proceedings for the housing fraud and the £12,000 of benefits she had wrongfully obtained.

McConnell pleaded guilty to four benefit fraud offences, and four offences of fraud regarding her housing application. On 27.4.12 she was sentenced to a 6 month Community Order (with supervision) and had to pay £150 toward costs.

	London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 13 December 2012
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, Principal Consultant , Risk Management	**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 TriBorough and BiBorough risks such as they may affect h&f as outlined in the report.

2.3. The committee approve the Enterprise Wide Risk & Assurance register

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 BS31100 requirements for Enterprise Risk

Management. Effective risk management continues to help the council to achieve its objectives by 'getting things right first time' and is a key indicator of the 'Corporate Health' of the council.

4. INTRODUCTION AND BACKGROUND

4.1. The public sector is changing and increasingly confronted by a growing range of new areas of vulnerability, such as complex supply chains, the interconnectivity of new technology, funding reductions and civil unrest. Taken against a backdrop of a challenging global risk environment, unpredictable severe weather and natural catastrophes and unprecedented levels of organisational flux, these scenarios pose real risks to the long term resilience of public services.

5. PROPOSAL AND ISSUES

5.1. TRI-BOROUGH RISK MANAGEMENT DELIVERY

5.1.1. H&F Risk Management has been included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. A Strategy to manage TriBorough risks is being developed collaboratively with Westminster City Council and the Royal Borough of Kensington and Chelsea. Information is being shared with other councils and a team area has been set up on the Tribnet Internal Intranet area.

5.1.2. The target operating model that will deliver the risk management service is also being developed and follows a review of risk management arrangements in each of the three boroughs. The results of a customer insight analysis recently conducted across the three councils will be considered in the development of an overarching strategy.

5.1.3. Gaining insight into the user experience of customers of Corporate Services functions (CS) has been an integral part of the Corporate Services Programme. An Online customer survey has been undertaken capturing the opinions of **297** managers from across the three Councils that was aimed to help:

- gain a greater understanding of current customer satisfaction levels
- establish a baseline for comparison later in the programme
- provide an input into the redesign of Corporate Services functions.

5.1.4. Users of a range of Corporate Services functions, including risk management, were asked how strongly they agreed or disagreed with eleven positively framed statements that reflected the objectives of the Tri-Borough Corporate Services programme.

5.1.5. Presently each council has in place a policy, strategy, framework and approach distinct from each other. These will be harmonised and any proposals for change ratified by the councils respective Executive Management to ensure that their respective Sovereign position is maintained. It is still anticipated that efficiencies will be made in the administration, training and delivery of the service.

5.2. BENCHMARKING OF CORPORATE RISKS

5.2.1. Hammersmith & Fulham council recently participated in an exercise to compare corporate risks across London. This was facilitated by the London Audit Group and revealed a diverse range of unique challenges and common risks faced by London councils. An extract of these risks are identified below for illustration;

5.2.2. Common risks

5.2.2.1. Central Government future risks for Local Government

- Impact of Universal Credit and the it’s effect on demand led services, temporary housing, homelessness and care provision.
- Public Health responsibilities transferring to the council and the risk that funding transferred from Central Government will not be sufficient.
- Failure to plan a strategic corporate response to resource reductions, demographic change, and regional economic challenges.
- Fraud & Illegality, as major organisational change is implemented, so the opportunity for fraud will increase. As processes are streamlined for efficiency gains, the control environment may weaken and increase the potential exposure to fraud. Wider spending cuts will impact on individuals' financial situations, leading to greater temptation to try and exploit control weaknesses. Efficiency measures implemented may be more likely to give rise to legal challenge where individuals feel aggrieved.

5.2.3. Customer Service

- Inability to deliver technological changes to meet customer requirements and demands

- Breach of statutory obligations through failure of compliance with relevant legislation

5.2.4. Social

- Safe Guarding Adults and Children, Failure to adequately quality assure protection arrangements & systems, as well as investigate Safeguarding concerns will lead to failure to perform statutory duties, resulting in death or serious injury or loss of public faith and reputation of the council, with challenge and scrutiny from governing bodies.
- Community Tension, Failure to adequately monitor tension risks and to be seen to address concerns and grievances leads to community tensions, personal safety risks for minority populations, and reputational damage for the Council.

5.2.5. Finance and Governance

- Failure to develop efficient and reliable data and information management IT systems for identifying and alerting managers on budgetary failures.
- Failure to comply with the assurance systems in place leads to poor decision making, ineffective use of resources, an increased possibility of serious irregularities and fraud resulting in poor delivery of Corporate outcomes

5.2.6. Economic recession

- Failure to deliver local economic regeneration
- Impact on revenues
- Continuing global and European financial instability

5.2.7. Education

- Failure to plan a strategic corporate response to resource reductions, demographic change and regional economic challenges

5.2.8. Unique and new risks

Whilst some risks were specific to local council projects the benchmarking revealed additional risks that H&F council could consider either corporately or departmentally. These include;

- Power cuts, following Ofgems recent report on the capacity issues in the energy industry.
- Collapse of the re-cycling market due to the continued economic climate.
- Passporting of EU fines to local government.

5.2.9. Opportunity risks

- Usage of Smartphone technology for increasing revenue, income and advertising opportunities in a more mobile personalised digital area.
- Usage of electronic libraries, kindles and Smartphones to access on-line books, media, maps, planning, licensing

5.2.10. The review of corporate risks focussed on current corporate risk identification practice across London Councils. Benchmarking of this nature is an indicator of the positive risk management culture that exists in the council. It can be used to measure the impact of risk management in the council and its identification process. It refreshes the business risk assessment process through an examination of the council's risks and issues.

5.3. H&F - STRATEGIC RISKS PERSPECTIVE

5.3.1. A high level of uncertainty remains regarding the national economic picture and its impact on National Government and therefore also Local Government. The International Monetary Fund in a BBC report said the Eurozone crisis was the main cause of instability in the global financial system. Risks to global financial stability have increased in the past six months despite efforts by policymakers to make the financial system safer. It said little progress had been made in making the system more transparent and less complex, and that confidence in it had become "very fragile". The councils Financial Strategy Board and Enterprise Wide Risk Register have been reviewed in light of the Eurozone debt crisis which remains the main cause of concern.

5.3.2. On Monday 8th October, the IMF downgraded its forecast for global growth. It estimated growth in 2013 to be 3.6%, down from 3.9% in its previous forecast in July. This included sharp downgrades for the UK, Brazil and India.

Remaining risks

5.3.3. In its latest Global Financial Stability Report, published every six months, the IMF said "significant efforts" by European policymakers had "allayed investors' biggest fears". The European Central Bank offered cheap loans to banks early this year; the bank's chief Mario Draghi said he was prepared to do whatever it took to save the euro in the summer; and Eurozone governments announced the launch of the long-awaited European Stability Mechanism (ESM), the bloc's new permanent fund to bail out struggling economies and banks.

5.3.4. The ESM, with 500bn Euros (£400bn; $650bn) at its disposal by 2014, will be able to lend directly to governments, but it will also be able to buy their sovereign debts, which could help reduce the borrowing costs of highly-indebted countries such as Italy and Spain.

5.3.5. However, the IMF said that "despite recent favourable developments in financial markets, risks to financial stability have increased since April". It said concerns about countries leaving the Eurozone had led to "capital flight" away from the bloc that "undermined the very foundation of the union". It added that the need for banks to build up capital protection, together with high borrowing costs for governments, was "generating very strong headwinds for the corporate sector".

5.3.6. The fund talked of a benchmark set of goals for the financial sector - institutions and markets that are "more transparent, less complex, and less leveraged". "Although there has been some progress over the past five years, financial systems have not come much closer to those desirable features. They are still overly complex, with strong domestic inter-bank [links], with the too-important-to-fail issues unresolved". It said individual governments needed to cut debt levels without choking off growth and push through reforms to clean up the banking sector, including recapitalising viable banks. The ECB would need to help in this process, it said. The IMF also reasserted its view that much closer ties were needed between Eurozone banks.

5.3.7. The IMF highlighted a number of measures that were needed to help resolve the crisis. Outside the Eurozone, the fund pointed to risks in the US and Japan. In Japan, the fund highlighted high budget deficits and record debt levels, as well a "growing interdependence" between banks and the state. Measures to tackle these issues were needed "without further delay".

5.3.8. According to the energy regulator Ofgem, Britain risks running out of energy generating capacity in the winter of 2015-16. Its report predicted that the amount of spare capacity could fall from 14% now to only 4% in three years. Ofgem said this would leave Britain relying more on imported gas, which would make price rises more likely. The government said that its forthcoming Energy Bill would ensure that there was secure supply. Ofgem highlighted the risk on coal-fired power stations being closed sooner than expected and EU environmental legislation. These warnings come in Ofgem's first annual Electricity Capacity Assessment. It comes three years after Ofgem's Project Discovery report, which warned that electricity shortages could lead to steep rises in energy bills. It is now saying the highest risk of shortages would be sooner than expected because coal-fired power stations would be closing sooner than it had predicted in 2009.

5.4. H&F - STRATEGIC RISKS PERSPECTIVE

5.4.1. Risk and Assurance Registers are an expression of Departmental Governance arrangements. As the three boroughs develop a collaborative risk management strategy reports will increasingly reflect the recommendation from the External Auditors Annual Governance Report which states that the council should' Enhance the integration of tri-borough risks into the Authority's risk management arrangements and, to support internal control, establish effective arrangements for ongoing internal audit'.

5.4.2. Evidence and material for the refresh of the Enterprise Wide Risk and Assurance Register was drawn from a number of sources both within the council, across TriBorough Services and in other Public and Private Sector organisations.

5.4.3. Since the last Audit Pensions and Standards Committee the following departments and areas have submitted refreshed risk & assurance registers which are being used as a basis to form H&F sovereign and TriBorough Audit Plans. Material from these registers form part of the information required to update the Enterprise Wide risk and assurance register.

- Finance and Corporate Services Department, Financials Risk & Assurance Register, Procurement Risk Register, Information Security Management

- Transport & Technical Services Department
- Adult Social Care Department
- Environment Leisure and Resident Services Department
- The Childrens Services Department

5.4.4. Closure of Accident and Emergency Services in West London has been included in the Enterprise Wide risk and assurance register under risk number 5. This reflects the potential impact on Residents of the Borough of Accident & Emergency closures, the increase of ambulance journey times to overstretched out-of-borough A&Es and, if four out of the nine A&Es close (at Charing Cross, Hammersmith, Central Middlesex and Ealing hospitals), a population equivalent to the size of Sheffield will be left without a single local A&E.

5.5. ENTERPRISE WIDE RISK AND ASSURANCE REGISTER

5.5.1. The Enterprise Wide Risk and Assurance Register has been updated following the review of Departmental submissions and has been reviewed by the Hammersmith & Fulham Business Board. It remains an indicator of 'Corporate Preparedness'. The full version accompanies this paper for Members information at **Appendix 1.**

5.6. H&F - CHANGE RISK PERSPECTIVE

5.6.1. Change or Programme risk management is the responsibility of the RBKC programme management office (PMO) and Transformation Management Office (TMO) in H&F. Information collated as part of the function of the PMO/TMO on risk is shared through Sharepoint with the H&F risk management consultant or through recent updates from the TMO. Data drawn from the PMO /TMO highlight reports are considered as the H&F Enterprise Wide risk & assurance register is updated. As the activity of the PMO/TMO in delivery of TriBorough and Sovereign Objectives diminishes risks will migrate to form part of the business as usual function.

5.7. H&F PROGRAMME AND PROJECTS PERSPECTIVE

5.7.1. The Transformation Office has refreshed their project and programme governance reporting arrangements. This has been approved by the Hammersmith & Fulham Business Board. Departments will in future track and report on progress of individual projects. Aspects of which will be discussed at their respective Department Management Teams.

- Key Risk update – The number, scale and complexity of H&F initiatives are increasing possibly resulting in potential overload, competing priorities, lack of clarity on priorities.

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

5.8. H&F - OPERATIONAL PERSPECTIVE

Business Continuity and Emergency Planning

5.8.1. The Committee asked at the September meeting if more detail could be provided in relation to how the council responds to media interest during emergencies. This has been clarified by the Director of Communications and Deputy Head of Emergency Services and confirms that the arrangements are in line with the procedures set out in the Major Incident Plan for London's emergency services, local authorities and other main responder organisations.

5.8.2. For every type of incident there will be a lead response agency, this agency will usually coordinate media liaison which may include communicating with the lead press officers for other agencies and coordinating meetings with these lead officers if required. Press Officers from all organisations take their lead from the main multi agency crisis management meetings.

5.8.3. Each individual agency responding to an incident will issue press releases in relation to their own activities however care is taken to ensure these messages are in line with the wider media strategy and that information is accurate and open to share in the public domain. The joint Major Incident Plan for London's emergency responders encourages agencies to put any press statements they release on to their websites and make use of social media in order to disseminate information as wide as possible. Information in relation to the response to terrorist incidents may only be released by agencies once it has been cleared by the Metropolitan Polices Service Counter Terrorist Command.

5.8.4. The council is well practiced in drafting and pushing out public information messages during incidents such as evacuations and severe whether. The Communications Team are set up to update the Council's website and "tweet" messages to the community on a 24/7 basis.

5.8.5. The riots of last year demonstrated the positive and negative power of social media in emergencies and since that time the council's Twitter feed has been accredited so that public know that it is an official channel for public information, rather than a unofficial hearsay or deliberate false reporting. The Council also has the ability to send our e-alerts to more than 25,000 subscribers at short notice.

5.8.6. During the Olympics the Council strengthened its ability to get out messages to thousands of people quickly by integrating our live 'Twitter' feed onto the local newspaper's website homepage (Fulham and Hammersmith Chronicle), potentially opening up key information to thousands of residents and businesses who would not normally see it. This service will continue.

5.8.7. The council does not have a contract with a dedicated crisis management response service that deals with the media in emergencies as is the case in some private companies. The Leader or a senior cabinet member will usually be the media spokesperson for the council in response to a major emergency.

Health and Safety

5.8.8. The direction of travel for H&F departmental health and safety performance continues to be one of improvement evidencing the commitment of management. The contribution of Departmental Safety Champions remains high during a period of significant transition and demands on their time.

5.8.9. The Corporate Safety Unit and H&F Risk Management Officer have identified an opportunity to track the number of key organisational Health & Safety risks (based on the Health & Safety Executive key areas of legislation) which it will express and monitor in a formal risk register. The document will be reviewed periodically by the councils Safety Committee and will form an independent and new assurance on Health & Safety for the council.

Information Management

5.8.10. From 01 October 2012, All line managers are responsible for ensuring that their new members of staff (both permanent members of staff and temporary workers) have completed the training and signed a Personal Commitment Statement (PCS) on the use of the councils Information Management systems. Additionally the worker's central record (e.g. Trent for permanent members of staff) is updated to indicate the date which the PCS was signed. This should occur within one month of the worker starting at H&F. The Information Management Team (IMT) will monitor compliance using data retrieved from the central records and will feedback to the IT Strategic Operational Group (ITSOG) and the relevant Departmental Management Teams (DMT) for escalation where necessary.

5.8.11. IMT and Human Resources have also agreed a way forward to target all those existing officers who joined H&F after the last corporate roll-out to ensure that they complete the training and signed the PCS. This targeted refresher roll-out also began on 01 October 2012 and department completion rates will be monitored and fedback to ITSOG and the relevant DMTs for escalation where necessary.

Procurement

5.8.12. The Bi Borough Procurement Board was updated in the last quarter on Procurement Risk and Assurance. It has been discussed and agreed that a Biborough (H&F and RBKC) combined procurement risk & assurance register is developed and maintained. Westminster City Council operates a Category style approach to Commissioning and Procurement and remains a sovereign team and function. They are therefore outside the scope of the development of a risk register but remain welcome to contribute.

Key Risk Indicators

5.8.13. Risk indicators are an important tool within operational risk management, facilitating the monitoring and control of risk. In so doing they may be used to support a range of operational risk management activities and processes, including: risk identification; risk and control assessments; and the implementation of effective risk appetite, risk management and governance frameworks. As previously report to the Committee a number of Key risk indicators were being developed for this purpose. These have been discussed at the councils Financial Strategy Board and further examination of a core suite of indicators has been agreed.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable as the report is a represenatation of the business risks and opportunties 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 Assuance 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.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

*[**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

h&f putting residents first	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13 December 2012**
Internal Audit Quarterly report for the period 1 July to 30 September 2012	
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 July to 30 September 2012 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 July to 30 September 2012 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, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

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 7 audit reports were finalised in the second quarter of 2012/2013 (see Appendix A). In addition 12 management letters were issued and 5 follow ups completed.

5.1.3. In addition to follow-up audits of limited and nil assurance reports, Internal Audit also seeks to verify the implementation of all other priority 1 recommendations. Five follow ups were completed in this period and all recommendations were found to have been implemented. This represents a significant improvement since 2011/12 where 33% of recommendations followed up were not fully implemented.

5.1.4. No audit reports issued in this period received limited assurance.

5.1.5. The Internal Audit department works with key departmental contacts to monitor the numbers 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 2 reports still outstanding that were due to be signed off on or before 30 September are listed in Appendix B for information.

5.1.7. Of these 2 outstanding reports both relate to Schools. We are pleased to report that there are no reports outstanding for the other departments.

5.1.8. There are now 2 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to 8 outstanding as reported at the end of the previous quarter and represents an improvement in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

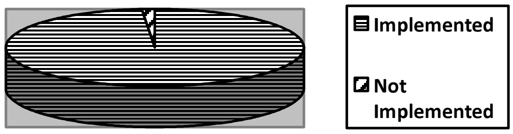
5.1.9. The breakdown between departments is as follows:
- Schools – 1
- Corporate Services – 1

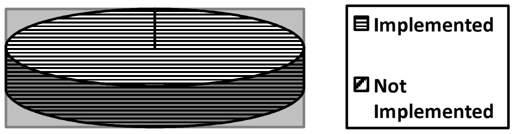
5.1.10. We are very pleased to note that there are no recommendations outstanding for Adult Social Care, Transport and Technical Services, Environment, Leisure and Resident Services or Housing and Regeneration.

5.1.11. Neither of the 2 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

5.1.12. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

100% of recommendations made prior to and in 2010/11 have been implemented

Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.	99.3%	292 recommendations implemented out of a total of 294 **2 recommendations outstanding**	

Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.	100%	19 recommendations implemented out of a total of 19 **No 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 September 2012 are shown below.

Performance Indicators 2012/13

Ref	Performance Indicator	Target	Pro rata target	At end of Sep	Variance	Comments
1	% of deliverables completed (2011/12)	95%	47.5%	45%	**Not achieved** (-2.5%)	45 deliverables issued out of a total plan of 100 (accounting for audits carried forward)
2	% of planned audit days delivered (2011/12)	95%	47.5%	43%	**Not achieved** (-4.5%)	430 days delivered out of a total plan of 994 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	-	100%	**Achieved +5%**	20 out of 20 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%	-	96%	**Achieved +1%**	23 out of 24 draft reports issued within 10 working days of exit meeting.

5.2.2. While this shows that progress against target is behind for delivery of audit days and the audit plan, in fact given the slow start imposed on Deloitte due to the need to coordinate tri- and bi-borough audit plans earlier this year Deloitte have done a very good job in recovering the position.

5.3. Audit Planning

5.3.1. Further to the plan agreed by the Committee at its last meeting, we have continued to liaise with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council with regards to the tri and bi-borough environment. Amendments that have been made to the 2012/13 Internal Audit Plan have been shown in Appendix C.

5.3.2. We are also working with our tri-borough colleagues on the way in which Internal Audit, anti-Fraud and Risk Management services might be delivered in the future.

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 2012
Appendix B	Internal Audit reports in issue more than two weeks as at 30 September 2012
Appendix C	Amendments to 2012/13 Internal Audit Plan

APPENDIX A

Audit reports Issued 1 April to 30 September 2012

We have finalised a total of 7 audit reports for the period to 1 July to 30 September 2012. In addition, we have issued a further 12 management letters and completed 5 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	2011/12	IT Governance – Protection From Malicious Attacks	Jane West	Substantial
2	2011/12	MTFS Programme Management	Jane West	Substantial
3	2011/12	Corporate Governance	Jane West	Substantial
4	2011/12	Water Hygiene Contract Management	Nigel Pallace	Substantial
5	2012/13	iCasework Application	Jane West	Substantial
6	2012/13	Financial Accounting System Ledger	Jane West	Substantial
7	2012/13	Lady Margaret School	Andrew Christie	Substantial

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

From October 2012 the audit opinions have been revised to bring the opinions used across the Tri-borough Internal Audit services into line. Going forwards the following assurance opinions are being used:

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 Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
8	2012/13	IT Year End Summary Report	Jane West
9	2012/13	Finance Year End Summary Report	Jane West
10	2012/13	Programme and project Management Year End Summary Report	Jane West
11	2012/13	Extended Contracts – Credit and Debit Cards	Jane West
12	2012/13	Extended Contracts – CCTV	Lyn Carpenter
13	2012/13	Recently Tendered Contracts - Ravenscourt Park Café	Lyn Carpenter
14	2012/13	Extended Contracts – Connexions	Andrew Christie
15	2012/13	Extended Contracts – School Meals	Andrew Christie
16	2012/13	Filing at Fulham North Housing Area Office	Melbourne Barrett
17	2012/13	Housing Repairs – Risk and Control Advice	Melbourne Barrett
18	2012/13	Recently Tendered Contracts - Sheltered Housing	Andrew Webster
19	2012/13	Recently Tendered Contracts - Drug Intervention Programme	Andrew Webster

Follow ups

No.	Audit Plan	Audit Title	Director	Implemented	Partly Implemented	Not Implemented	Not Applicable
20	2012/13	Priority 1 Recommendations	Jane West	3	0	0	0
21	2012/13	Debtors	Jane West	10	0	0	0
21	2012/13	Creditors	Jane West	6	0	0	0
22	2012/13	Application of the Equality Act	Jane West	4*	0	0	0
16	2012/13	Direct Payments – Use of Funds	Andrew Webster	5	0	0	0

* Two recommendations were not fully implemented. The Director of Finance has confirmed that:

- Although the training available and how it will be delivered has been documented and agreed, it would not be practical to monitor the training needs of all staff across the Council and therefore this part of the recommendation will not be implemented. The risk that gaps in knowledge will not be identified and addressed as a result has been accepted.
- A formal system of independent quality checks will not be implemented due to resource constraints. The risk that poor quality Equality Impact Assessments (EIAs) will be not be identified and that any areas of weakness or intentional non-compliance may not be identified and addressed has been accepted.

APPENDIX B

Internal Audit reports in issue more than two weeks as at 30 June 2012

No	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2012/13	Children's Services	Andrew Christie	Cambridge School	Limited	26/07/2012	Headteacher	09/08/2012	Auditee and Director
2	2012/13	Children's Services	Andrew Christie	Greenside Primary School	Limited	18/06/2012	Headteacher	02/07/2012	Auditee and Director

APPENDIX C

Amendments to 2012/13 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Housing and Regeneration	Housing Repairs – Risk and Control Advice	Added	Requested by Department
2	Housing and Regeneration	Housing and Regeneration Programme and Project Management	Added	Added to plan in line with coverage of Programme and Project Management in other departments
3	Corporate Services	Corporate Services Programme and Project Management	Added	Added to plan in line with coverage of Programme and Project Management in other departments
4	Corporate Services	Cash and Bank	Added	Brought forward from 2013/14 to even out coverage of key financial systems.
5	Children's Services	ICT in Schools	Removed	To be undertaken by RBKC

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
1	2011/12	School	St Johns CE Primary School	Substantial	The Financial Policy and Whistle Blowing Policy should be reviewed, updated (where necessary) and approved by, the Governing Body or an appropriate Committee on a periodic basis of no more than two years. Approval should be recorded in the relevant meeting minutes.	2	31/07/2012	Head Teacher	Update from school (9/2/12) Financial Policy and Whistle Blowing Policy will be reviewed at the Summer Full Governing Body meeting (date TBC).

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
3	2011/12	Corporate Services	MTFS Programme Management	Substantial	It is recommended that a protocol is established for the reporting of risks to Portfolio Board level and the Transformation Board. We have been informed that the scoring of risks should be consistent across projects and therefore risks above a specific score could be reported. Portfolio Managers should consider reviewing risks at Project and Programme Board levels to ensure consistency of risk scoring to help ensure effective and consistent risk reporting. In addition, management should consider introducing a MTFS Programme wide risk register, focusing on the key risks associated with the achievement of the savings programme.	2	30/09/2012	Transformation Portfolio Delivery Manager	We are in the process of taking a number of steps to strengthen the reporting of risks to Portfolio Board. After consultation with the Principal Consultant (Risk Management), we are drawing out common themes as well as unique risks from portfolios. These risks will be re-framed in a manner that will allow us to engage with them more easily at Transformation Board but still provide adequate risk management. Additional measures have been taken to note programmes that have Red Ragged cashable target risk at TB. This is providing extra Financial rigour.

Total recommendations outstanding 2

By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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