

Audit, Pensions and Standards Committee

Agenda

Monday 30 June 2014

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

| Administration: | Opposition | Co-optees |
|--|--|-----------|
| Councillor PJ Murphy Councillor Iain Cassidy (Chairman) Councillor Guy Vincent Councillor Adam Connell Councillor Ben Coleman | Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson | |

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Reports on the open agenda are available on the [Council's website](http://www.lbhf.gov.uk/Directory/Council_and_Democracy):
[http://www.lbhf.gov.uk/Directory/Council and Democracy](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: 22 June 2014

Audit, Pensions and Standards Committee Agenda

30 June 2014

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| 1. MINUTES OF THE PREVIOUS MEETING | | 1 - 9 |
| | (a) To approve as an accurate record and the Chairman to sign the minutes of the meeting held on 13 th February 2014 | |
| | (b) To note the outstanding actions. | |
| 2. APOLOGIES FOR ABSENCE | | |
| 3. DECLARATIONS OF INTEREST | | |
| | If a Committee member has any prejudicial or personal interest in a particular item they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent. | |
| | At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken unless a dispensation has been obtained from the Standards Committee. | |
| | Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee. | |
| 4. APPOINTMENT OF VICE CHAIR | | |
| | The Committee is asked to appoint a Vice-Chair for the 2014/15 municipal year | |
| 5. PENSION FUND QUARTERLY UPDATE | | 10 - 37 |
| | To receive a report from the Tri-Borough Pension Fund Officer updating on the investment performance and funding level of the Pension Fund at 31 st March 2014 | |
| 6. PENSION FUNDS BUSINESS PLAN | | 38 - 43 |
| | To receive a report from the Tri-Borough Pension Fund Officer presenting the Tri-Borough Pension Fund Business Plan for 2014/15 | |

| | | |
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| 7. | LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATIONS | 44 - 74 |
| | To receive a report from the Tri-Borough Pension Fund Officer updating the Committee on consultations from the Department of Communities and Local Government regarding the LGPS | |
| 8. | CAPITAL E SOURCING | 75 - 89 |
| | To receive a presentation from the Head of Procurement on the capitalE sourcing platform | |
| 9. | COMBINED RISK MANAGEMENT HIGHLIGHT REPORT | 90 - 119 |
| | To receive a report from the Bi-Borough Risk Manager presenting the tri-borough Risk Register | |
| 10. | CORPORATE ANTI FRAUD SERVICE (CAFS) ANNUAL REPORT | 120 - 131 |
| | To receive a report from the Tri-Borough Head of Fraud detailing the anti-fraud activity undertaken between April 2013 and March 2014 | |
| 11. | OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN | 132 - 138 |
| | To receive a report from the Senior Audit Manager describing the progress made implementing the recommendations made in the Audit Commission's 2012/13 Annual Governance Report and in the Fraud Response Plan | |
| 12. | HEAD OF INTERNAL AUDIT ANNUAL REPORT 2013/14 | 139 - 165 |
| | To receive a report from the Chief Internal Auditor summarising all audit work undertaken during the 2013/14 financial year and providing assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management | |
| 13. | INTERNAL AUDIT QUARTERLY REPORT | 166 - 176 |
| | To receive a report from the Chief Internal Auditor summarising internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2014 as well as reporting on the performance of the Internal Audit service | |
| 14. | INTERNAL AUDIT CHARTER AND STRATEGY | 177 - 186 |
| | To receive a report from the Chief Internal Auditor updating the Committee on a revised version of the Internal Audit Charter and Strategy | |
| 15. | DATES OF FUTURE MEETINGS | |
| | The following dates are proposed: | |
| | <ul style="list-style-type: none"> • Tuesday 16th September 2014 • Tuesday 1st December 2014 • Wednesday 11th February 2015 | |

16. EXCLUSION OF THE PUBLIC AND PRESS

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

17. PENSION FUND CUSTODIAN APPOINTMENT 187 - 190

To receive a report from the Tri-Borough Pension Fund Officer regarding the appointment a custodian for the Pension Fund using the National LGPS Framework

18. PENSION FUND ACTUARIAL EXTENSION 191 - 193

To receive a report from the Tri-Borough Pension Fund Officer regarding the actuarial services contract

19. PENSION FUND INVESTMENT STRATEGY 194 - 197

To receive a report from the Tri-Borough Pension Fund Officer updating on the review of the pension fund investment strategy



London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes

Thursday 13 February 2014

PRESENT

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

Other Councillors:

Officers:

16. MINUTES OF THE PREVIOUS MEETING

Eugenie White asked whether the Committee had had a response on its request for information on the relative performance of Goldman Sachs under item and on the waiting list under item. Officers undertook to supply these to the Committee.

The Chairman asked officers to coordinate a list of matters arising for the next meeting to ensure all questions were answered.

RESOLVED THAT

The minutes of the meeting on the 5th December 2013 be agreed as a true and correct record.

17. APOLOGIES FOR ABSENCE

There were none.

18. DECLARATIONS OF INTEREST

There were none.

19. CAPITA PRESENTATION

Sarah Wilson, Capita, gave a presentation on Capita's work as pensions administrator. The presentation covered the changes to the scheme that would occur from April 2014, and how these would affect the fund's members.

Councillor Cartwright asked why the changes had been identified as costing the Council more. Ms Wilson said that this comment had been made in relation to the potential costs accruing from the pensionability of overtime payments under the new scheme, rather than the scheme as a whole. Members asked for a figure for overtime in cash terms and as a percentage of payroll

The Committee requested information on the total costs for the administration of the fund, not including monies spent on investment management, broken down between the Capita and in-house elements. Officers confirmed that all administrative costs were charged to the fund.

RESOLVED THAT

- (i) The presentation be noted and Ms Wilson be thanked for attending, and;
- (ii) That officers supply the Committee with overtime figures as requested, and;
- (iii) That officers supply the Committee with a breakdown of administrative costs for the fund.

20. PENSION VALUE AND INVESTMENT PERFORMANCE

Alistair Sutherland, Deloitte Total Reward, introduced the report, which updated the Committee on the Fund's performance in the quarter to 31 December 2013. He said that the previous year had as a whole been good for risk assets, but that there had been a fall in the value of UK equities at the end of the year; in light of this, Majedie's performance was particularly laudable.

At the Committee's request, he gave his view on the performance of each of the fund's managers. He said that Majedie were performing well, but consideration should be given to redistributing their gains; MFS were investing on a long timeframe, and performing well in that context. He said that Barings and Ruffer both had a high degree of equities exposure, and might be more closely correlated in their holdings than would be ideal: he believed that a balance fund might perform the role of the dynamic asset allocation mandates as well, and at a lower fee. Legal and General were a sound manager, but the current mandate was overly complex and generating higher than necessary fees. The Goldman Sachs mandate was managed well, but he had found Goldman Sachs to have an over-optimistic assessment of risk in past dealings.

With regards to the overall fund strategy, he said that 90% of the fund's holdings were in liquid assets, and the fund might benefit from shifting a percentage into illiquid assets, which currently offered a premium. The Chairman said that this was in relation to the Matching Fund and growth assets.

Councillors Ivimy and Iggulden expressed concern that top-slicing the Majedie allocation would be removing funds from an effective manager to give to a less effective one, and would imply that faith in Majedie was limited.

Eugenie White noted that the aim of employing Dynamic Asset Allocation mandates had been to redress the inability of the Committee to move quickly in assessing market conditions, and any change would need to reflect that position.

In relation to illiquid assets, she noted that timing was crucial, as had been demonstrated in emerging markets. Mr Sutherland said that the evidence that Dynamic Asset Allocation had outperformed balance funds was negligible, though certain managers, including Ruffer, brought different skills.

Councillor Murphy asked what the relationship between Majedie Asset Management and Majedie Trust was. Mr Sutherland said that the management of MAM was buying out, on pre-agreed terms, ownership from Majedie Trust, and was already bigger than Majedie Trust. He said that two possible issues were that MAM would now manage the Trust's money and that the owners of MAM would need to sell the company to fully realise their gains.

The Chairman said that he aimed to complete the asset allocation review in short order, and that this might necessitate a special meeting of the Committee.

RESOLVED THAT

The report be noted.

21. PENSION FUND - MANAGER BRIEFINGS

The Chairman said that he had found the first two fund manager briefings very useful, and had been reassured about the way in which Majedie and MFS were carrying out their mandate. Eugenie White noted that the long-term strategy of MFS was sensible, but that it might struggle in the short term.

RESOLVED THAT

The report be noted.

22. PENSION FUND - FUNDING STRATEGY STATEMENT

Nicola Webb, Tri-Borough Pensions Officer, introduced the report, which set out the Funding Strategy Statement for the Fund, as required by the regulations of the LGPS.

Eugenie White asked what protection the fund enjoyed if an admitted body went into liquidation. Ms Webb said that contractors were now obliged to post a bond on entering the fund, and that an assessment was made of their respective deficits.

The Chairman asked officers to bring forward a report on admitted bodies and their respective positions in the fund, and the position of the Council in relation to them, to a future meeting of the Committee.

RESOLVED THAT

- (I) That the Funding Strategy Statement be agreed, and that;
- (II) Officers bring forward a report on admitted bodies and their position in the fund to a future meeting.

23. CUSTODIAN TENDER EXERCISE

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which proposed that the Council tender, along with Westminster City Council, for a new custodian. He said that the price of the current contract appeared high and that he proposed that the Council make use of the framework established by the National LGPS Frameworks.

Councillor Murphy asked if the Council could achieve further savings by working with other authorities. Mr Hunt said that the use of the framework contract meant that the Council would effectively be doing so, and there was a gain share element to the framework. He said that, based on the figure currently paid by the Royal Borough of Kensington and Chelsea, the Council could hope to achieve a saving of £30-40,000 for the Fund.

The Chairman asked that members be involved in the procurement where possible. Mr Hunt said that the work of the custodian was technical in nature, and that the framework contract allowed only for a clarification meeting; as such, there might not be an opportunity for members to be involved until a decision report was brought to the June meeting of the Committee, but he would bear the request in mind.

RESOLVED THAT

That the plan to tender for a custodian jointly with Westminster City Council using the National LGPS framework for custodian services be approved.

24. TREASURY MANAGEMENT STRATEGY 2014-15

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the Treasury Management Strategy 2014-15. The Strategy had been agreed by Cabinet, and would be submitted to Council for ratification, subject to any comment from the Committee. He said that the Strategy sought to diversify the places in which the Council could invest its cash, which were identified in the report.

Councillor Iggulden asked for clarification on the debt of Network Rail. Mr Hunt said that the Government had provided a guarantee for Network Rail debt, but that it had been issued at a slightly higher rate as it had not been formally classified as Government debt. In response to a question from the Chairman, Mr Hunt said that the Government would not be able to repudiate the debt without changing the law of guarantee whilst Councillor Iggulden noted that the Debt Office had accepted it as Government debt.

Eugenie White asked how the approach compared with the other Councils within Tri-Borough. Mr Hunt said that the Council showed similar appetite for risk to Westminster, with RBKC more conservative.

Councillor Iggulden asked which UK banks were currently used. Mr Hunt said that Lloyds, RBS, Barclays and HSBC were those in use, and had been identified by

either size and market position or perceived Government support. He said that Svenske Handlebanken and Deutsche Bank, were suitable foreign banks either due to their approach and ethos (reflected in their credit rating) as well as the German banking guarantee (in the case of Deutsche bank). The Chairman suggested that SE Bank had been in use elsewhere.

Councillor Murphy asked for more information on the asset sales identified on page 74.

RESOLVED THAT

- (i) The report be noted, and that;
- (ii) Officers be requested to supply the Committee with a list of assets identified for disposal, and the income target associated with them.

25. CERTIFICATION OF 2012/13 STATEMENT OF ACCOUNTS AND ANNUAL AUDIT LETTER

Andy Sayers, KPMG, introduced the report, noting that it had been issued some months before. It contained the letter setting out the findings of the previous year's audit, and confirmed the certification of the accounts.

In response to a question from the Chairman, Christopher Harris, Head of Corporate Accountancy, confirmed that the 2 recommendations were in relation to the Asset Register, which was being implemented as part of Managed Services, and to treasury management, where the auditor had recommended the removal of 1 process.

Samantha Maloney, Audit Manager, KPMG, confirmed that the objections to the accounts had been assessed as non-material, and the certificate had been signed in December.

RESOLVED THAT

The report be noted.

26. GRANTS REPORT 2012-13

Andy Sayers, KPMG, introduced the report, which set out the results of KPMG's audit of the Council's 2012-13 grant claims. He said that the auditor had been able to give an unqualified opinion on 3 of the 4 grant claims, but that the fourth, in relation to Housing Benefit, had required an adjustment. He said this had been a result of incorrect classification of tenancy types, with sampling suggesting that the error had been present in approximately 10% of cases. He added that it was a common area of failing, though confirmed that the percentage was higher than other London boroughs.

Jane West, Executive Director of Finance and Corporate Governance, said that she would supply the Committee with trend data for the claim, which showed consistent improvement.

Councillor Cartwright said that the department frequently made errors in dealing with residents, and asked if there was a clawback element. Ms West said that the errors in question did not result in a need to recover funds from residents.

Councillor Murphy asked whether the Council automatically went back to residents it had underpaid. Ms West said that she would check this and respond to the Committee.

Councillor Iggulden asked how much the repayment related in terms of the total paid. Ms West said that she would check this and respond to the Committee.

RESOLVED THAT

- (i) The report be noted, and that;
- (ii) Officers be requested to respond to the Committee on underpayment and the percentage repaid of the total paid.

27. 2013/14 AUDIT OPINION PLAN

Andy Sayers, KPMG, introduced the report, which set out the process for the audit of the 2013-14 accounts. He identified key areas including management overrides, property plant and equipment, pensions costs and liabilities, fraud and value for money.

Councillor Ivimy suggested that the auditor focus on Housing Benefit calculation, while Councillor Cartwright asked whether the auditor would look at housing stock in light of the recent fraud in Southwark. Mr Sayers said that the principal focus would be the financial statements, with the latter an area for counter-fraud investigation. He said that external audit did examine the work of internal audit.

Eugenie White asked how the plan differed between London authorities. Mr Sayers said that they were very similar.

RESOLVED THAT

The report be noted.

28. ANNUAL GOVERNANCE STATEMENT ACTION PLAN, OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN

Geoff Drake, Senior Audit Manager, introduced the report, which set out progress against the Annual Governance Statement Action Plan, and Outstanding recommendations from the External Audit and the Fraud Response Plan.

He said that there were three outstanding entries on the AGS Action Plan, both of which were not yet due for implementation, and 2 on the Fraud Response Plan, both of which could not be implemented until there had been an outcome in the court case.

The Chairman asked what progress had been made on ensuring that the contracts database was accurate. Mr Drake said that the database was being collated, and would be audited in quarter 4, but that the number of unlisted contracts was still unknown. Jane West, Executive Director of Finance and Corporate Governance, said that the register had just gone live, and the team responsible had undertaken a cross reference with the list of spend over £500. She said that the project was ongoing, and would include all contracts down to £5,000. She noted that smaller sums would still require a purchase order to be paid. She suggested that the Procurement team report to the next meeting on their progress

Councillor Dewhirst asked if there were any cards issued to staff. Ms West said that there were 10-15 across the organisation, which were issued to services required to make emergency purchases only.

Councillor Iggulden expressed concern that leaseholders were exempt from the gas safety requirements in place for tenants in the same buildings, which he said left a considerable risk. The Chairman asked what publicity had been undertaken to leaseholders. Michael Sloniowski, Bi-Borough Risk Manager, said that work had been done by Housing and Regeneration, and he would ask them to give a response to the Committee detailing what had been done.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That officers be requested to report to the Committee on the contracts register, and;
- (iii) That officers be requested to give a response to the Committee on the work undertaken to promote gas safety to leaseholders.

29. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Bi-Borough Risk Manager, introduced the report, which set out risk management activity in the period since the previous meeting. He said that the borough's risk management function was now integrated with that of RBKC, and this was reflected in the Risk Register. He noted that the boroughs had different risk appetites and different controls.

Councillor Murphy asked for a full list of Children's Services/Education risks, and Mr Sloniowski agreed to supply them. Councillor Murphy then asked what external working and validation was undertaken. Mr Sloniowski said that he had recourse to the work of CIPFA and the Institute of Risk Management, as well as bulletins from insurers. He also sought insights from the private sector, and an external validation process was in place for IT and Information Management risks.

Councillor Murphy asked for information on the Council's insurance cover in case of a claim similar to that made on Stockport, and asked for clarification why the increased income target for Cemeteries might not be met.

The Chairman asked about work undertaken in preparation for a flood. Mr Sloniowski said that work was ongoing and that the Special Response Group had met once already. Further action was dependent on a change in the situation, such as anticipated flooding.

RESOLVED THAT

- (i) The report be noted, and that;
- (ii) Officers be asked to respond to the Committee on the Council's insurance cover, the income target for Cemeteries and the emergency planning work undertaken in preparation for a flood.

30. INTERNAL AUDIT PLAN 14/15

Geoff Drake, Senior Audit Manager, introduced the report which set out the plan for internal audits in 2014-15.

Councillors Murphy and Cartwright noted the intention to audit the Mitie contract, and said that it had performed very poorly, with data lost in the transfer. Mr Drake said that this was to some extent a matter for the post-implementation review, but complaints handling would be in scope.

RESOLVED THAT

The audit plan be agreed.

31. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2013

Geoff Drake, Senior Audit Manager, introduced the report, which set out internal audit activity in the quarter to 31 December 2013. He said that there were 9 outstanding recommendations overdue by 6 months for implementation. He said that further guidance was being drafted on leasing in schools, in relation to matters covered by the St Pauls CE Primary School Audit, which would be reported to the next meeting.

Councillor Murphy raised concern that so many of the recommendations made in relation to the Tri-Borough Fostering Service had not been implemented, but were reported as having been implemented. Mr Drake said that he did not have the details to hand though he understood that the recommendations not implemented had not been Priority 1. Internal Audit monitor the level of effective implementation of recommendation across the programme of follow up audits, he would check on this particular case and will provide a report to members..

RESOLVED THAT

- (i) That the report be noted, and;
- (ii) That the reasons for the non-implementation of recommendations in the Tri-Borough Fostering Service be reported to members.

32. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

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

33. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT


That the exempt minutes of the previous meeting be agreed.

Meeting started: 7.00 pm
Meeting ended: 9.50 pm

Chairman

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Agenda Item 5

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|---|---|
|  <p>h&f the low tax borough</p> | <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>30th June 2014</p> |
| QUARTERLY PENSION FUND UPDATE | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| Classification: For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Nicola Webb, Tri-Borough Pension Fund Officer | Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report provides an update on the investment performance and funding level of the Pension Fund at 31st March 2014. The investment report (attached at Appendix 1) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer questions.
- 1.2. At Appendix 2 is the funding update provided by the Fund Actuary, Barnett Waddingham. This shows the funding level of the Fund has improved from 83% at the last triennial valuation at 31st March 2013 to 86% at 31st March 2014. It is proposed to include these updates to committee every quarter.

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. | Quarterly Fund Manager reports | Nicola Webb 020 7641 4331 | 16 th Floor, Westminster City Hall |

LIST OF APPENDICES:

Appendix 1: Deloitte Quarterly report for quarter ended 31st March 2014

Appendix 2: Barnett Waddingham Funding Update report at 31st March 2014

**London Borough of Hammersmith
& Fulham Pension Fund**
Investment Performance Report to
31 March 2014
Executive Summary



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Appendices

Appendix 1 – Fund and Manager Benchmarks

Appendix 2 – Manager Ratings

Appendix 3 – Risk Warnings

1. Market Background

Three and twelve months to 31 March 2014

The first quarter of 2014 saw negative returns from UK equities, with the FTSE All Share Index returning -0.6%. Smaller companies outperformed larger companies, with the FTSE 100 Index returning -1.3% and the FTSE Small Cap Index returning 1.4% over the quarter. Despite continued improvements in the UK's economic outlook, it was a volatile quarter for UK equities which were influenced by signs of a slowdown in China and the crisis in the Ukraine.

There was a wide range of performance at the sector level, with Utilities offering the highest return (3.4%) and Telecommunications, the worst performing sector (-7.6%).

Over the three months to 31 March 2014, global equity markets outperformed the UK in both local and sterling terms, achieving marginally positive returns of 1.1% and 0.5% respectively. Currency hedging was therefore beneficial to investors over the quarter. Europe (ex UK) was the strongest performing region over the quarter, returning 2.9% in local currency terms and 2.4% in sterling terms. Japan was the lowest performer over the quarter, returning -6.4% in local currency terms and -6.0% in sterling terms.

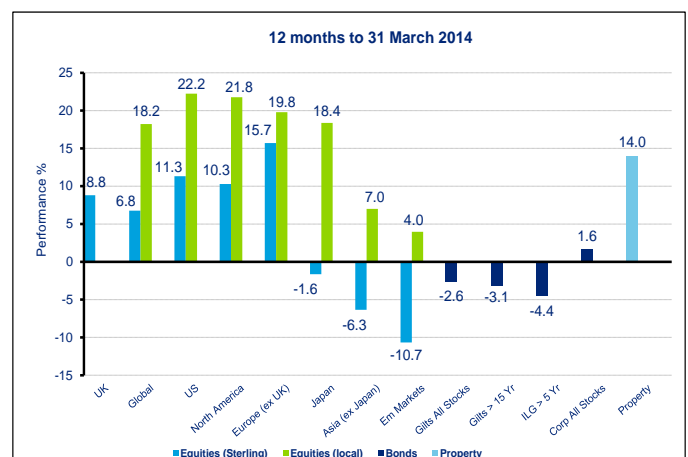
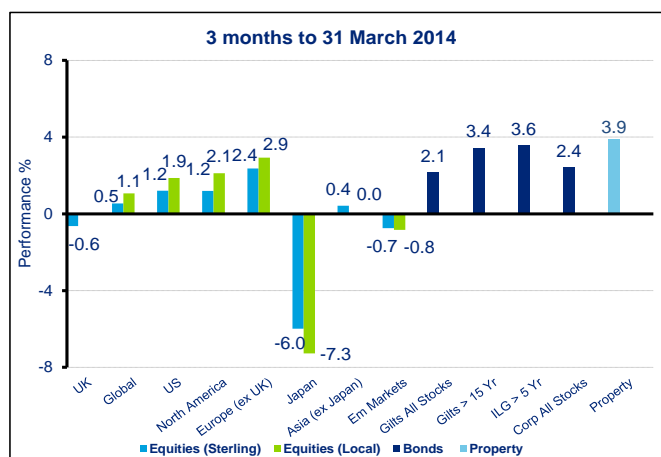
UK nominal gilts performed positively over the 3 months to 31 March 2014 as yields fell, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 2.1% and 3.4% respectively. Real yields on UK index linked gilts also fell, with the Over 5 Year Index-linked Gilts Index returning 3.6%. Corporate bond returns were positive over the 3 months to 31 March 2014, although credit spreads remained broadly unchanged – the iBoxx All Stocks Non Gilt Index returned 2.4% over the period.

Improvements in the UK's economic outlook meant that equities delivered positive returns over the 12 months to 31 March 2014, with the FTSE All Share Index returning 8.8%. Smaller companies were instrumental to UK equity returns over the year, as illustrated by the FTSE Small Cap Index which returned 20.4%. Over the 12 months to 31 March 2014, the Telecommunications sector was the best performing sector, returning 18.5%. In contrast, Basic Materials returned only -4.0%.

Global equity markets outperformed the UK equity market over the year to 31 March 2014 in local currency terms, but underperformed it in sterling terms. The FTSE All World Index returned 18.2% in local currency terms, yet only 6.8% for unhedged sterling investors. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were negative over the year to 31 March 2014, as yields increased across all maturities. The rise in yields was most significant for shorter maturities where yields increased by c. 1%. The All Stocks Gilt Index and Over 15 Year Gilt Index returned -2.6% and -3.1% respectively. Real yields on UK index-linked gilts also increased over the period, with the Over 5 Year Index-linked Gilts Index returning -4.4%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 1.6% after credit spreads narrowed.

The UK property market continued to rise, returning 3.9% over the quarter and 14.0% over the 12 month period.



2. Performance Overview

| Returns, net of base fees to 31 March 2014 | | | | | | |
|--|----------------------------|--------------------|------------|-----------------|-----------------|-----------------|
| Fund | Manager | 3 month return (%) | 1 year (%) | 2 year (%) p.a. | 3 year (%) p.a. | 5 year (%) p.a. |
| UK Equity Mandate | | | | | | |
| | Majedie | 2.1 | 22.0 | 21.2 | 15.9 | 20.3 |
| <i>FTSE All Share + 2% p.a.</i> | | -0.1 | 11.0 | 15.0 | 11.0 | 18.7 |
| <i>Difference</i> | | 2.2 | 11.0 | 6.2 | 4.9 | 1.6 |
| Overseas Equity Mandate | | | | | | |
| | MFS | 0.2 | 5.6 | 10.6 | 9.3 | 15.2 |
| MFS Custom Benchmark | | 0.7 | 8.6 | 13.5 | 10.6 | 17.7 |
| <i>Difference</i> | | -0.5 | -3.0 | -2.9 | -1.3 | -2.5 |
| Dynamic Asset Allocation Mandates | | | | | | |
| | Barings | -0.6 | 1.3 | 4.3 | 4.3 | 8.9 |
| 3 Month Sterling LIBOR + 4% p.a. | | 1.1 | 4.5 | 4.6 | 4.7 | 4.8 |
| <i>Difference</i> | | -1.7 | -3.2 | -0.3 | -0.4 | 4.1 |
| | Ruffer | -1.0 | 0.9 | 5.5 | 5.0 | 9.6 |
| 3 Month Sterling LIBOR + 4% p.a. | | 1.1 | 4.5 | 4.6 | 4.7 | 4.8 |
| <i>Difference</i> | | -2.1 | -3.6 | 0.9 | 0.3 | 4.8 |
| Matching Fund | | | | | | |
| | Goldman Sachs | 0.6 | 3.3 | 4.2 | 2.8 | 3.9 |
| 3 Month Sterling LIBOR + 2% p.a. | | 0.6 | 2.5 | 2.6 | 2.7 | 2.7 |
| <i>Difference</i> | | 0.0 | 0.8 | 1.6 | 0.1 | 1.2 |
| | Legal & General | 7.3 | -8.8 | 6.3 | n/a | n/a |
| <i>Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)</i> | | 4.8 | -7.9 | 4.1 | n/a | n/a |
| <i>Difference</i> | | 2.5 | -0.9 | 2.2 | n/a | n/a |
| Private Equity | | | | | | |
| | Invesco | 4.7 | 4.2 | 7.9 | 11.2 | n/a |
| | Unicapital | 2.5 | 0.4 | 5.8 | 4.5 | n/a |
| Total Fund | | | | | | |
| | | 1.3 | 6.0 | 10.2 | 9.4 | 13.0 |
| <i>Benchmark*</i> | | 1.0 | 4.6 | 8.2 | 8.9 | 11.9 |
| <i>Difference</i> | | 0.3 | 1.4 | 2.0 | 0.5 | 1.1 |
| <i>Liability Benchmark + 2.2% p.a.</i> | | 3.0 | -1.5 | 1.8 | 10.2 | 10.6 |

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte.

(* The Total Assets benchmark is the weighted average performance of the target asset allocation.

3. Total Fund

Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|----------------------------|------------------|--------------|--------------------|----------------------|---------------------|
| Total Fund – Gross of fees | 1.5 | 6.4 | 10.7 | 9.9 | 13.5 |
| Net of fees ⁽¹⁾ | 1.3 | 6.0 | 10.2 | 9.4 | 13.0 |
| Benchmark ⁽²⁾ | 1.0 | 4.6 | 8.2 | 8.9 | 11.9 |
| Relative | 0.5 | 1.8 | 2.5 | 1.0 | 1.6 |

Source: Northern Trust

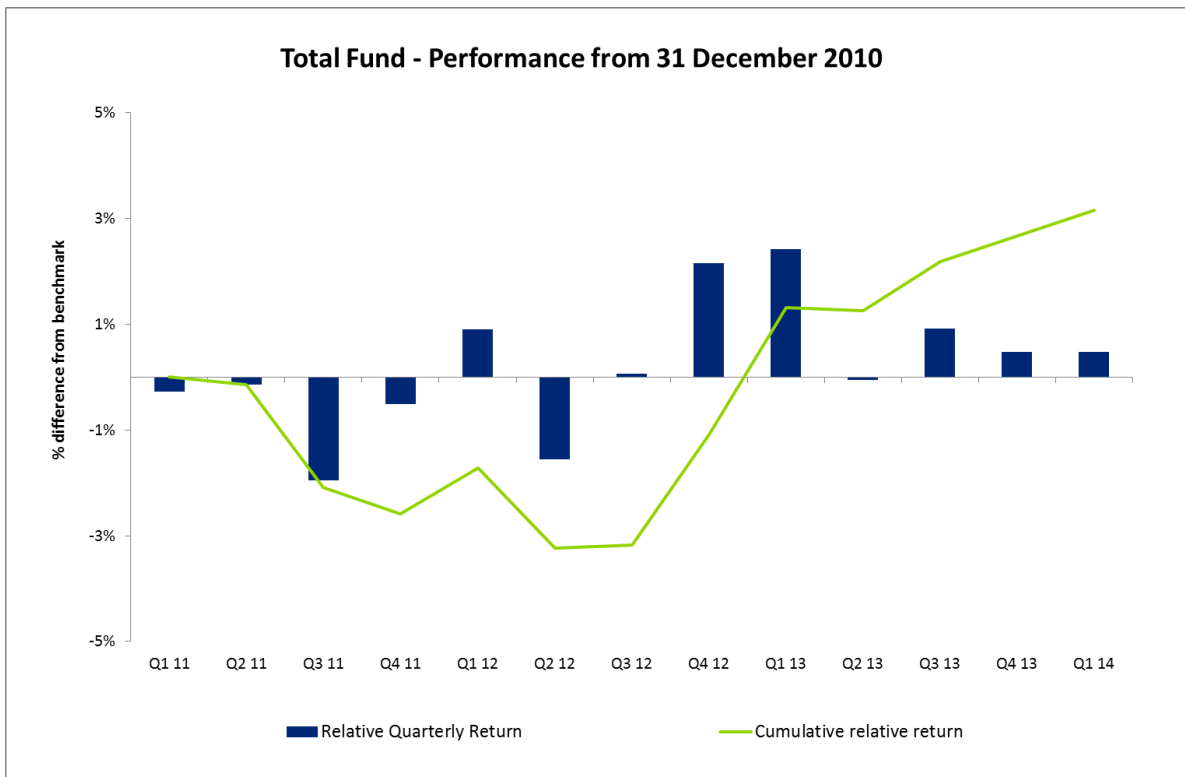
(1) Estimated by Deloitte

(2) Average weighted benchmark

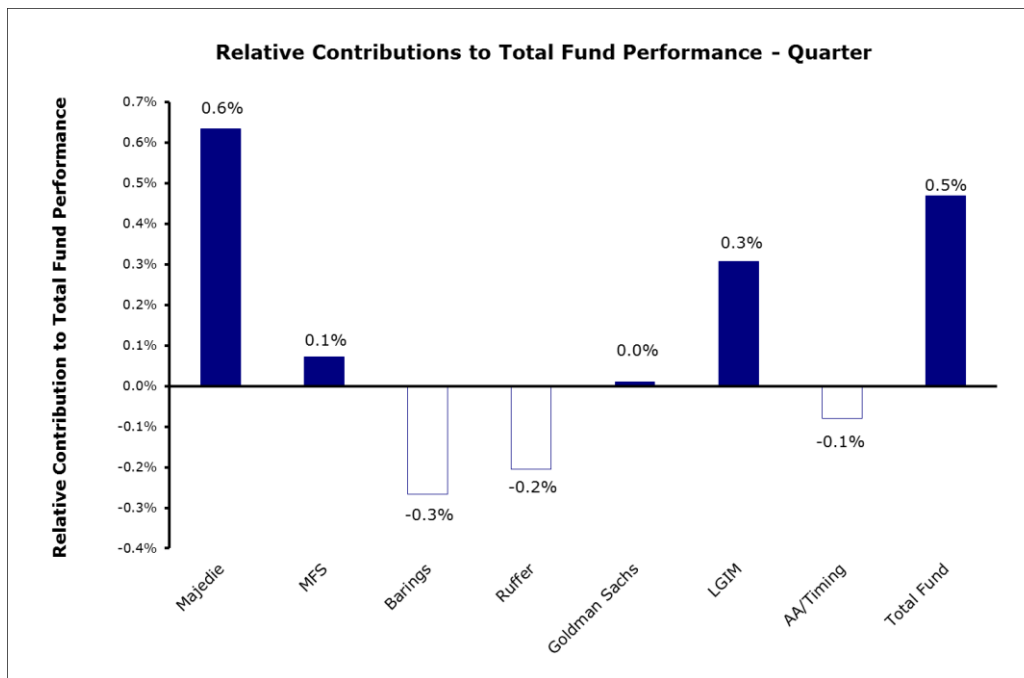
Over the quarter, the Total Fund outperformed its average weighted benchmark by 0.5% but underperformed the Liability + 2.2% benchmark by 1.5%.

Over the one year and three years to 31 March 2014 Majedie and Goldman Sachs have outperformed, helping performance at the Total Fund level. Over the one year year period to 31 March 2014 the Fund has outperformed its benchmark by 1.8%. Over the three years to 31 March 2014 the fund underperformed its benchmark by 1.0%.

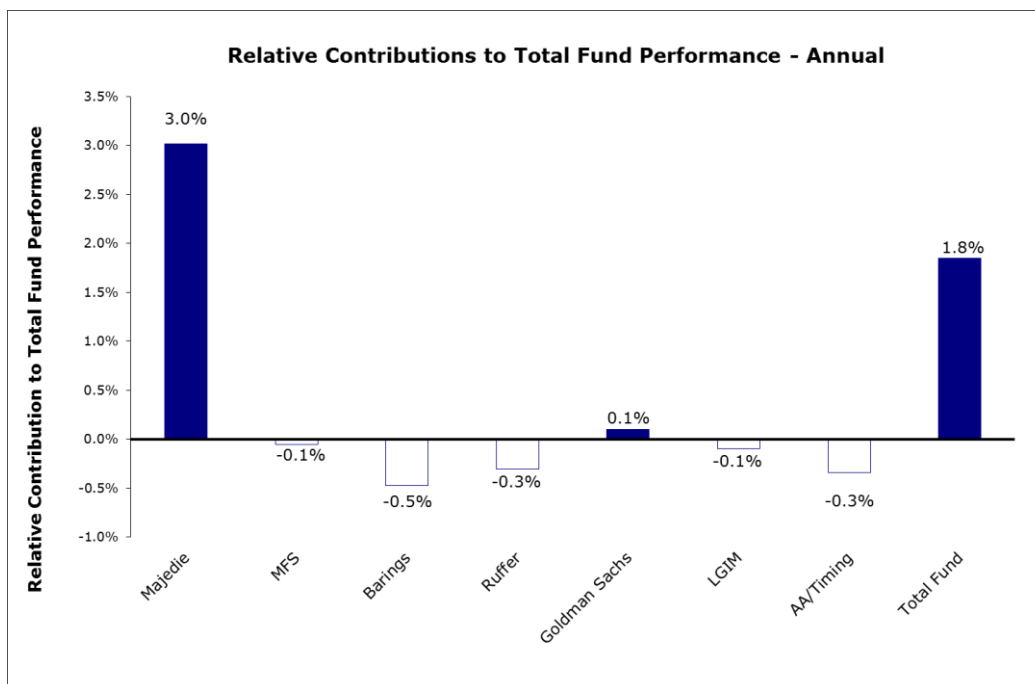
The chart below compares the performance of the Fund relative to the Fund's Benchmark over the three years to the end of March 2014. This highlights that over the past 3 years the cumulative performance has been above the benchmark.



Attribution of Performance to 31 March 2014



The Fund outperformed the composite benchmark by 0.5% over the first quarter of 2014, mostly due to good relative performance from Majedie. Positive performance from a difference in the measurement benchmark for LGIM and its matching portfolio was offset by underperformance by Barings and Ruffer over the quarter.



Over the last year the Fund outperformed the composite benchmark by 1.8%, with Majedie driving the outperformance, which more than offset the below-target performance from Barings and Ruffer.

Asset Allocation as at 31 March 2014

The table below shows the assets held by manager as at 31 March 2014 alongside the Benchmark Allocation.

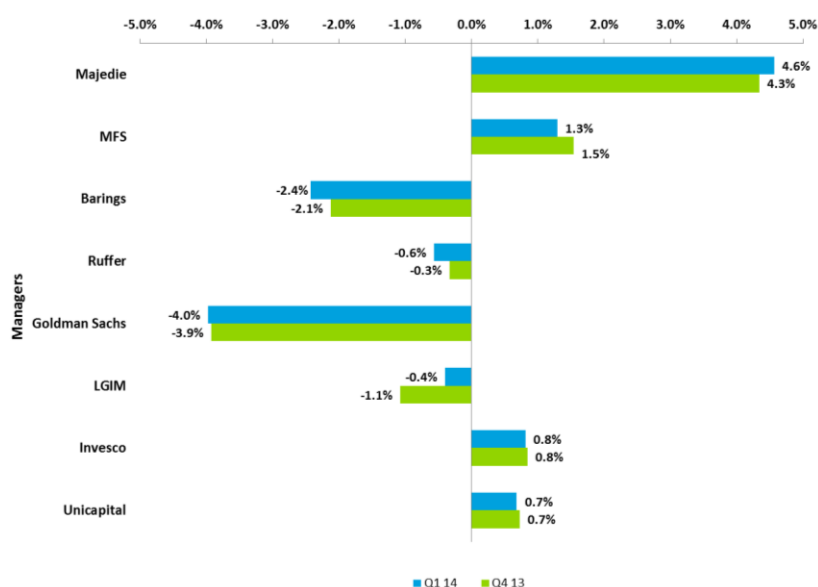
| Manager | Asset Class | Actual Asset Allocation | | | | Benchmark Allocation (%) |
|---------------|-----------------------------|-------------------------|------------------|-----------------|-----------------|--------------------------|
| | | 31 Dec 2013 (£m) | 31 Mar 2014 (£m) | 31 Dec 2013 (%) | 31 Mar 2014 (%) | |
| Majedie | UK Equity (Active) | 202.6 | 207.1 | 26.8 | 27.1 | 22.5 |
| MFS | Overseas Equity (Passive) | 181.5 | 182.0 | 24.0 | 23.8 | 22.5 |
| | Total UK Equity | 384.1 | 389.1 | 50.9 | 50.9 | 45.0 |
| Barings | Dynamic | 125.9 | 125.3 | 16.7 | 16.4 | 18.8 |
| Ruffer | Absolute Return | 82.0 | 81.4 | 10.9 | 10.6 | 11.2 |
| | Sub –total | 207.9 | 206.6 | 27.5 | 27.0 | 30.0 |
| Goldman Sachs | Absolute Return Bond | 64.8 | 65.2 | 8.6 | 8.5 | 12.5 |
| LGIM | Matching | 82.3 | 92.6 | 11.4 | 12.1 | 12.5 |
| | Total Matching | 151.0 | 157.8 | 20.0 | 20.6 | 25.0 |
| Invesco | Private Equity | 6.4 | 6.2 | 0.8 | 0.8 | 0.0 |
| Unicapital | Private Equity | 5.5 | 5.2 | 0.7 | 0.7 | 0.0 |
| | Total Private Equity | 11.9 | 11.4 | 1.6 | 1.5 | 0.0 |
| | Total | 754.9 | 765.0 | 100.0 | 100.0 | 100.0 |

Source: Northern Trust (Custodian) and have not been independently verified

Figures may not sum to total due to rounding

Over the quarter the market value of the assets rose by c. £10.1m as matching assets (in particular LDI bonds) posted strong returns.

As can be seen below, the Fund remains overweight Majedie and underweight Barings and Goldman Sachs relative to the agreed benchmark allocation.



4. Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

| Manager | Mandate | Triggers for Review | Rating |
|---------------|--------------------------|---|--------|
| Majedie | UK Equity | Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on | 1 |
| MFS | Overseas Equity | Departures of either of the lead portfolio managers Indications of a change to the process or investment philosophy | 1 |
| Barings | Dynamic Asset Allocation | Further significant growth in assets Departure of a senior member of the investment team | n/a |
| Ruffer | Absolute Return | Departure of either of the co-portfolio managers from the business Any significant change in ownership structure | n/a |
| Goldman Sachs | Bonds | Significant changes to the investment team responsible for the Fund Any significant change in process or philosophy | 2 |
| LGIM | Matching Bonds | Departures of senior members of the LDI investment team | 1 |

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie

As previously mentioned, in January Majedie took on £130m of assets from Majedie Investment PLC which was invested across of range of strategies. At the same time, Majedie increased the level of ownership by the employees, reducing the shareholding of the parent company (Majedie Investment PLC).

Tom Record joined the team from Baillie Gifford and Majedie announced the appointment of Adrian Brass from Fidelity – together these individuals will form the “core” of the new global equity team, supported by two analysts already with Majedie. The aim is to launch two global equity funds – the Global Equity Fund and the Global Focus Fund, which will be managed by the team of four along similar lines to the approach used for the UK equity products. Brass will also lead manage a US equity fund.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities and will continue to monitor closely the global equity developments.

MFS

There were no changes to the team managing the strategy over the quarter and the process remains unchanged. At the start of the year Anne Healy, the Managing Director of the UK and Irish business left the organisation.

Deloitte View: While we rate MFS positively for global equities, the performance of this particular strategy has been disappointing, particularly relative to the broader global strategy and other global strategies offered by the organisation.

Barings

There were no significant changes to the team or process managing the Dynamic Asset Allocation fund over the quarter.

Deloitte view - The Barings DAA product provides investors looking for a diversified portfolio with a strategy that looks to add value primarily through asset allocation.

Ruffer

Over the quarter assets invested in the fund increased by £13.5m although it remains closed to new institutional clients. There were no changes to the team or process managing the Absolute Return Fund. Jane Husnell, who led the private client service team, is leaving the business.

Deloitte view – The Ruffer product is distinctive within the universe of diversified growth managers in that it is more concentrated than most of its peers.

Goldman Sachs

There have been no changes to the team or processes applied in the management of the Fund's mandate.

Deloitte view – Goldman Sachs would not be an automatic choice on a short list of candidates for a new cash plus mandate.

LGIM

LGIM has continued to grow its LDI business with over £230bn of assets as at the end of December 2013 across around 180 clients investing via segregated, bespoke pooled or pooled accounts.

There were no changes to the Solutions Team over the quarter

Deloitte view – We rate LGIM positively for their LDI capabilities.

5. Majedie – UK Equity

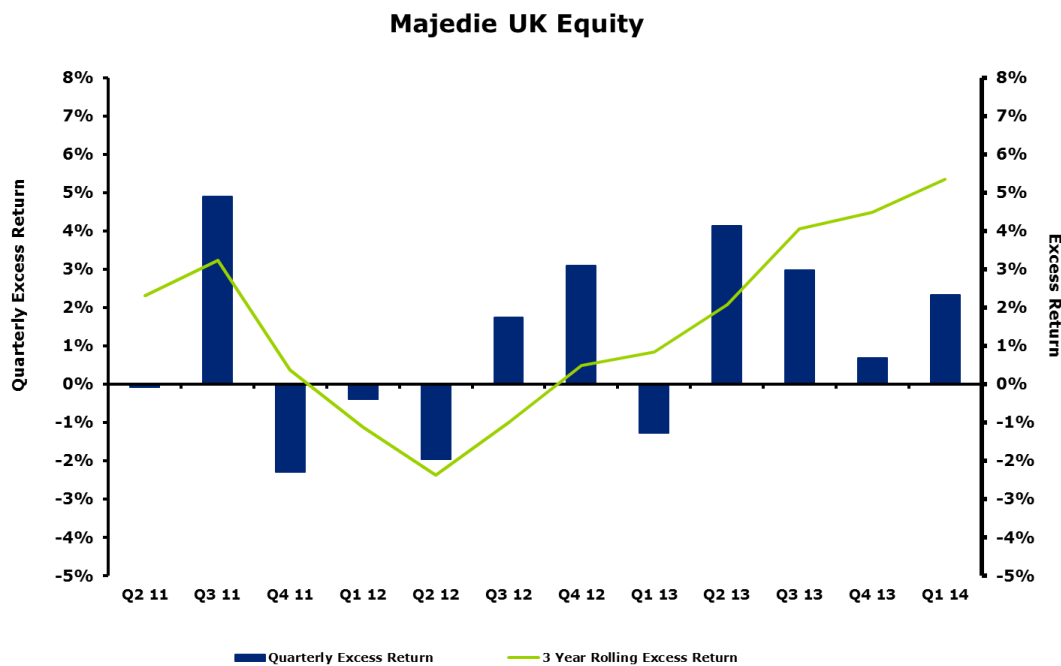
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager’s remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund, the UK Focus Fund and a holding in Majedie’s long/short equity fund, Tortoise.

UK equity – Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|----------------------------|------------------|--------------|--------------------|----------------------|---------------------|
| Majedie – Gross of fees | 2.2 | 22.4 | 21.6 | 16.3 | 20.7 |
| Net of fees ⁽¹⁾ | 2.1 | 22.0 | 21.2 | 15.9 | 20.3 |
| Target | -0.1 | 11.0 | 15.0 | 11.0 | 18.7 |
| Relative | 2.3 | 11.5 | 6.6 | 5.4 | 2.0 |

Source: Northern Trust

(1) Estimated by Deloitte



Both the UK Equity Fund and the UK Focus Fund delivered strong returns over the quarter, adding to the strong performances of previous quarters, to give a total outperformance over the year of 11.5%.

The key equity positions that contributed to performance over Q14 were BP, Centrica and Orange although the holdings in HSBC and British American Tobacco detracted from performance.

6. MFS – Overseas Equity

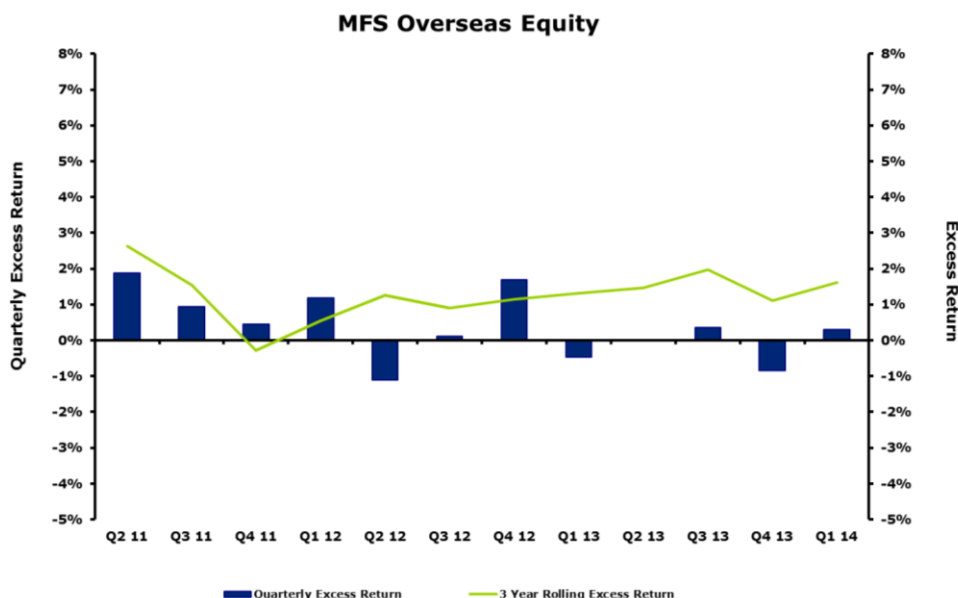
MFS was appointed to manage an overseas equity portfolio with the objective of delivering 2% outperformance on FTSE World (ex UK) Index benchmark over rolling three year period. The manager is remunerated on a tiered fixed fee based on the value of assets.

Overseas Equity – Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|----------------------------|---------------------|-----------------|-----------------------|-------------------------|------------------------|
| MFS – Gross of fees | 0.3 | 6.0 | 11.1 | 9.8 | 15.6 |
| Net of fees ⁽¹⁾ | 0.2 | 5.6 | 10.6 | 9.3 | 15.2 |
| Target | 0.7 | 8.6 | 13.5 | 10.6 | 17.7 |
| Relative | -0.4 | -2.6 | -2.4 | -0.8 | -2.1 |

Source: Northern Trust

(1) Estimated by Deloitte



The MFS fund has underperformed its benchmark by 0.3% over the quarter and also underperformed its benchmark by 2.6% over the one year period to 31 March 2014.

Turnover within the portfolio remained low over the quarter. Particular features over the period were the positive impact from the exposure to the Taiwanese semiconductor sector which was partially offset by the disappointing returns from Zoetis, the largest animal health company which is based in the US.

7. Barings – Dynamic Asset Allocation

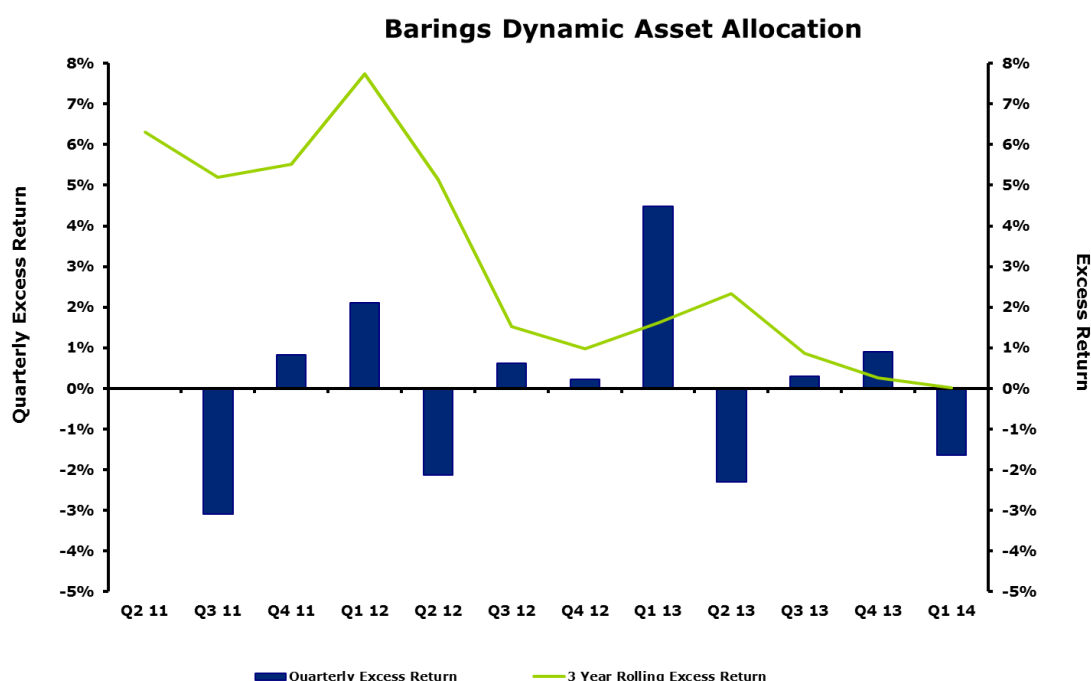
Barings was appointed to manage a dynamic asset allocation portfolio with the aim of outperforming the 3 Month sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|------------------------------|------------------|--------------|--------------------|----------------------|---------------------|
| Barings – Gross of base fees | -0.5 | 1.7 | 4.8 | 4.8 | 9.4 |
| Net of fee ⁽¹⁾ | -0.6 | 1.3 | 4.3 | 4.3 | 8.9 |
| Target | 1.1 | 4.5 | 4.6 | 4.7 | 4.8 |
| Relative | -1.6 | -2.8 | 0.2 | 0.0 | 4.6 |

Source: Northern Trust

(1) Estimated by Deloitte



Barings underperformed over the quarter, returning -0.5% against a target return of 1.1%. Over longer periods of two, three and five years the Fund has outperformed its target of LIBOR + 4% by 0.2% p.a., 0.0% p.a. and 4.6% p.a. respectively, helped by the strong performance in the first quarter of 2013..

Over the quarter, the Fund's significant weighting in Japanese equities detracted from performance, as did the heavy weighting to UK equities, with both lagging other equity markets. Stock selection was also a slight negative.

8. Ruffer – Absolute Return

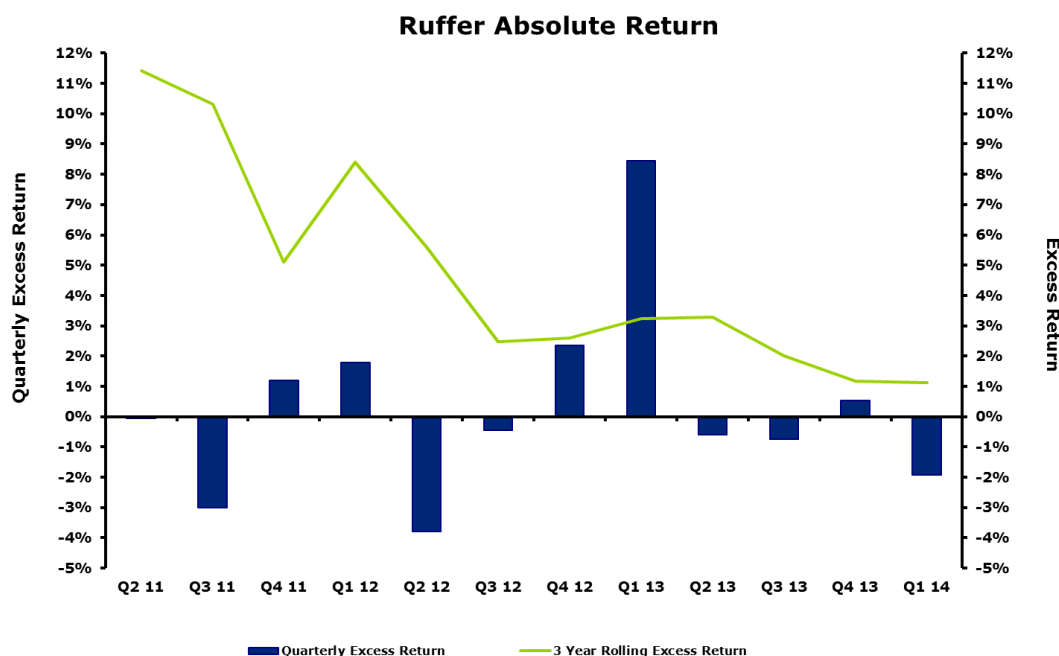
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|----------------------------|---------------------|-----------------|-----------------------|-------------------------|------------------------|
| Ruffer - Gross of fees | -0.8 | 1.7 | 6.4 | 5.9 | 10.5 |
| Net of fees ⁽¹⁾ | -1.0 | 0.9 | 5.5 | 5.0 | 9.6 |
| Target | 1.1 | 4.5 | 4.6 | 4.7 | 4.8 |
| Relative | -1.9 | -2.8 | 1.8 | 1.1 | 5.7 |

Source: Northern Trust

(1) Estimated by Deloitte



The portfolio underperformed its benchmark by 1.9% and by 2.8% respectively over the quarter and one year period to 31 March 2014. Over three years to 31 March 2014 Ruffer has outperformed the benchmark by 1.1%.

The factor that contributed most to performance over Q1 14 was the defensive allocation to UK index-linked gilts, gold and gold equities, however the allocation to Japanese equities detracted from performance. Western equities also contributed positively with strong performances from holdings in Microsoft and Lockheed Martin. Offsetting this, to an extent, the holding in Volkswagen detracted from performance over the quarter.

9. Goldman Sachs – Absolute Return Bonds

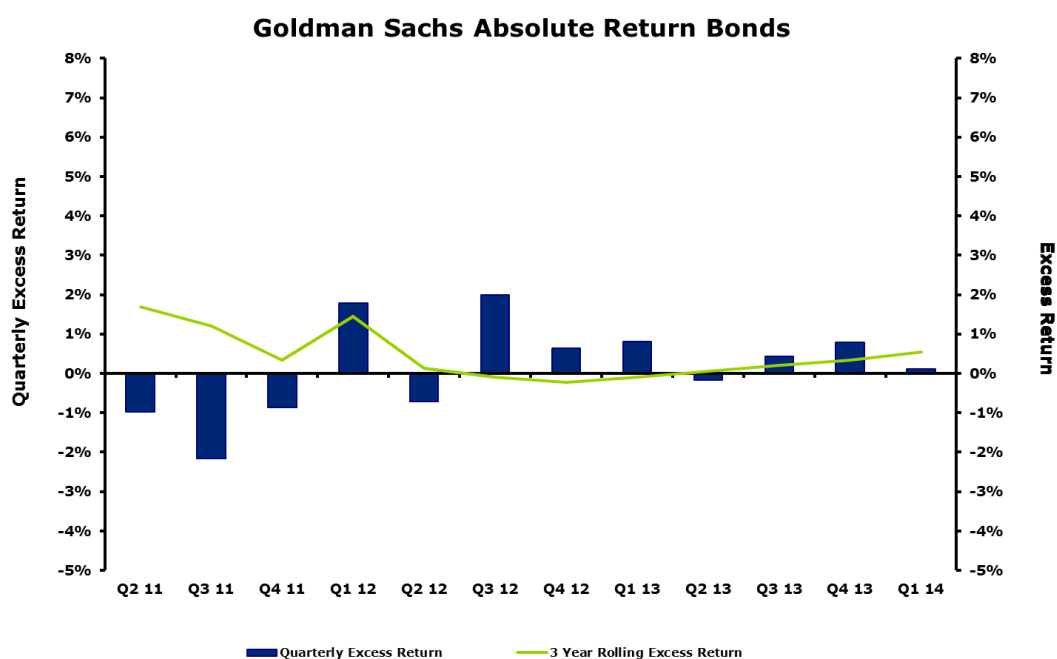
Goldman Sachs was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Three Years (% p.a.) | Five Years (% p.a.) |
|-------------------------------|------------------|--------------|--------------------|----------------------|---------------------|
| Goldman Sachs – Gross of fees | 0.7 | 3.7 | 4.6 | 3.3 | 4.4 |
| Net of fees ⁽¹⁾ | 0.6 | 3.3 | 4.2 | 2.8 | 3.9 |
| Target | 0.6 | 2.5 | 2.6 | 2.7 | 2.7 |
| Relative | 0.1 | 1.2 | 2.0 | 0.5 | 1.7 |

Source: Northern Trust

(1) Estimated by Deloitte



The fund outperformed its target by 0.1% over the quarter. Over the one and three year period, the Fund has performed ahead of its target by 1.2% and 0.5% respectively.

During the quarter the main contributors to performance were the country, cross-sector and collateralised selection, while duration and stock selection within the corporate bond strategy detracted.

10.LGIM – LDI Bonds

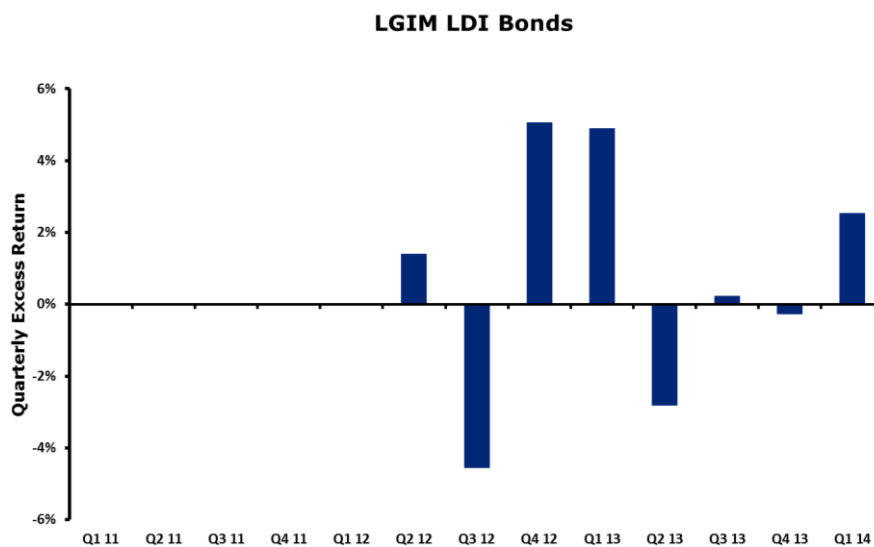
LGIM has a liability matching mandate with the aim of tracking the performance of a leveraged mixture of inflation-linked bonds. Fees are charged based on the value of assets, subject to a minimum fee each year.

Investment Performance to 31 March 2014

| | Last Quarter (%) | One Year (%) | Two Years (% p.a.) | Since Inception 31/03/12 (% p.a.) |
|----------------------------|---------------------|-----------------|-----------------------|---|
| LGIM – Gross of fees | 7.3 | -8.7 | 6.4 | 6.4 |
| Net of fees ⁽¹⁾ | 7.3 | -8.8 | 6.3 | 6.3 |
| Target | 4.8 | -7.9 | 4.1 | 4.1 |
| Relative | 2.5 | -0.8 | 2.3 | 2.3 |

Source: Northern Trust.

(1) Estimated by Deloitte



In the table and chart above we have only shown the performance since the mandate was changed to the current bespoke LDI structure.

Over the quarter, the portfolio outperformed its benchmark by 2.5%.

It should be borne in mind that the portfolio has not been rebalanced since it was put in place where the initial structure of the mandate was based on cashflows from the 2010 valuation provided by the previous investment advisor.

Appendix 1: Fund and Manager Benchmarks

The table in this Appendix details the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

| Manager | Asset Class | Allocation | Benchmark | Inception Date |
|---------------|--------------------------|---------------|---|----------------|
| Majedie | UK Equity | 22.5% | FTSE All-Share Index +2% p.a. over three year rolling periods | 31/08/05 |
| MFS | Overseas Equity | 22.5% | FTSE World (ex UK) Index +2% p.a. over rolling three year period | 31/08/05 |
| Barings | Dynamic Asset Allocation | 18.8% | 3 Month Sterling LIBOR +4% p.a. | 31/07/08 |
| Ruffer | Dynamic Asset Allocation | 11.2% | 3 Month Sterling LIBOR +4% p.a. | 31/07/08 |
| Goldman Sachs | Absolute Return Bonds | 12.5% | 3 Month Sterling LIBOR +2% p.a. | 31/03/03 |
| LGIM | LDI Bonds | 12.5% | Track the performance of a leveraged mixture of inflation-linked government bonds | 11/01/12 |
| Invesco | Private Equity | 0.0% | n/a | 30/09/09 |
| Unicapital | Private Equity | 0.0% | n/a | 30/09/09 |
| | Total | 100.0% | Liability Benchmark + 2.2% | |

The benchmark used to measure the estimated movement in liabilities for the Fund, the “Liability Benchmark” is defined using the following range of index linked gilts, designed to closely match the Fund’s liabilities.

| | |
|-----|--|
| 45% | Index Linked Treasury Gilt 1.25% 2017 |
| 20% | Index Linked Treasury Gilt 1.25% 2027 |
| 20% | Index Linked Treasury Gilt 1.25% 2055 |
| 10% | Index Linked Treasury Gilt 1.125% 2037 |
| 5% | Index Linked Treasury Gilt 0.75% 2047 |

The investment objective for the Fund is to achieve the Liability Benchmark plus 2.5% per annum.

Appendix 2: Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3: Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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Barnett Waddingham



LB Hammersmith and Fulham Pension Fund

Funding Update Report

as at 31 March 2014

Mark Norquay FFA
Barnett Waddingham LLP

11 April 2014

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1. Introduction

- 1.1. The purpose of this assessment is to provide an update on the funding position. The purpose of this report is to provide an update on the funding position of the LB Hammersmith and Fulham Pension Fund as at 31 March 2014.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

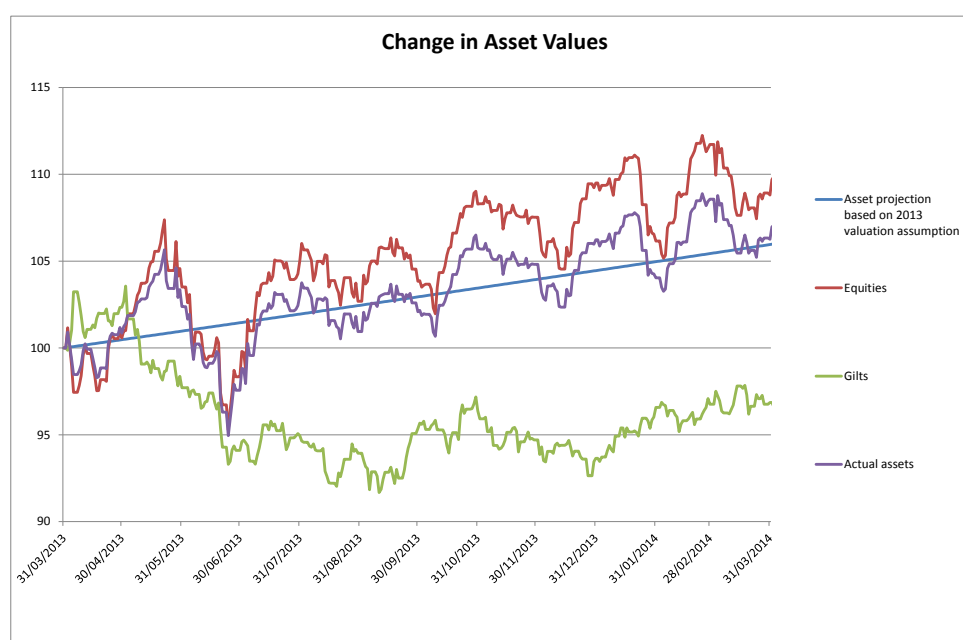
2. Assets

2.1. We were provided with the following asset allocation of the LB Hammersmith and Fulham Pension Fund as at 30 November 2013:

| Assets (Market Value) | 30 November 2013 | | 31 March 2013 | |
|--------------------------|------------------|-------------|----------------|-------------|
| | £000's | % | £000's | % |
| Absolute Return | 193,398 | 25.7% | 191,468 | 26.4% |
| Commodities | 2,668 | 0.4% | 4,615 | 0.6% |
| Hedge Funds | 89,733 | 11.9% | 101,396 | 14.0% |
| UK and Overseas Equities | 425,881 | 56.6% | 390,299 | 53.9% |
| Gilts | 24,278 | 3.2% | 23,755 | 3.3% |
| Cash and Accruals | 16,445 | 2.2% | 12,553 | 1.7% |
| Total Assets | 752,403 | 100% | 724,086 | 100% |

2.2. From 30 November, we have assumed that the Fund has achieved returns in line with the market to 31 March 2014 based on the above strategy, which would suggest a return of about 6.3% since 31 March 2013.

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 31 March 2014 in market value terms is estimated to be slightly more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

- 3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

| Assumptions (Smoothed) | 31 March 2014 | | 30 November 2013 | | 31 March 2013 | |
|------------------------|---------------|-------|------------------|-------|---------------|-------|
| | Nominal | Real | Nominal | Real | Nominal | Real |
| | %p.a. | | %p.a. | | %p.a. | |
| Pension Increases | 2.77% | - | 2.80% | - | 2.74% | - |
| Salary Increases | 4.57% | 1.80% | 4.60% | 1.80% | 4.54% | 1.80% |
| Discount Rate | 6.06% | 3.29% | 6.10% | 3.30% | 5.96% | 3.22% |

- 3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is higher than at the 2013 valuation, reducing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2014 is 86% and the average required employer contribution would be 20.4% of payroll for pre-2014 benefits or 20.1% of payroll for post-2014 benefits assuming the deficit is to be paid over 22 years.
- This compares with the reported (smoothed) funding level of 83% and average required employer contribution of 22.2% of payroll for pre-2014 benefits or 21.9% of payroll for post-2014 benefits at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 31 March 2014 is 6.1% per annum. The investment return required to restore the funding level to 100% over 22 years, without the employers paying deficit contributions, would be 6.8% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.




Mark Norquay FFA
Associate

Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

| Smoothed | | | | | | | | | |
|----------------|------------------|-----------------------|----------------------------|--------------------|--------------------------------|-------------------------|------------------------------|------------------|---|
| Valuation Date | Assets £000's | Liabilities £000's | Surplus/ Deficit £000's | Funding Level % | Ongoing Cost (% of Payroll) | Past Service Ctbn | Total Ctbn (% of payroll) | Discount Rate | Return required to restore funding level (pa) |
| March 2013 | 715,915 | 863,421 | (147,506) | 83% | 13.9% | 8.3% | 22.2% | 6.0% | 6.8% |
| April 2013 | 723,783 | 867,295 | (143,512) | 83% | 14.0% | 8.0% | 22.0% | 6.0% | 6.8% |
| May 2013 | 728,942 | 867,710 | (138,768) | 84% | 13.9% | 7.7% | 21.6% | 6.0% | 6.8% |
| June 2013 | 731,725 | 866,511 | (134,786) | 84% | 13.7% | 7.5% | 21.3% | 6.0% | 6.8% |
| July 2013 | 735,688 | 866,971 | (131,283) | 85% | 13.7% | 7.3% | 21.0% | 6.1% | 6.8% |
| August 2013 | 737,070 | 866,857 | (129,786) | 85% | 13.6% | 7.2% | 20.8% | 6.1% | 6.8% |
| September 2013 | 741,553 | 870,347 | (128,794) | 85% | 13.6% | 7.2% | 20.7% | 6.1% | 6.8% |
| October 2013 | 746,849 | 874,385 | (127,536) | 85% | 13.6% | 7.1% | 20.7% | 6.1% | 6.8% |
| November 2013 | 750,901 | 874,100 | (123,199) | 86% | 13.5% | 6.8% | 20.3% | 6.1% | 6.8% |
| December 2013 | 754,913 | 877,539 | (122,627) | 86% | 13.5% | 6.8% | 20.3% | 6.1% | 6.8% |
| January 2014 | 757,580 | 880,575 | (122,996) | 86% | 13.5% | 6.8% | 20.3% | 6.1% | 6.8% |
| February 2014 | 757,820 | 882,303 | (124,483) | 86% | 13.5% | 6.8% | 20.4% | 6.1% | 6.8% |
| March 2014 | 761,470 | 886,489 | (125,019) | 86% | 13.5% | 6.9% | 20.4% | 6.1% | 6.8% |

Agenda Item 6

| | |
|--|---|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 30 th June 2014 |
| PENSION FUND BUSINESS PLAN | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| Classification: For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Nicola Webb, Tri-Borough Pension Fund Officer | Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. Officers managing the Pension Fund have been part of a tri-borough team since 2012. This is bringing benefits of resilience and sharing of ideas, both of which are improving the quality of the service provided. It is also leading to more competitive fees from external providers through joint procurement and common mandates where they are appropriate for each Fund.
- 1.2. The Tri-borough Pension Fund business plan for the year 2014/15 is attached as Appendix 1. This sets out the Pension Fund business expected to be required in the tri-borough funds over the coming year highlighting both the tasks which are common to the three funds and those which are specific to each Fund. The document also provides an overview of the three funds' assets, funding level and membership at 31 March 2014 and a summary of the investment management and other external contracts.

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 These are included within the business plan.

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 |
|------------|---|--|-----------------------------|
| | | | |

LIST OF APPENDICES:

Appendix 1: Tri-borough Pension Fund Business Plan for 2014/15

Appendix 1: Tri-borough Pension Funds Business Plan 2014-15

This plan sets out the planned activities for the year 2014-15 for the Pension Funds of London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and City of Westminster.

1. Summary of the Funds

| | Value of assets (31 Mar 2014) | Funding Level at last valuation (31 Mar 2014) | Total membership (31 Mar 2014) |
|------------------------|----------------------------------|---|--------------------------------------|
| Hammersmith and Fulham | £762.8m | 86% | 14,211 |
| Kensington and Chelsea | £695.7m | 100% | 9,747 |
| Westminster | £965.6m | 81% | 14,794 |

2. Tri-borough wide planned activities for 2014-15

| Ref | Activity | Description | Target date |
|-----|---|---|---|
| T1 | LGPS Consultation response | DCLG published a consultation about the structure of the LGPS in May 2014, in particular concerning common investment vehicles and active versus passive management of investments | Response due 11 th July 2014 |
| T2 | Implementation of governance regulations | Following on from the Public Sector Pensions Act 2013, draft regulations concerning LGPS governance are expected in June 2014 with final regulations to follow in September for implementation by 31 March 2015 | 31 st March 2015 |
| T3 | Admission bodies policy development | Developing a clear policy in this area will assist with the management of potential risks from admission bodies | 30 th September 2014 |
| T4 | Input to London Common Investment Vehicle | London Councils are leading the development of a Common Investment Vehicle for London boroughs. Further input is likely to be required leading up to first investments in 2015 | Throughout 2014/15 |
| T5 | Review of quarterly reporting | In tandem with the governance regulations, a review of the quarterly reports provided to each committee will be carried out. | 31 st March 2015 |

3. Hammersmith and Fulham planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

| Ref | Activity | Description | Target date |
|-----|----------------------------|---|---|
| HF1 | Custodian tender | A bi-borough tender process for custodian services has been underway with Westminster, with a recommendation to be made to committee in June/July 2014. Implementation of the contract to follow. | June 2014 decision October 2014 implementation |
| HF2 | Actuarial contract | The contract comes to an end in July 2014. An option to extend to Kensington and Chelsea's end date of 31 st August 2015 is to be made in June 2014. | June 2014 decision |
| HF3 | Investment Strategy Review | Following the valuation in 2013, a review of investment strategy is timely to ensure the strategy continues to be fit for purpose. | Throughout 2014-15 |

4. Kensington and Chelsea planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

| Ref | Activity | Description | Target date |
|-----|--|--|-------------|
| KC1 | De-risking strategy consideration | Following the valuation in 2013, a review of strategy to reflect the improving funding level is timely. | Autumn 2014 |
| KC2 | Bi-borough reporting arrangements with Baillie Gifford | Following Westminster's decision to appoint Baillie Gifford on the same mandate as RBKC's it will make sense for them to report to both Committees at the same time. | Autumn 2014 |

5. Westminster planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

| Ref | Activity | Description | Target date |
|-----|--------------------------------|--|---|
| W1 | Custodian tender | A bi-borough tender process for custodian services has been underway with Hammersmith and Fulham, with a recommendation to be made to committee in June/July 2014. Implementation of the contract to follow. | June 2014 decision October 2014 implementation |
| W2 | Review of fixed income mandate | The contract with the current fixed income manager is coming to an end, so it is timely to review the mandate. | Autumn 2014 |
| W3 | Satellite equity manager | Following an earlier review of the Fund's equity strategy, this is the final part of the implementation. | Autumn 2014 |

6. Resources

This section summarises the resources available to the three Funds to undertake the planned activities.


Officers and Advisers

The tri-borough funds are supported by an officer team and various other advisers detailed in the table below:

| | Hammersmith and Fulham | Kensington and Chelsea | Westminster |
|--------------------|---|-------------------------------------|----------------------------------|
| Officers | Jonathan Hunt: Tri-borough Director of Treasury & Pensions Pension Fund Officers: Alex Robertson, Nicola Webb and Nikki Parsons | | |
| Investment adviser | Alistair Sutherland: Deloitte | Andrew Elliott: Hymans Robertson | Alistair Sutherland: Deloitte |
| Actuary | Graeme Muir: Barnett Waddingham | | |
| Legal advisers | Eversheds LLP | | |
| Custodian | Northern Trust * | | BNY Mellon * |
| Fund Managers: | | | |
| Equities | | Baillie Gifford | |
| | Majedie | | Majedie |
| | MFS | Longview | |
| | | Legal & General | |
| Absolute Return | Barings | | |
| | Ruffer | Pyrford | |
| Fixed Income | Legal & General | | Insight |
| | Goldman Sachs | | |
| Private Equity | Invesco | Adams Street | |
| | Unigestion | | |
| Property | | CBRE | Hermes |
| | | Kames | Standard Life |

*Under procurement process at present.

Agenda Item 7

| | |
|--|---|
|  the low tax borough | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 30 th June 2014 |
| LGPS CONSULTATIONS | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| Classification: For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Nicola Webb, Tri-Borough Pension Fund Officer | Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. Following last summer's call for evidence regarding the future of the structure of the Local Government Pension Scheme (LGPS), the Department for Communities and Local Government has published a further LGPS consultation focused on Collective Investment Vehicles and the balance of active and passive management. A tri-borough response is in the process of being prepared and members' views are sought to inform this in advance of the closing date of 11th July 2014.
- 1.2. A further consultation from the Department of Communities and Local Government on the subject of LGPS governance is expected shortly.

2. RECOMMENDATIONS

- 2.1. To note the report.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. In June 2013, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) asked for views and evidence on how and why the current structure of the Local Government Pension Scheme (LGPS), with 89 funds in England and Wales, might be made to work better through change.
- 4.2. In total DCLG received 133 responses to this call for evidence, many, including the tri-borough response, highlighting the importance of local accountability and the fact efficiencies could be made without the need to change the underlying structure of the LGPS. Asset allocation and the management of deficits are key issues, which directly impact on council tax and so local management of these matters is vital to ensure accountability and maintain local democracy.
- 4.3. To further assist with the consideration of options, DCLG commissioned a report from Hymans Robertson into the potential cost savings and practical implications of a number of options. This has informed a new consultation issued by DCLG in May 2014.
- 4.4. While this debate has been on-going at the national level, London Councils has been developing a Collective Investment Vehicle to enable London borough funds to invest collectively and get the benefits of economies of scale without losing local decision making about asset allocation. This is now at an advanced stage and the Cabinet has agreed to the Council being a shareholder in the vehicle being set up to facilitate this. The first investments are expected to be placed during 2015.
- 4.5. Alongside the consultation on cost savings and efficiencies, a further consultation on governance in the LGPS is expected shortly. This will outline the draft regulations to implement the governance requirements of Public Services Pensions Act 2013. A verbal update will be provided at the meeting of the Committee on this issue.

5. PROPOSAL AND ISSUES

- 5.1. In May 2014 DCLG published a consultation: Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies. This seeks the views of LGPS funds and interested parties on two key issues - the use of collective investment vehicles and the value of active management. The consultation paper asserts that savings of £660m could be achieved nationally if all investments were made in collective investment vehicles and that all listed assets were invested on a passive basis. A copy of the consultation paper is attached at Appendix 1.
- 5.2. As discussed in paragraph 4.4, the development of a collective investment vehicle by London Councils is already at an advanced stage and Hammersmith and Fulham will be one of the shareholders. The experience of this will inform the response to the consultation.

- 5.3. The consultation highlights Hymans Robertson’s work which showed that at a national level, active management of listed assets net of fees performed no better than passive management. As a result, the consultation proposes a number of options from enforcing passive management across the board to a “comply or explain” option where Funds would be required to justify their use of active management. The Hammersmith and Fulham fund has no passive investments and has historically performed well using active management.
- 5.4. At present the proposed tri-borough response is an outline of some of the key points – attached at Appendix 2. This will be filled out with evidence from the fund managers and advisors ahead of the closing date of 11 July 2014.

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

11. RISK MANAGEMENT

- 11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1. Not applicable.

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

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

LIST OF APPENDICES:

Appendix 1: Department of Communities and Local Government – Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies.

Appendix 2: Draft tri-borough response to consultation.



Department for
Communities and
Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

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1. The consultation process and how to respond

Scope of the consultation

| | |
|------------------------------------|--|
| Topic of this consultation: | The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs. |
| Scope of this consultation: | The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively. |
| Geographical scope: | This consultation applies to England and Wales. |
| Impact Assessment: | It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed. |

Basic Information

| | |
|--|---|
| To: | The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted |
| Body/bodies responsible for the consultation: | Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division. |
| Duration: | The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014. |
| Enquiries: | Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057. |
| How to respond: | Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by 11 July 2014 . Electronic responses are preferred. However, you can also write to: Victoria Edwards |

| | |
|--|--|
| | <p>Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU</p> <p>Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.</p> |
| After the consultation: | The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow. |
| Agreement with the Consultation Principles: | This consultation has been drafted in accordance with the Consultation Principles. |

Background

| | |
|-------------------------------|---|
| Getting to this stage: | <p>This consultation has been developed drawing on three sources of evidence:</p> <ul style="list-style-type: none"> • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. <p>The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.</p> |
| Previous engagement: | <p>As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses.</p> <p>The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering</p> |

| | |
|--|--|
| | authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds. |
|--|--|

Additional copies

- 1.1 This consultation paper is available on the Government's website at:
<https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

Confidentiality and data protection

- 1.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).
- 1.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.
- 1.4 The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

- 1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.
- 1.6 A copy of the Consultation Principles is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk
- 1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

- 2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.
- 2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

- 2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.¹ The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.
- 2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.
- 2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.² However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.³ While investment returns and the costs of providing

¹ Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 <https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013>

² Local government pension scheme funds summary data: 2012 to 2013

³ Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.⁴

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:⁵

⁴ Independent Public Service Pensions Commission: Final Report p.17
[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.p
df](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf)

⁵ Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

- 2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.
- 2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.
- 2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: <https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme>. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: <http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu>.
- 2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:
- Establishing one common investment vehicle for all funds;
 - Creating five to ten common investment vehicles for fund assets
 - Merging the existing structure into five to ten funds.
- 2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might

be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board’s recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson’s analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

| Proposal | Estimated Annual saving |
|--|--------------------------------|
| Moving to passive fund management of all listed assets, accessed through a common investment vehicle. | £420 million |
| Ending the use of “fund of funds” arrangements in favour of a common investment vehicle for alternative assets | £240 million |

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

- 3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.
- 3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.
- 3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

- 3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.⁶ The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.
- 3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.⁷ In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.
- 3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

⁶ Local government pension scheme funds summary data: 2012 to 2013

⁷ Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated⁸:

The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

⁸ Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 <http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL>

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.⁹ On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:¹⁰

The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

⁹ A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: <http://www.lgpsboard.org/index.php/structure-reform/responses-public-view>

¹⁰ The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.¹¹

| Possible model for reform | Net present value of savings over 10 years (£ billions) |
|--|---|
| Assets pooled into two common investment vehicles | £2.8 |
| Assets pooled in 10 common investment vehicles | £2.6 |
| Fund assets and liabilities merged into five funds | £1.9 |

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

¹¹ Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

“There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees...

The regulatory requirements to produce an annual report and accounts and policy statements...ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link.”

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.¹² Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund’s unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies... As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely “local”, as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

¹² Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme
<http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf>

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

- 4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.
- 4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.
- 4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".
- 4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.¹³ The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.¹⁴
- 4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

¹³ Local Government Pension Scheme structure analysis; Hymans Robertson p.11

¹⁴ Local Government Pension Scheme structure analysis; Hymans Robertson p.7

- 4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.
- 4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

- 4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.
- 4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.
- 4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

- 4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

- Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.**
- Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?**
- Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?**

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.¹⁵ However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

¹⁵ More information can be found on the Financial Conduct Authority's website:

<http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes>

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role¹⁶.

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

| Equity market ¹⁷ | UK | North America | Europe excluding UK | Japan | Developed Pacific excluding Japan | Emerging Markets |
|---|------|---------------|---------------------|-------|-----------------------------------|------------------|
| FTSE Index | 10.7 | 9.5 | 11.4 | 7.4 | 16.4 | 18.2 |
| Aggregate Local Government Pension Scheme | 10.8 | 8.4 | 11.6 | 7.5 | 17.3 | 17.1 |
| Excess active return gross of fees | 0.1 | -1.1 | 0.2 | 0.1 | 0.9 | -1.1 |

¹⁶ Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.

¹⁷ Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

| | | | | | | |
|----------------------------------|-------|------|------|-----|------|------|
| Extra cost (per annum) of active | 0.34* | 0.27 | 0.20 | n/a | 0.49 | 0.53 |
|----------------------------------|-------|------|------|-----|------|------|

- 4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.
- 4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.¹⁸
- 4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.¹⁹
- 4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.²⁰ These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.
- 4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

- 4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.
- 4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

- 4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

¹⁸ Local Government Pension Scheme structure analysis; Hymans Robertson p.7

¹⁹ Local Government Pension Scheme structure analysis; Hymans Robertson p.7

²⁰ Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

- 5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

- 5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.
- 5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

- 5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.
- 5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieved from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

Local Government Shared Services (“LGSS”) Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

Appendix 2: Outline Tri-Borough Consultation Response

The pension funds of London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea, along with the Westminster City Council Pension Fund began working together to reduce the costs of managing pension fund and council investments in February 2012. Hence, we welcome the opportunity to respond to the Minister's second Call for Evidence on the future management of the LGPS.

The Tri-Borough fund's responses to the questions raised in the consultation are set out below:

1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

The Tri-Borough grouping firmly believes that common investment vehicles (CIVs) would allow groups of funds to achieve economies of scale and deliver significant savings. Some managers have already aggregated fees where two authorities have the same mandate and there is every reason to expect that by coming together with other funds, further savings could be achieved.

Tri-Borough officers have been involved extensively in setting up the London CIV which is expected to be operational in early 2015.

2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Yes. This is an important means of maintaining local accountability and in managing deficits.

3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

When considering how many vehicles should be established, it is important to recognise that in investment there are diseconomies of scale as well as economies. Bigger is not necessarily better and it would be sensible to have an element of competition to enable performance to be compared.

We believe that some investment strategies have a natural ceiling to the amount of assets that can be actively managed before diminishing returns start to apply. Hence, many of the best managers close strategies when they have reached a capacity limit.

4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

A CIV needs to have the following characteristics:

- Appropriate for professional institutional investors to pool assets;
- Capable of supporting a range of separately managed ring-fenced sub funds;
- A flexible regulated investment fund vehicle adapted to any type of investment strategy;
- Efficiently run and cost-effective;
- Appropriately regulated;
- Have assets held by an appropriate custodian/depositary;
- Tax efficient with regard to any capital gains or income tax at fund level;
- Give appropriate access to Dual Tax Treaties to minimise Withholding Tax;
- Suitable for a wide range of investment strategies including conventional and alternative assets.

5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, scheme members and employers?

We believe that long-term active asset management can play a key role in reducing deficits and contribution levels and making the LGPS affordable for generations to come. We do not think it will be possible to eliminate fund deficits through passive management alone.

Managers and advisers as well as the officers are currently putting together evidence in support of the views set out here.

Introduction to capital**E**sourcing





Background

Athena Programme

“this programme is to lay the foundations to create a single ERP platform”

- Managed Services Programme

- HR and Finance System
- **eSourcing Solution**
- Property Asset Database
- Business Intelligence





The eSourcing Vision



To establish an **end-to-end** eSourcing Platform which encompasses spend analysis, strategic sourcing, procurement (including Request For Quote), evaluation, contract management, compliance, supplier performance management, and programme management solutions in an **integrated** suite...





Strategic Outcomes

- A **single**, trusted source of procurement and spend info
- **Evidence-based decision-making** around procurements
- Internal and supplier **self-service** of procurement
- A **single hosted eSourcing system** available across the organisation and other Authorities
- **Reduction** in the **cost** of procurement
- **Compliance** and robust audit trail
- **Standardisation** of procurement processes



Strategic Benefits of eSourcing

- Identify and negotiate with a broad range of **qualified suppliers**
- **Reduce** process costs for sourcing engagements
- **Shorten** sourcing cycles by 25% to 30% **
- **Reduce** time to market cycles by 10% to 15% **
- Negotiate an average of 5% to 20% ** **unit price reductions**
- Extend strategic sourcing to a **wider range** of products and services
- **Enhance** collaboration and knowledge sharing

**Source – Aberdeen Research



Benefits of capitalEsourcing

- Market leading solution
- Developed by Public Sector for Public Sector
- Brings together disparate solutions
 - Contracts register
 - Spend analytics
 - Tendering, quotes and messaging tools
 - Advertising opportunities/portals
 - Integrate where appropriate
 - Single sign on for buyers and suppliers
 - Collaboration tool
- Standardisation of common tools to remove duplication and inconsistencies to supply market



Gartner Report July 2013

EXECUTION
CAPABILITY



BravoSolution
independently recognised
as leader in strategic
sourcing applications in
terms of execution and
vision

As of July 2013

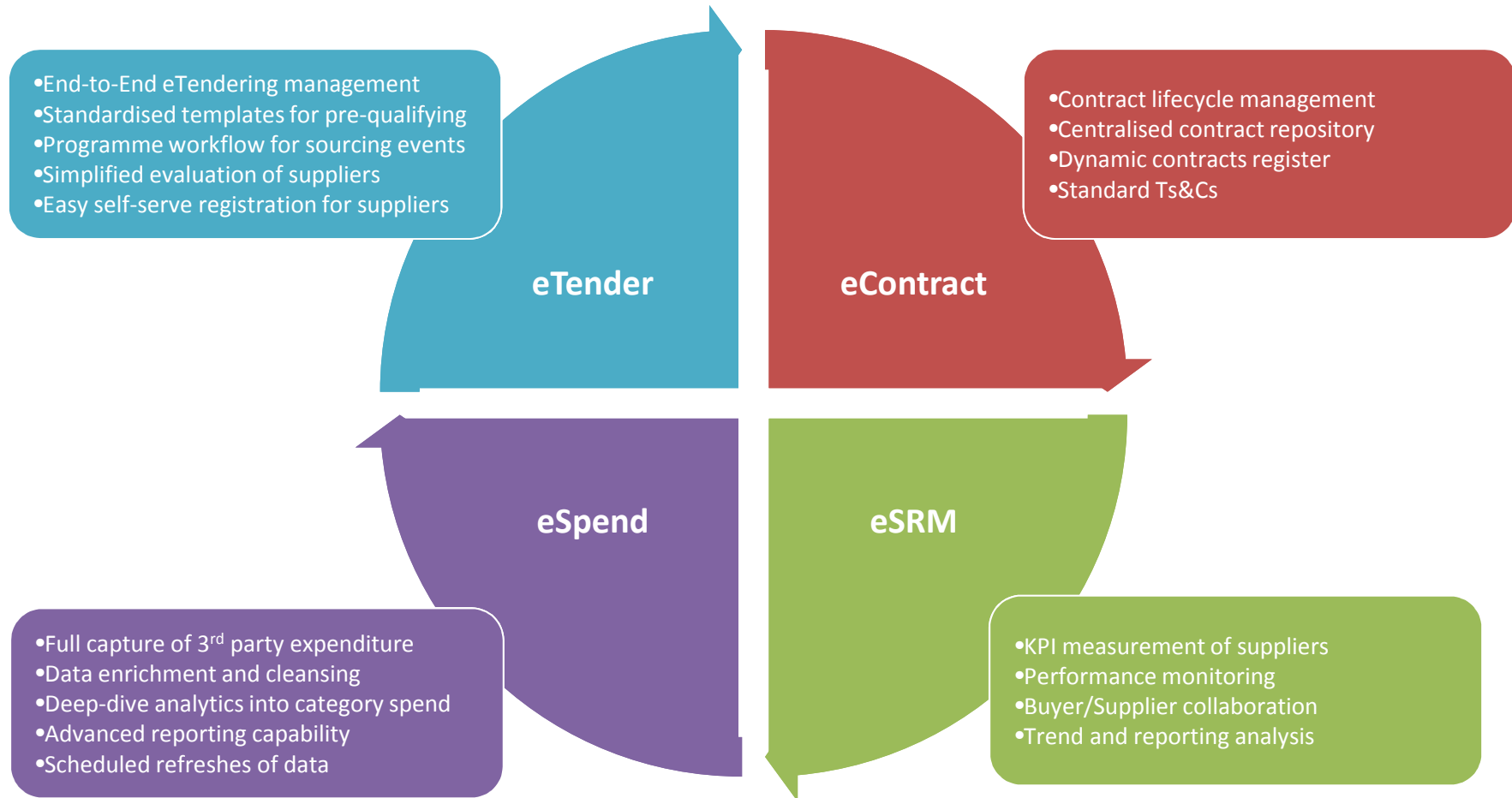
STRATEGIC
VISION



Portal and Modules



capitalEsourcing Modules





Contract Register Audit



Contracts Register – Audit

- Issued in March this year
- Limited assurance
- Missing contracts/different approaches in departments to maintaining the register
- Recognition that the Council was moving towards a new Tri Borough system that would address this
- Good practice identified in terms of regular reports to the Bi borough Procurement Board and in some departments



Previous difficulties

- No link between the previous e Tendering system and Contracts Register used
- London wide problem
- Devolved Procurement – Reliant on departments to upload information manually
- Moving from the old system to the new system
- Moving towards Tri-borough procurement – Focus was elsewhere
- Three different approaches for capturing contracts from H&F, RBKC and WCC
- Inclination for some departments to set up own contract lists
- In hindsight, timing of the audit in a period of transition and the old system not ideal



Contracts Register Now

- New system launched – eTendering and eContract Management Modules linked
- Training being provided to all contract managers
- Additional resources at the centre
- More robust checks being undertaken
- More detailed analysis of spend to ensure all contracts captured
- Information on contracts presented to Bi borough Procurement Board every two months
- Managed Services implementation in September



Our aim

- All contracts over £5K registered and reported as part of transparency requirements
- All relevant Contract Managers trained and using the system
- Implementation of Strategic Supplier Relationship Management
- Common Contract Management framework set up across all three Councils
- Information used by the proposed Tri Borough Procurement function to support category and supplier relationship management approach leading to significant savings
- Proposed Tri Borough Function will adopt a centre led approach
- Suggest follow up audit on the new system once it has had time to bed in and all staff have been trained
- Other Councils now looking at how the system and approach can support them



Any Questions?

Agenda Item 9

| | |
|--|--|
|  | London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 30 th June 2014 |
| COMBINED RISK MANAGEMENT HIGHLIGHT REPORT | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| For Review & Comment | |
| Key Decision: No | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Michael Sloniowski, Bi-borough Risk Manager | Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

The Audit Pensions and Standards Committee is responsible for reviewing the arrangements in place for identifying and managing key risks. Following the move towards the delivery of both Bi-borough and Tri-borough services this has necessitated the development of a Tri-borough risk register to enable the information to be shared across all three Councils. Good risk management enables the Council to pursue its vision effectively.

2. RECOMMENDATIONS

- 2.1. The committee consider the current Bi-borough Departmental Strategic, Change and Operational risks as outlined in the report and note the Councils approach to defining its Risk Appetite.

3. REASONS FOR DECISION

- 3.1. The risk management arrangements continue to be integral to the overall internal control arrangements of the Council and contribute to the Annual Governance Statement. The Audit Pensions and Standards Committee's role is to provide an oversight of the authority's processes to facilitate the

identification and management of key risks. By ensuring that effective management of risk is undertaken services can benefit by reducing their significance; either by reducing the level of impact or likelihood.

4. INTRODUCTION AND BACKGROUND

- 4.1. Local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to the continuing economic and financial challenge, the Localism Act and other key legislation has brought new roles, opportunities and greater flexibility for authorities.
- 4.2. Local authorities are changing the way in which they operate and undertake service provision. Public services are delivered directly, through partnerships, collaboration and through commissioning. Shared services and partnership boards have come into existence. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability.
- 4.3. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk.

5. PROPOSAL AND ISSUES

- 5.1. In the Bi-borough work environment, people have to be stretched in their decision making and “doing” role. If there is no allowance for taking managed risks in an appropriate control environment, this stifles the whole process, prevents innovation and breeds poor morale. So a balanced approach to Enterprise Risk Management should allow for risk taking in a managed environment.
- 5.2. **Risk Appetite**
- 5.3. The risk appetite of the Council can be defined as “the amount and type of risk that the Council is prepared to seek, accept or tolerate” (Source: British Standard on Risk Management BS31100 2008) or similarly, “The amount of risk that the Council is willing to seek or accept in the pursuit of its long term objectives” (Source: Institute of Risk Management: Risk Appetite and Tolerance; Guidance Paper 2011).
- 5.4. Risk itself is defined as a barrier to the achievement of strategic objectives and risk management as the process of understanding and managing the risks that the Council is inevitably subject to in attempting to achieve its corporate objectives.
- 5.5. The range or spectrum of risks comprising significant risk is commonly defined as being made up of three major categories of risk - strategic, change and service delivery (operational business as usual) risks. Tri-borough Councils categorise risk in this way and that is consistent with good practice as defined by the Institute of Risk Management, Chartered

Institute of Public Finance and Accountancy and the Chartered Institute of Internal Auditors.

- 5.6. Risk appetite is not a single, fixed concept. There exist a range of appetites for different risks in our service departments and more widely across Bi-borough and Tri-borough which in time may need to align. An example of this is the perception of Information Technology security risk where the appetites for risk taking and application of controls across each Council differs.
- 5.7. It is important to note that risk appetites may often vary across different classes of risk at different times due to external factors, and may even vary across directorates. In these terms the Council's overall risk appetite is often a composite or aggregate of these different risk appetites. The Royal Borough of Kensington and Chelsea has sought to develop an approach to refine their approach to risk appetite that:
- is integrated.
 - is practical and pragmatic: to bureaucracy, the Council is looking to help find solutions that can work for all services of all shapes and sizes, and
 - will make a difference.
 - is theoretically sound.
- 5.8. Risk appetite can be complex but in line with the Royal Borough of Kensington and Chelsea's approach should be considered by the Council when assessing business risk. Excessive simplicity, while superficially attractive, can lead to underestimation of impact and exposure to risk: far better to acknowledge the complexity and deal with it, rather than ignoring it.
- 5.9. Risk appetite also determines the operating limits and constraints, often expressed as the limits of authority for operational management that apply to routine operations. These are established and specified under existing constitutional documents such as the Delegations of Authority, Codes of Conduct, Financial Procedure Rules, and Contract Regulations. These are well defined and established within the Constitution of the Council.
- 5.10. **Reporting and escalating based on Risk Appetite.**
- 5.11. The framework for the reporting and escalation of risks within the Council is based on the organisational structure and existing reporting lines. As part of the escalation process, the next management level of the Council will be alerted to the risk and will therefore review and reassess it in terms of its impact and likelihood on the achievement of objectives at that next level and will take action as appropriate.
- 5.12. This means:-
- managing the risk directly in terms of its mitigation and control.

- adjusting the level of risk line managers judge suitable for the level below to manage.
- transferring the risk, if possible, appropriate, or cost effective to do so.
- changing the activity giving rise to the risk or exiting the activity giving rise to the risk.

5.13. The Council's Risk Appetite in 2013-2014.

5.14. During 2013-14 the Council has generally adopted an overall cautious appetite for taking significant risk to achieve corporate objectives and for delivering Council services. Where significant risks arise (defined as above as strategic, change and operational) the Council and its officers will take effective control action to mitigate these risks to minimal levels of net residual risk exposure to stakeholders.

5.15. It is to be noted that whilst the Council maintained an overall cautious approach, it does have areas within this where a higher level of risk will be taken, for example, in supporting innovation in service delivery or through its investment strategies. These will be offset by areas where it maintains a lower than cautious appetite, for example, matters of compliance with law and public confidence in the Council, leading to its overall cautious organisational position on risk.

5.16. The unifying factor of all of the Council's key, potentially large-scale and significant risks, are that they are inter-related and form part of a wider collective or portfolio effect of risk exposure to the Council.

5.17. Management of this exposure is most effective and efficient when undertaken in common, collective and portfolio terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates.

5.18. The Council's key risk management challenge is to maintain and advance its excellent services while at the same time managing significant reductions in its spending.

5.19. Strategic Tri-borough Risk Register

5.20. The Strategic Bi-borough Risk Register has been significantly revised and updated following the review of Tri-borough, Bi-borough and Departmental submissions and is attached as reviewed by the Hammersmith and Fulham Business Board.

5.21. Changes now include entries of the more significant Tri-borough Adult Social Care risks identified directly by the department from their risk registers, significant programme, project and Information Technology and governance risks.

- 5.22. The register remains an indicator of 'Corporate Preparedness' and illustrative of good governance. The full version accompanies this paper for Members information attached at **Appendix 1**.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. *Not applicable as the report is a representation of the business risks and opportunities to H&F council.*

7. CONSULTATION

- 7.1. *Not applicable as the report addresses the business risks to H&F council.*

8. EQUALITY IMPLICATIONS

- 8.1. *The responsibility to complete Equality Impact Assessment in relation to policy decisions is the responsibility of the appropriate departmental officer. The report highlights some of the risks and consequences of risk taking over a broad landscape and as such specific Equality and Diversity issues are referred to in the councils Bi-borough Risk and Assurance Register.*

9. LEGAL IMPLICATIONS

- 9.1. *Failure to manage risk effectively may give risk to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.*

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. *Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.*

11. RISK MANAGEMENT

- 11.1. *It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Bi-borough Risk and Assurance Register and subject to review as part of planned Audit work and the Annual Governance Statement.*
- 11.2. Implications verified/completed by: Michael Sloniowski, Principal Consultant Risk Management. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1. *Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.*

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

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|---|
| 1. | Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard | Michael Sloniowski 2587 | Corporate Finance Division, Internal Audit, Town Hall, Hammersmith |
| 2. | The Orange Book, Management of Risk Principles & Concepts – HM Treasury | Michael Sloniowski 2587 | Corporate Finance Division, Internal Audit, Town Hall, Hammersmith |
| 3. | Departmental Risk Registers, Tri borough Portfolio risk logs | Michael Sloniowski 2587 | Corporate Finance Division, Internal Audit, Town Hall, Hammersmith |
| 4. | Tri-borough Programme report updates | Michael Sloniowski 2587 | TriBnet |
| 5. | BS 31100 Code of Practice for risk management | Michael Sloniowski 2587 | Corporate Finance Division, Internal Audit, Town Hall, Hammersmith |

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





LIST OF APPENDICES:

Appendix 1

Bi-borough departmental Risk and Assurance register

Strategic, Tri-borough Risk Register



Appendix 1

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|---|--|------------|--------|--|--|-------------|
| 1 | Managing budgets, finance risks. | <ul style="list-style-type: none"> Budget proposals, growth and reductions are projected and monitored. Central contingency for in-year budget risks and earmarked reserves. Tri-borough Business and Financial Planning. Medium Term Financial Strategy. Monthly corporate revenue and capital monitoring. | 3 | 4 | Medium  12  | <ul style="list-style-type: none"> Nicholas Holgate, Bi-borough Interim Chief Executive Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) | March 2014 |
| 2 | Market Testing risks Failure to deliver high quality commissioned services at the best cost to the taxpayer. Tri-borough or Bi-borough procurement risk appetite may vary and procurement procedures may become unclear across Tri-borough | <ul style="list-style-type: none"> Review the three boroughs Procurement service provision as part of the Corporate Services Programme. Harmonising of the Royal Borough Contract Regulations and Hammersmith and Fulham Contract Standing Orders and simplification of Governance processes as an outcome of the review of Procurement. Internal review of the three boroughs contracts registers is underway to support CapitalESourcing. | 4 | 3 | Medium  12  | All Executive Directors Bi-borough Procurement Strategy Board | March 2014 |

Strategic, Tri-borough Risk Register



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|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
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| | | | | | | | |
|----------|---|--|---|---|---|---|---------------|
| 3 | <p>Failure to manage Public Health Service risks and NHS Provision</p> <p>The transfer of the Public Health Service from the NHS to local government may not go well</p> | <ul style="list-style-type: none"> • The Director of Public Health will attend Housing, Health and Adult Social Care Select Committee • Health and Well Being Board. • The Council has no obligation to cross subsidise Public Health. • The Tri-borough Public Health service is hosted at Westminster as agreed by the Leaders of the three Councils • The Director and Line Managers to work with staff and key stakeholders to prioritise work and manage expectations. | 4 | 4 | <p>High</p>  <p>16</p>  | <p>Nicholas Holgate, Bi-borough Interim Chief Executive</p> <p>Meradin Peachey, Director of Public Health</p> | November 2013 |
|----------|---|--|---|---|---|---|---------------|

Strategic, Tri-borough Risk Register



Appendix 1

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|---|--|------------|--------|---|--|-------------|
| 4 | <p>Business Resilience</p> <p>Sub-risks Systems that are not joined up and connected in the event of a H&F, Royal Borough or Tri-Bi Borough event.</p> <p>Failure of Information Governance during the development of major programmes.</p> | <ul style="list-style-type: none"> • A Service Review of H&F and the Royal Borough Business Continuity Planning and Emergency Services is underway. • The Councils' generic Business Impact Analysis (RBKC only) and Contingency/Business Continuity Plans are designed to be 'scalable' in response to any size of incident, and linkages with neighbouring local authorities ensure that central government and local government mutual aid assistance will be forthcoming in the event of a large-scale incident. (H&F do not have a BIA). • Corporate Incident Management Procedures incorporate Business Continuity. • Corporate Finance (H&F Creditsafe Financial checks) and Departmental (RBKC Brookes Bates) credit checking. • Contractor Business Continuity Planning. • Pension fund performance bond (H&F). • Terrorism insurance cover. • Tri-borough Councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy. • Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation. | 4 | 3 | <p>Medium</p>  <p>12</p>  | <p>Lyn Carpenter (Corporate Business Continuity) Bi-borough Director for Environment, Leisure and Resident Services with the Royal Borough of Kensington and Chelsea.</p> <p>Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) for HFBP.</p> | March 2014 |

Strategic, Tri-borough Risk Register

Appendix 1



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|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

| | | | | | | | |
|----------|---|--|---|---|---|---|------------|
| 5 | <p>Managing statutory duty</p> <p>Non-compliance with laws and regulations.</p> <p>Breach of duty of care.</p> <p>Equalities (public sector equality duty or 'PSED') and Human Rights.</p> | <ul style="list-style-type: none"> • The Royal Borough Stock Conditions Surveys. • Capital Programme. • A Bi-borough Health and Safety Service commenced in January 2014. • Pro-active Health, Safety and Welfare culture across the Councils. • Tri-borough - The Total FM contractor AMEY now manages a number of statutory and regulatory Health and Safety procedural, record and management processes. • Legislative changes are adopted and reflected in amendment to the Councils' constitutions, budgets are allocated through a unified business and financial planning process. • EIA's and Equality Statements address Human Rights where applicable | 4 | 3 | <p>Medium</p>  <p>12</p>  | <p>Nicholas Holgate, Bi-borough Interim Chief Executive</p> <p>Nigel Pallace Bi-borough Executive Director, Transport and Technical Services</p> <p>All Executive Directors</p> | March 2014 |
|----------|---|--|---|---|---|---|------------|

Strategic, Tri-borough Risk Register

Appendix 1



| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

| | | | | | | | |
|---|---|--|---|---|---|--|-----------------------------------|
| 6 | <p>Standards and delivery of care</p> <ul style="list-style-type: none"> Breach in standard and delivery of care – caring and care homes. A breach of information security protocols in relation to an individual. Corporate Parenting. | <ul style="list-style-type: none"> The ASC Department is going through its key governance boards, assigning risks to them and working through with them how they should review each risk on the basis of the new Tri-borough approach. Where new risks are being identified they are prompted to consider including them on the risk register. The Leadership team have had a discussion on and agreed the process for implementing the new policy, but they have not yet signed off a final, updated register. Insurance cover is in place in the event of a claim for a breach of duty of care and in respect of financial claims. Legislative changes are adopted and reflected in amendment to the Councils' constitutions. Budget allocation are made through a unified Tri-borough business and financial planning process. All child protection cases have remained allocated to a social worker despite the high demand. A detailed action plan has been implemented in response to the increased numbers of children with child protection plans, to safely manage the demand and reduce activity in line with that of our statistical neighbours. The number of qualified social workers delivering a child protection service has increased by two over the past year. | 4 | 3 | <p>Medium</p>  <p>12</p>  | <p>Liz Bruce Tri-borough Executive Director of Adult Social Care</p> | <p>Review August 2013</p> |
|---|---|--|---|---|---|--|-----------------------------------|

Strategic, Tri-borough Risk Register

Appendix 1



| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

| | | | | | | | |
|---|---|---|---|---|--|--|------------|
| 7 | Failure of successful partnerships and Major Contracts | <ul style="list-style-type: none"> • The Link is an Intelligent Client function (ICF) that manages the AMEY Total Facilities Management (TFM) contract for Tri-borough. The LINK is a team of Council employees formed to manage the performance of services and govern the TFM contract. They will work with AMEY to ensure services are kept to a high standard. The team is hosted by the Royal Borough of Kensington and Chelsea. They are responsible for: <ul style="list-style-type: none"> • monitoring and auditing of Amey's performance. • general service improvement and innovation. • long term facilities management strategy. • ICT Programme Board. • Setting up of an ICT Intelligent Client Function. • The key provisions of the Tri-Borough working agreement are based on a 'high trust model' and the key principle underpinning the agreement is the sharing of staff using s.113 of the Local Government Act 1972. | 4 | 3 | Medium  12  | Nicholas Holgate, Bi-borough Interim Chief Executive Charlie Parker Chief Executive WCC | March 2014 |
|---|---|---|---|---|--|--|------------|

Strategic, Tri-borough Risk Register



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|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

| | | | | | | | |
|---|---|---|---|---|---|--|------------|
| 8 | <p>Maintaining reputation and service standards</p> <ul style="list-style-type: none"> Breach of Officer or Member code of conduct Information Management and Governance Inappropriate Data released Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties. | <ul style="list-style-type: none"> The Annual Residents Survey. A review of the corporate governance arrangements has been conducted by Internal Audit. Annual Complaints review report produced to Committee. Combined Tri-borough Finance and Service Planning processes. Standards issues now covered under the Audit and Transparency Committee at the Royal Borough. Information governance forms part of the Tri-borough ICT Programme. | 4 | 3 | <p>Medium</p>  <p>12</p>  | <p>Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham)</p> <p>Nicholas Holgate, Bi-borough Interim Chief Executive</p> | March 2014 |
|---|---|---|---|---|---|--|------------|

Strategic, Tri-borough Risk Register







Appendix 1

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|--|--|------------|--------|--|--|-------------|
| 9 | Failure to identify and address internal and external fraud. | <ul style="list-style-type: none"> An adaptable Tri-Borough corporate fraud function now exists which responds through a single professional and effective team to the challenging and changing range of fraud, both internally and externally executed. CAFS teams use a risk assessment to assist in targeting and workload prioritisation | 4 | 3 | Medium  12  | Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) Nicholas Holgate, Bi-borough Interim Chief Executive All Executive Directors Tri-borough Director of Internal Audit, Risk, Fraud and Insurance | March 2014 |

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care





| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|---|---|------------|--------|--|---------------|-------------|
| 1 | A risk of increasing demand for social care services. | <ul style="list-style-type: none"> Better Care Fund Programme to reduce demand for ongoing care across whole systems Mapping potential additional demand from the Care Bill | 4 | 3 | Medium  12  | Liz Bruce | May 2014 |
| 2 | Leadership and management capacity to drive change | <ul style="list-style-type: none"> Leadership and management development programme | 4 | 4 | High  16  | Liz Bruce | May 2014 |
| 3 | Reducing customer satisfaction and/or reputation | <ul style="list-style-type: none"> Effective external communications regarding the change programme and outcomes ASC is aiming for. | 4 | 3 | Medium  12  | Liz Bruce | May 2014 |

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|







| | | | | | | | |
|---|--|---|---|---|--|---------------|----------|
| 4 | Low staff morale | <ul style="list-style-type: none"> Staff engagement plan in response of Your Voice results Promote achievements of ASC Promote ASC as an employer of choice Effective communications about service change | 4 | 3 | Medium  12  | Liz Bruce | May 2014 |
| 5 | Scale and complexity of change results in incoherent decision making and results | <ul style="list-style-type: none"> Effective programme controls in place Mapping and combining different change programmes in ASC and or Health | 4 | 3 | Medium  12  | Rachel Wigley | May 2014 |

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
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|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|





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|---|---|---|---|---|--|-------------------|----------|
| 6 | Poor practice in use of IT systems leads to poor data quality and impaired management of service | <ul style="list-style-type: none"> Data Quality action plan owned by Operations | 4 | 3 | Medium  12  | Gill Vickers | May 2014 |
| 7 | Health and safety, quality safeguarding risk at commissioned services | <ul style="list-style-type: none"> Implement a new model of contract monitoring to focus on underperforming providers | 3 | 4 | Medium  12  | Martin Waddington | May 2014 |
| 8 | Shifting of resources to fund new interventions and schemes will destabilise current service providers both in the acute and community sectors. | <ul style="list-style-type: none"> Current plans are based on the agreed strategy for North West London as outlined in 'Shaping a Healthier Future' Better Care Fund plans developed within the whole systems framework enabling holistic impact to be evaluated Strong mechanisms for involving service providers both statutory and independent in the programme | 4 | 3 | Medium  12  | Cath Atlee | May 2014 |

DEPARTMENT SPECIFIC

Appendix 1







Tri-borough Adult Social Care

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review Date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

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| 9 | Poor IT systems, systems access and IT support | <ul style="list-style-type: none"> Develop effective IT Infrastructure from the offset. Central investment in IT resources Effective IT support that are cost effective to utilise Staff are properly trained and supported to utilise the equipment in place. | 5 | 3 | Medium  15  | Stella Baillie | May 2014 |
| 10 | Poor audit or inspections (Health and Safety, Care Quality Commission, Environmental Health) | <ul style="list-style-type: none"> Effective service plan and systems that are appropriate and implemented Effective levels of resources (budgets / staffing / building base) Effective Quality Assurance and Audit activity, effective staff development and robust Human Resource processes | 3 | 4 | Medium  12  | Stella Baillie | May 2014 |







Tri-borough Children's Services

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|





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|----|--|---|---|---|---|--|------------|
| 11 | Business as usual risk. If serious harm comes to a child or young person to whom the Council has a duty of care for then the Council could be seen to be at fault. | <ul style="list-style-type: none"> On-going Local Safeguarding Childrens Board activities to ensure quality assurance. Review lessons learnt from cases and ensure appropriate local safeguarding training is given to staff. | 3 | 5 | Medium  15  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |
| 12 | Business as usual risk. If the Council is unaware of the full implications of changes within Health, then this may impact on delivering services. | <ul style="list-style-type: none"> Ensure engagement takes place between colleagues in health services and colleagues across the directorate. | 3 | 4 | Medium  12  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |
| 13 | Portfolio risk. On-going partnership and relationships between the 3 Councils Members and Officers following local elections to ensure decisions and actions take place. | Regular meetings and updates between Officers and Members | 3 | 4 | Medium  12  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |

Tri-borough Children's Services





| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

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| 14 | Children's Projects list risk. Political drive to Implement the SEN Strategy Phase 2. | <ul style="list-style-type: none"> • SEN Strategy Phase 2 is being run as a project and is engaging with stakeholders, including Cabinet Members. | 3 | 4 | Medium  12  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |
| 15 | If the school meals re-modelling project does not deliver a consistent approach across each borough by April 2015 then existing contracts will need to be extended at short notice and at high cost. | <ul style="list-style-type: none"> • Project Board is actively managing the risks • School meals working group working across all aspects of the project. • Engaging Members service users, staff and other stakeholders underway. | 3 | 4 | Medium  12  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |
| 16 | If Academy conversions processes are not completed on time then timescales will not be met. | <ul style="list-style-type: none"> • Monitoring reports to each Council's schools Capital Programme Board to highlight risks as necessary. | 3 | 4 | Medium  12  | Tri-borough Childrens Services SLT (Management Team) | March 2014 |



Bi-borough, Environment, Leisure and Resident Services risks

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|---|---|------------|--------|--|--|-------------|
| 17 | There is a medium risk that increasing financial pressures and uncertainty leads to loss of staff, skills and knowledge, increase in workplace stress, high levels of sickness and ultimately affecting service delivery. | <ul style="list-style-type: none"> • Communications with Tier 4 managers have begun; some reviews are still in progress, a few are at the start of implementation phase. • Workforce Development Working Group and Talent Management Plan in place. | 4 | 3 | Medium  12  | Lyn Carpenter Bi-borough Executive Director Environment, Leisure and Resident Services | March 2014 |
| 18 | There is a risk that contamination levels to the recycled waste stream continues to increase. | <ul style="list-style-type: none"> • An action plan is in place and close and monitoring of contamination levels is undertaken. • Regular sampling and consequent analysis of a larger dataset provides a more accurate view of performance and possible management. The service will continue to investigate waste contamination issues and take appropriate enforcement action. • Moved to clear sacks and adopted a new educational campaign. Street Scene Enforcement will continue to investigate waste contamination issues and take appropriate action. • Waste Control Authorities will consider market testing for recyclate. • A Bi-borough Officer level Waste Innovation Group has been established. | 5 | 4 | High  20  | Kathy May | March 2014 |

Bi-borough, Environment, Leisure and Resident Services risks





| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|---|---|------------|--------|--|---------------|-------------|
| 19 | There is a Royal Borough of Kensington and Chelsea medium risk that the Opera Holland Park income for 2014 season is not achieved. | <ul style="list-style-type: none"> Regular financial monitoring. | 3 | 4 | Medium  12  | Sue Harris | March 2014 |
| 20 | There is a Royal Borough of Kensington and Chelsea risk of insufficient resilience and workforce planning in the planning process for Notting Hill Carnival | <ul style="list-style-type: none"> Operational manual. Team Leaders at sub-bronze level As part of the Arts and Events Service review enhanced resilience of the team will be considered. Ensure that processes are documented and widely available on TriBnet. | 4 | 3 | Medium  12  | Ian McNicol | March 2014 |

Tri-borough, Libraries risks



| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|---|---|------------|--------|--|-------------------------------|-------------|
| 21 | There is a medium risk of failure to realise Archives savings and inability to re-provide a service as part of Tri-borough. | <ul style="list-style-type: none"> • Regular meetings. • Monthly meetings with tri-borough and regular meetings with stake holder groups. | 3 | 4 | Medium  12  | Mike Clarke Donna Pentalow | August 2013 |




Bi-borough Transport and Technical Services risks

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

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|----|---|--|---|---|---|---|------------|
| 22 | Adverse budget variances. | <ul style="list-style-type: none"> • Regular finance & trading accounts monitoring. • Work with policy and planning to bring in funds. • Financial reporting by Quantity Surveyors, BTS, QA system, use of contingencies. Training plan for staff. • New criteria introduced to prevent blue badge fraud. • Review budget staffing level. • MTFS planning process. • Parking Control Board. • Recovery plan in place. • Recruitment approval restricted. • Review adverse variances and report action plan to DMT. | 3 | 4 | Medium  12  | Mark Jones | March 2014 |
| 23 | Health and Safety breaches affecting staff and others | <ul style="list-style-type: none"> • A draft Service Level Agreement (SLA) with the Link has been prepared covering the Health and Safety obligations deliverable by AMEY and monitored by the Link on behalf of the 3 Councils. • Guidance issued with respect to cross borough working and duty of care. • Bi-borough Health & Safety arrangements are currently being reviewed. • Safety Audit. • Management of contractors. | 3 | 4 | Medium  12  | T&TS (Management Team), DMT All Managers | March 2014 |





Housing

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|--|---|------------|--------|--|-------------------------------|-------------|
| 24 | There is a medium risk of pressure on Housing temporary accommodation budgets arising from: a) LHA changes b) Introduction of the benefit cap and, c) Introduction of the Universal Credit. | <ul style="list-style-type: none"> Regular financial reports identifying projected budgetary variances discussed at HSDMT and with Cabinet Member. Close working with the Housing Benefits Team to identify financial implications arising from policy changes. Negotiation of lower rents with landlords. Use of Discretionary Housing Payments. Seek to move households to more affordable housing | 5 | 3 | Medium  15  | Steve Mellor Laura Johnson | August 2013 |

| | | | | | | | |
|----|---|--|---|---|--|-----------|------------|
| 25 | Service Continuity and Disaster Recovery (services are not considering IT in their resilience planning assuming that corporate IT is, and provide, the solution). | <ul style="list-style-type: none"> • A refresh of service continuity planning is underway across the three Councils. • A strategic rather than a tactical response across the 3 Councils is desired. | 3 | 4 | Medium  12 New | Ed Garcez | March 2014 |
| 26 | Co-ordination and control of IT procurement across the three Councils. | <ul style="list-style-type: none"> • The method of procurement varies from Council to Council, this includes the use of the Councils new e-procurement system. CapitalESourcing is used to record procurement activity but not currently for H&F Bridge Partnership. | 4 | 4 | High  16 New | Ed Garcez | March 2014 |
| 27 | Information asset co-ordination across three Councils, Lifecycle (retention, management and disposal). | <ul style="list-style-type: none"> • The method of management of Information including the policies and appetite varies across the three Councils. A Tri-borough Information Management Strategy has been proposed by Executive Management and is to be developed. • Tri-borough Information Management Board. | 3 | 5 | Medium  15 New | Ed Garcez | March 2014 |





Tri-borough Information Management and Technology

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

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|----|---|--|---|---|---|-----------|------------|
| 28 | Variable Information asset risk appetite across three Councils. | <ul style="list-style-type: none"> Information asset including electronic or physical loss of data, inappropriate data sharing and differing risk appetite is managed by separate policies and strategies in the three Councils. Tri-borough Information Management Board. | 3 | 4 | Medium  12 New | Ed Garcez | March 2014 |
| 29 | Information asset risk of statutory, regulatory or local policy non-compliance. | <ul style="list-style-type: none"> Local policies exist for the management and control of information. | 4 | 4 | High  16 New | Ed Garcez | March 2014 |
| 30 | Roles are not linked through the Human Resources systems to manage Starter, Movers and Leavers. It is devolved. | <ul style="list-style-type: none"> A strategy is required to develop role based security for Starters, Movers and Leavers. | 5 | 5 | High  25 New | Ed Garcez | March 2014 |
| 31 | Use of mobile devices risk appetite and tolerance. | <ul style="list-style-type: none"> A strategy is required to develop a harmonised approach to device based security. | 5 | 5 | High  25 New | Ed Garcez | March 2014 |

Tri-borough Information Management and Technology

| Ref | Risk | Mitigating Action | Likelihood | Impact | Risk rating /exposure | Officer Group | Review date |
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|
|-----|------|-------------------|------------|--------|-----------------------|---------------|-------------|

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|----|--|---|---|---|--|-----------|------------|
| 32 | Denial of service vulnerability as networks converge. | <ul style="list-style-type: none"> Unmitigated. Risk has been recognised and is under consideration. | 4 | 4 | High  16 New | Ed Garcez | March 2014 |
| 33 | Failure to manage Information following outsourcing. Assurance from service providers. | <ul style="list-style-type: none"> Information sharing agreements are in place however compliance is not effectively undertaken. | 4 | 4 | High  16 New | Ed Garcez | March 2014 |
| 34 | Tri-borough records management and control. | <ul style="list-style-type: none"> Engagement with the Information Commissioners Office and other boroughs. Tri-borough Information Management Board. | 5 | 4 | High  20 New | Ed Garcez | March 2014 |
| 35 | IT functions across the 3 Councils are not operating as a single entity. | Appointment made of a Tri-borough Chief Information Officer. | 5 | 4 | High  20 New | Ed Garcez | March 2014 |


Note 1. All key risks have been extracted from(but not limited to) a number of sources for analysis by the Royal Brought of Kensington and Chelsea Management Board and Hammersmith & Fulham Business Board . The sources include;

- i. Previous models of the Corporate Risk & Assurance Registers.
- ii. World Economic Forum Global risks 2012.
- iii. Information identified from Tri Borough Programme, Departmental Risk & Assurance Registers.
- iv. Officers Knowledge and experience.
- v. Tri-Borough & H&F Portfolio, Programme and Projects summary reports.
- vi. Procurement exercises.
- vii. Significant Weaknesses established from the Annual Assurance process.
- viii. Audit & Fraud Reports.
- ix. Knowledge and experience of public sector risks from the Bi-borough Risk Manager.
- x. Data Quality and Integrity.
- xi. Cabinet, Scrutiny and public domain reports.
- xii. WCC H&F and RBKC Risk knowledge pooled information.
- xiii. Zurich Municipal, Grant Thornton and Price Waterhouse Coopers reports.

Note 2. Categorised under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with BS31100/ ALARM/IRM/CIPFA best practice.

| Score | Key |
|-------|--|
| 16-25 | RED - High and very high risk - immediate management action required |
| 11-15 | AMBER - Medium risk - review of controls |
| 6-10 | GREEN - Low risk - monitor and if escalates quickly check controls |
| 1-5 | YELLOW - Very low risk - monitor periodically |

Agenda Item 10

| | |
|--|---|
|  | London Borough of Hammersmith & Fulham Audit Standards and Pensions committee June 2014 |
| TITLE OF REPORT Corporate Anti Fraud Service Report 1 April 2013 to 31 of March 2014 | |
| Open Report. | |
| For Information | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West | |
| Report Author: Andrew Hyatt Tri-borough Head of Fraud | Contact Details: Tel: 0208 361 3795 E-mail: andrew.hyatt@rbkc.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1 This report provides an account of anti-fraud related activity undertaken from 1 April 2013 to 31 March 2014.
- 1.2 Performance for the Corporate Anti Fraud Service (CAFS) is measured in numbers of sanctions and positive outcomes delivered (i.e. prosecutions, penalties, formal cautions or other action taken directly).
- 1.3 Since April 2013 CAFS have identified 155 positive outcomes including twelve prosecutions, nine recovered social housing properties and eight false housing applications. Proceeds of Crime (POCA) recoveries totalled £135,630.
- 1.4 Of the 283 cases referred to CAFS for potential investigation 128 were accepted although 155 were rejected due to lack of information or lower risk scoring.
- 1.5 The total value of fraud identified is £3.8 million. Full details are reported at Appendix A, for information

2. RECOMMENDATIONS

- 2.1 Note the fraud work undertaken during the year 1 April 2013 to 31 of March 2014.
- 2.2 Note the latest information about the Single Fraud Investigation Service.

3. REASONS FOR DECISIONS

- 3.1 To inform the committee of the actions of the Council's counter fraud response.

4. INTRODUCTION AND BACKGROUND

- 4.1 CAFS is part of the Tri-borough Anti-Fraud Service which came into effect from 1 April 2014. Previously CAFS was a Bi-borough Service working in partnership with the Royal Borough of Kensington and Chelsea's Corporate Investigation Group from 1 July 2013
- 4.2 Although CAFS will remain a single entity within Hammersmith & Fulham, the partnership aims to reap a number of benefits including the sharing of skills and expertise, a "compare and contrast" review to identify the best practice, and the streamlining of anti fraud related policies and procedures.
- 4.3 CAFS continues to provide Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 4.5 The table below shows current achievement against target.



- 4.4 CAFS were set a target of 130 positive outcomes at the start of the financial year and exceeded this target by achieving 155 positive outcomes, which is an excellent performance in view of the recent changes to the service, and a reduction in resources available due to two investigators being seconded to a special project.

5 HOUSING AND TENANCY FRAUD

- 5.1 CAFS continues to improve its links with all partners responsible for Social Housing including the dedicated investigation and intelligence resource employed within H&F Housing and Regeneration Department.
- 5.2 CAFS deal with any reactive allegation received and seek to recover misused tenancies and prosecute where there is believed to be criminal activity. CAFS continue to receive referrals about a variety of housing elements including;
- Housing applications
 - Under and over occupancy
 - Assignment and succession
 - Right to Buy
 - Sub-letting
 - Abandonment
- 5.3 A summary of the Housing/Tenancy Fraud cases identified by CAFS and H&F Housing and Regeneration Department for 2013/14 are shown in the table below, along with an attributed value to the Council of the identified fraud.

| Details | Totals | Attributed value to the Council |
|--|-----------|---------------------------------|
| Fraudulent Housing Applications | 8 | 144,000 |
| Properties recovered unopposed | 27 | 1,431,000 |
| Properties recovered following court proceedings | 11 | 495,000 |
| Succession refusals | 4 | 180,000 |
| TOTALS | 50 | £2,250,000 |

Figures based upon Audit Commission measurements

| On-going cases | | |
|--|----|-----|
| Notice To Quits issued or recommended | 34 | N/A |
| On-going investigations (North 19: South 16) | 35 | N/A |

- 5.4 In addition to the financial value placed upon the recovery of fraudulently misused social housing there are also social and non-financial benefits which do not hold an intrinsic value.

6 BENEFIT FRAUD

- 6.1 Since April 2013 CAFS have applied sanctions against fraudulent benefit claimants totalling £260,281 including prosecution action, formal cautions and fines of £4,009.
- 6.2 A summary of the Housing Benefit cases investigated by CAFS during the year is shown in the table below.

| Details | 2012/2013 (full year) | Overpaid £'s | 2013/2014 | Overpaid £'s |
|-------------------------------|--------------------------|-----------------|-----------|-----------------|
| Referrals | 228 | - | 183 | - |
| Accepted for investigation | 82 | - | 83 | - |
| Successful Prosecutions | 11 | 159,325 | 12 | 242,944 |
| Unsuccessful prosecutions | 0 | - | 0 | - |
| Formal Cautions | 0 | 0 | 2 | 3972 |
| Administrative Penalties | 4 | 23,141 | 4 | 13,363 |
| Total fraud identified | | 182,466 | | 260,281 |
| 40% subsidy | | 72,986 | | 104,112 |
| Ad pen fines administered | | 6,485 | | 4,009 |
| Total recoverable | | 261,937 | | 368,403 |

6.3 Details of significant individual investigations resulting in successful prosecutions are reported at Appendix B, for information.

Single Fraud Investigation Service

6.4 The Fraud & Error Strategy: *Tackling fraud and error in the benefit and tax credits systems* contained a commitment to establish a Single Fraud Investigation Service (SFIS) to investigate Social Security welfare benefit and Tax Credit fraud across local authorities (LA), HM Revenue and Customs (HMRC), and DWP.

6.5 On 1 May 2014 the DWP wrote to the Chief Executive to confirm that the implementation date for Tri-borough Councils is 1 March 2015 when the responsibility for the investigation of Housing Benefit fraud will transfer to the DWP.

6.7 Council staff whose work is solely or primarily the investigation of Housing Benefit will also transfer to the DWP on their existing terms and conditions via a Transfer of Undertakings Protection of Employment.

6.8 It is envisaged that the transfer will impact upon the Council and the fraud service in the many ways.

- **Holistic approach to tackling fraud** - The Council will no longer be able to investigate Housing Benefit fraud matters and no agreement has yet been reached as to how cases, involving other Council services, will be dealt with. For example, when a Housing Benefit fraud occurs it often has implications for a possible breach of social housing tenancy (i.e. subletting). Currently CAFS are able to investigate the entire criminality, but when SFIS commences this may not be possible.
- **Powers to investigate** - The statutory powers associated with the investigation of Housing Benefit fraud, in accordance with the Social Security Fraud Act 2006, will also be removed. The evidence obtained

by these powers is also used to bring charges against those who commit other or like offences against the Council.

- **Missed fraud referrals** - Referrals received in respect of Housing Benefit fraud often links the suspect to other Council services that may be being obtained illegally or unlawfully. These referrals may be lost to the DWP who will solely focus their efforts on DWP benefits (i.e. Incomes Support) and Housing Benefit fraud with no reasonable regard for the Councils potential loss.
- **Reduction in resources** - There will be a reduction in fraud resource with many officers transferring to the DWP. Although the workload in respect of Housing Benefit will transfer as well, all officers within CAFS are generic investigators who work on all types of fraud affecting the Council. The vast majority of Housing Benefit claimants are also in receipt of Council Tax Support for which Local Authorities have an ongoing duty of care. The fraud resource will be reduced following transition but the requirement to investigate will remain for the same number of cases.
- **Debt recovery** - The overpayments of Housing Benefit generated by the DWP investigators will be left with the Council to recover.
- **New burdens** - No electronic transfer of data or access to Council systems has been set up by SFIS, and from the 1 March 2015 the officers responsible for the investigation of Housing Benefit fraud will no longer be located in Council offices. The burden of resourcing and responding to data requests (i.e. application forms, correspondence, screen prints) will fall upon the Council.

6.8 In principle SFIS is viewed as a good idea, having a single fraud team to deal with a single benefit (i.e. Universal Credit), but there is a concern that the implementation is being rushed ahead of the roll out of Universal Credit. Therefore the transfer of Council fraud officers to DWP before Universal Credit is finalised may increase the risks of fraud in relation to housing costs as well as other Council services.

7 PROCEEDS OF CRIME

7.1 The use of dedicated Financial Investigators continues to provide rewards with almost £135k recovered in the year.

7.2 Financial investigators have been actively pursuing opportunities to assist other departments across the Council which has led to a joint operation with Trading Standards that had resulted in a sizeable cash seizure.

7.3 A summary of the work undertaken by the Financial Investigators is detailed in the table below.

| Total loss identified | Confiscation awarded by Court (including costs & profit) | Recovered to date | Recovery on-going |
|-----------------------|---|-------------------|-------------------|
| £270,318 | £296,004 | £135,630 | £160,374 |

8 NATIONAL FRAUD INITIATIVE (NFI) 2012/13

- 8.1 In September 2012 Hammersmith & Fulham submitted all required datasets to the Audit Commission for the 2012/13 NFI.
- 8.2 The preliminary results from the NFI data matching exercise were received in March 2013 and distributed to the relevant parties. CAFS manage the process and will deal with any fraud matters that arise from matching anomalies.
- 8.3 The results identified potential discrepancies between data held across the Council's systems and those of other public sector bodies participating nationally.
- 8.4 To date over 1,900 matches have been processed, 216 discrepancies identified and reviewed, 195 on-going enquiries and 2 frauds successfully proven. The Audit Commission have valued Hammersmith & Fulham's public sector savings to date at £1,017,875 including £602,575 in wrongfully claimed Housing Benefit.

9. OPTIONS AND ANALYSIS OF OPTIONS

- 9.1 Not applicable

10. CONSULTATION

- 10.1 Not applicable

11. EQUALITY IMPLICATIONS

- 11.1 Not applicable

12. LEGAL IMPLICATIONS

- 12.1 Not applicable.

13. FINANCIAL AND RESOURCES IMPLICATIONS

- 13.1 Not applicable.

14. RISK MANAGEMENT

- 14.1 Not applicable.

15. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 15.1 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. | A Hyatt | HTH |

APPENDIX A
Financial Value of Counter Fraud Work Undertaken 2013-14

| <u>RECOVERABLE LOSSES (£)</u> | |
|--------------------------------------|-------------------|
| HB overpayments (sanctioned) | 260,281 |
| HB overpayments (non-sanctioned) | 234,705 |
| Direct Payments | - |
| Internal (claims) | - |
| NFI | 602,575 |
| | £1,097,561 |
| <u>SAVINGS (£)</u> | |
| Cash savings | |
| HB reduced/prevent/stopped | 2,723 |
| Local Taxation - NNDR, CT | 4,779 |
| Accessible Transport | 6,284 |
| Parking - business/residential | - |
| | £13,786 |
| Notional savings | |
| Housing | 324,000 |
| Tenancy | 1,926,000 |
| Internal (staff/contractor) | 67,025 |
| NFI | 415,300 |
| | £2,732,325 |
| Preventative | |
| Attributed savings | 25,000 |
| | 25,000 |

| <u>POCA (£)</u> | |
|--------------------------------|-----------------|
| POCA recovered | 135,630 |
| Confiscation | - |
| Compensation loss+ | - |
| POCA costs | 35,824 |
| POCA orders outstanding | 124,550 |
| | 296,004 |
| <u>MISC. INCOME (£)</u> | |
| Court Costs | 1,215 |
| Administrative Penalty | 4,009 |
| 40% HB subsidy | 439,024 |
| Fraud recovery | 65,630 |
| | £509,878 |

Fraud identified

£3,868,672

Income generated

£805,882

Tenancy and Housing fraud notional values

Tenancy and Housing fraud has been valued using notional values quoted by the Audit Commission.

- **Tenancy fraud:** £45,000 per property based upon the average cost of temporary accommodation (£18,000 p.a.) multiplied by the average length of re-housing an average sized family (2.5 years). An additional £8,000 saving is also claimed when keys are returned based upon average cost of legal action and bailiff intervention to recover property via the court.
- **Succession or assignment fraud:** each time a fraudulent assignment or succession is stopped it frees up an additional unit and therefore this is valued at £45,000 for the reasons above.
- **Housing fraud (false applications):** £18,000 based upon the annual cost of housing a family in temporary accommodation.

Housing fraudster sentenced after decade of deception

Monday, October 21, 2013

Eagle-eyed housing officials working for Hammersmith and Fulham Advice have caused a scheming woman to be brought to justice after she used her parents' address in order to falsely claim assistance for her housing. From December 1999 until December 2011 _____ claimed to have been living with her parents, when in fact she was living independently as a tenant of the Family Mosaic Housing Association. The scam even led to her claiming that she was sharing a room with her younger brother and was therefore in need of her own space.

The fraudster, who had worked as a personal adviser for the Department for Work and Pensions (DWP) since 2000 helping young people into employment, was caught out after officials spotted payments made from her bank account to Kensington & Chelsea, where she was liable for council tax. She even gave her false address to the DWP. After being caught by the council's corporate anti-fraud fraud she pleaded guilty to all five charges against her and was ordered to complete 200 hours of community service, as well as a six month prison term for each offence to run concurrent, suspended for one year. The judge noted that _____ had shown no remorse and had used her professional experience to commit the crimes, and ordered that £1600 in costs should be paid to the council. The judge also made it clear that _____ had been devious and dishonest over a long period of time, and that social housing is scarce and should be available only to the needy who really deserve it.

Deputy Leader of Hammersmith & Fulham Council Greg Smith said, "We will not rest in our fight against fraudsters. I commend the officials involved for their tenacity and vigilance in bringing this offender to justice. I hope this case will set an example to others who think they can cheat the system – you will be found out eventually and get your just reward."

Benefit fraudsters prosecuted

Thursday January 9, 2014

Two women who stole from the taxpayer by fiddling the benefits and social housing systems have been prosecuted.

_____, 42, of Dairy Close, Fulham, falsely claimed a total of £13,276 in overpaid housing benefit, council tax benefit and jobseeker's allowance between February 2010 and May 2012.

Hammersmith & Fulham Council received allegations that _____ was illegally subletting her flat and the ensuing investigation by the council and the Department for Work and Pensions led officers to a secret bank account where _____ had stashed away thousands of pounds.

Bank statements showed that numerous different people had deposited cash in the account and there were other unidentifiable deposits. _____, who was unemployed at the time but now works as an account director for technology firm Oracle, initially claimed they were put there by family members and friends who were helping her out financially.

But _____ – who was trying to appeal the benefit overpayments - pleaded guilty at West London Magistrates Court on December 16 (2013) to two charges of failing to declare her true finances and was ordered to pay a total of £2,000 in fines, along with a victim surcharge of £100 and £85 in court costs.

_____, 40, originally of Shepherds Bush and now living in Wesley Close, Southwark, first applied to Hammersmith & Fulham (H&F) Council for a property in 2000 but also applied to become a tenant in Southwark at the same time. She failed to declare this and the fact that she held a tenancy in Camberwell with Eaves Housing for nine months in 2004. _____ remained on the housing register in H&F claiming that she was still living at her aunt's address in Benbow Road, Shepherds Bush.

When the civil servant was offered a flat in Walham Green Court, Cedarne Road in 2010 she failed to tell the council that she had already living in her Southwark home since 2004 and in fact had bought it through the 'right to buy' scheme four years later. Instead, _____ let out the flat in south east London and moved to the H&F Council property in Fulham.

Her deceit was uncovered when H&F Council was alerted the Audit Commission, via the National Fraud Initiative – a data-matching exercise that helps detect fraud and overpayments from the public purse across the UK by matching data across organisations and systems.

_____, who was working for the Home Office at the time and now works for the Department for Culture, Media and Sport, pleaded guilty to two fraud offences and two of theft.

She was sentenced on December 12 at Hammersmith Magistrates Court to a suspended jail sentence of nine months and ordered to carry out 200 hours of unpaid work within the year.

_____ no longer has a tenancy in H&F and the flat in Fulham has since been reallocated. The council has also applied to the criminal courts to seize any ill-gotten gains under the Proceeds Of Crime Act 2002.

Cllr Greg Smith, H&F Council's deputy leader, said: "Social housing and benefits act as a safety net for residents who genuinely need a helping hand and are not for swindlers who want to make a fast buck at taxpayers' expense. People who try to fiddle the system by purposely lying and being deceitful will be caught."

Fake Greek comes acropolis as benefits scam unravels

Monday February 3, 2014

An illegal immigrant who created a false Greek personality, using counterfeit documents, to swindle taxpayers' cash has been sentenced to 16 months in prison.

Afghani national _____ used a fake Greek passport, driving licence and ID card to fleece taxpayers out of more than £63,000 in a seven year long deception.

_____, of Uxbridge Road W12, used the dodgy documents to actively impersonate someone else so he could claim housing benefit, council tax benefit, parking permits and a single person discount which he was not entitled to.

But a joint investigation between Hammersmith & Fulham (H&F) Council fraud investigators and the UK Border Agency discovered _____'s ploy and he was arrested in October 2013.


The passport, driving licence and Greek ID card were verified as fakes by the UK Border Agency and, in an interview under caution, _____ admitted that he was not _____. A search of his home also uncovered numerous other documents using his Greek alias.

The fraudster who was previously imprisoned in 2003 for the theft of a credit card in the name of _____, was charged with seven counts of fraud and pleaded guilty at Kingston Crown Court last month.

Cllr Greg Smith, H&F Council Deputy Leader, said, "Scheming _____ was using fake documents to live a big fat Greek lie. But this imposter's scam now lies in ruins as our eagle-eyed fraud investigators brought him to justice. Once he has finished serving at Her Majesty's pleasure I hope the UK Border Agency will be successful in deporting him from these shores once and for all."

After pleading guilty the defendant was sentenced to 16 months in prison at a hearing at Kingston Crown Court on January 20. He is an illegal over stayer, according to The UK Border Agency, and will be deported unless an appeal to the Home Office is successful.

Agenda Item 11

| | |
|---|--|
|  | London Borough of Hammersmith & Fulham (AUDIT, PENSIONS AND STANDARDS COMMITTEE) (30 June 2014) |
| TITLE OF REPORT | |
| Outstanding Recommendations for External Audit and Fraud response Plan | |
| 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 – Senior Audit Manager | 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 2012/13 Annual Governance Report
- Progress on implementing the recommendations in the Fraud Response Plan

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 2013 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2012/13'. The report contained 2 recommendations for implementation by management. Only one of these recommendations remained outstanding to report to this Committee meeting.
- 4.2. 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.
- 4.3. The Fraud Response Plan was largely cleared at the last APSC meeting, there were 3 recommendations outstanding to report on progress to this meeting.

5. PROPOSAL AND ISSUES

5.1. Update on External Audit recommendations

- 5.1.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing recommendations from the KPMG 'Report to those charged with governance (ISA 260) 2012/13'. An update on the one outstanding recommendation has been sought for this report. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

5.2. Fraud Response Plan

- 5.2.1. Attached at Appendix C is the progress report on the implementation of the remaining recommendations.
- 5.2.2. Two of the three remaining recommendations are now considered cleared. The remaining recommendation remain extant as they cannot be cleared yet. Unless otherwise stated, Internal Audit has not verified the current position reported by officers and can therefore not give any independent assurance in respect of the reported position.

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 |

LIST OF APPENDICES:

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| Appendix A | External Audit Recommendations |
| Appendix B | Fraud Response Plan Recommendations |

External Audit Recommendations Update


| Report | Recommendation/Areas of Improvement | Initial response and timescale | Responsible Officer | Update to Audit, Pensions and Standards Committee |
|--|---|--|---------------------------------------|---|
| <i>Report to those charged with governance (ISA 260) 2012/13</i> | | | | |
| | <p>R1 - Non-Current Asset Management The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.</p> | <p>We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. This is due to go live in April 2014 and it will form the basis of closing the accounts in 2014/15. In the meantime (year of account 2013/14) the Council will continue to use spread sheets which will be refined and improved where possible.</p> | <p>Bi-Borough Director of Finance</p> | <p>As per the original response, this recommendation is being addressed via the Managed Services project. The specification for the Fixed Asset register has now been agreed with the provider. Integrated Systems Testing (IST) commenced on 11th November 2013 with User Acceptance Testing to follow in January.</p> |

Fraud Response Plan Recommendations

| APSC requirement | Action Plan | Responsible Officer | Progress to August 2013 | Progress to November 2013 |
|--|--|----------------------------------|--|--|
| <p>1. Look at the potential to share intelligence with others, particularly Govt Depts (HMRC), to consider the potential for prosecution of businesses: 'The Exec Dir of Finance & corp Gov cross checks the list of property owners benefiting from the granting of retrospective NNDR relief with records of operators of premises who have had licenses revoked and/or have been subject to enforcement action by HMRC, as a means of focussing any further investigations'.</p> | <p>We have contacted HMRC and the units within LBHF who dealt with them and collected some information from them. However further evidence has been identified within the investigation which may offer a more effective solution to the potential for prosecution of some businesses. This is currently being looked into. Further details cannot be provided at this time due to the confidentiality of prosecution cases.</p> | <p>Investigations consultant</p> | <p>We will trial a data exchange on large scale local frauds but for the local rate payer prosecutions we are using a more effective risk based approach to identify the most appropriate cases. Once the criminal action is complete a more detailed update will be provided.</p> | <p>As already stated, HMRC has already been contacted along with service units within the council. The information gleaned from this plus additional evidence identified within the investigation has been used to identify cases for prosecution, the final selection will be agreed with Legal Services. Going forward, a trial business intelligence project has commenced to look at better use of council data to identify fraud. The initial trial is focussing on housing/tenancy fraud as this can use more readily available data. If successful this is expected to be extended into other fraud risk areas. This is now considered cleared.</p> |

| No. | Recommendation | Responsible Officer | Proposed action | target date | Progress to September 2013 | Progress to November 2013 |
|--------------------|---|----------------------------|--|----------------------|---|---|
| KPMG Rec R8 | <p>As part of the Council's assessment against the new Public Sector Internal Audit Standards and ensure that: § The annual audit plan is presented to the Audit</p> | <p>Internal Audit</p> | <p>While the risk assessment is already provided in the form of the risk registers which are reported to every Committee</p> | <p>31 March 2014</p> | <p>This will be undertaken for the 2013/14 audit plans due to APSC in February 2014</p> | <p>This was undertaken for the 2013/14 audit plans reported to APSC in February 2014. This is now</p> |

| | | | | | | |
|-----------------------------|---|----------------|---|---|--|--|
| | Committee in the context of a wider strategic plan, together with a supporting risk assessment. | | meeting, additional information will be provided to the committee to support the audit plans and put them into context | | | considered cleared. |
| KPMG Rec R14 | Disseminate the lessons learnt from this review widely. | Internal Audit | Once the criminal proceedings are completed, this will be shared with HFBB and the Finance Strategy Board to act on as appropriate. | 31 March 2014, but dependent on court cases | It is not possible to action this yet. | It is not possible to action this yet. |

| | |
|---|--|
|  | London Borough of Hammersmith & Fulham (AUDIT, PENSIONS AND STANDARDS COMMITTEE) (30 June 2014) |
| TITLE OF REPORT | |
| Head of Internal Audit Annual Report 2013/14 Year | |
| 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 Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2013/14 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).

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. See report below

5. PROPOSAL AND ISSUES

5.1. See report below

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:

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| Appendix B | Internal Audit Performance – 2013/14 |
| Appendix C | Internal Audit work for which an assurance opinion was not provided |
| Appendix D | Follow up Audits |

**London Borough of Hammersmith and Fulham
Head of Internal Audit Report
For The Year Ended 31 March 2014**

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1. Executive Summary

1.1. Introduction

- 1.1.1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Public Sector Internal Audit Standards.
- 1.1.2. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- 1.1.3. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.1.4. The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 1.1.5. When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.
- 1.1.6. The standards require the report to identify:
 - The scope including the time period to which the opinion pertains;
 - Scope limitations;
 - Consideration of all related projects including the reliance on other assurance providers;
 - The risk or control framework or other criteria used as a basis for the overall opinion; and
 - The overall opinion, judgment or conclusion reached.
 - The reasons for an unfavourable overall opinion if provided.
- 1.1.7. In setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirements of Regulation 4 of the Accounts and Audit Regulations 2003 and amending regulations. These state that:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2013/14

1.1.8. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support of its Annual Governance Statement.

1.2. Scope of Responsibility

1.2.1. The London Borough of Hammersmith & Fulham is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2.2. In discharging this overall responsibility, the London Borough Hammersmith & Fulham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

1.3. The Purpose of the System of Internal Control

1.3.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hammersmith & Fulham's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

1.4. The Internal Control Environment

1.4.1. The CIPFA Public Sector Internal Audit Standards defines the control environment as providing the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

1.5. Review of Effectiveness

1.5.1. The London Borough of Hammersmith & Fulham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual letter and other reports.

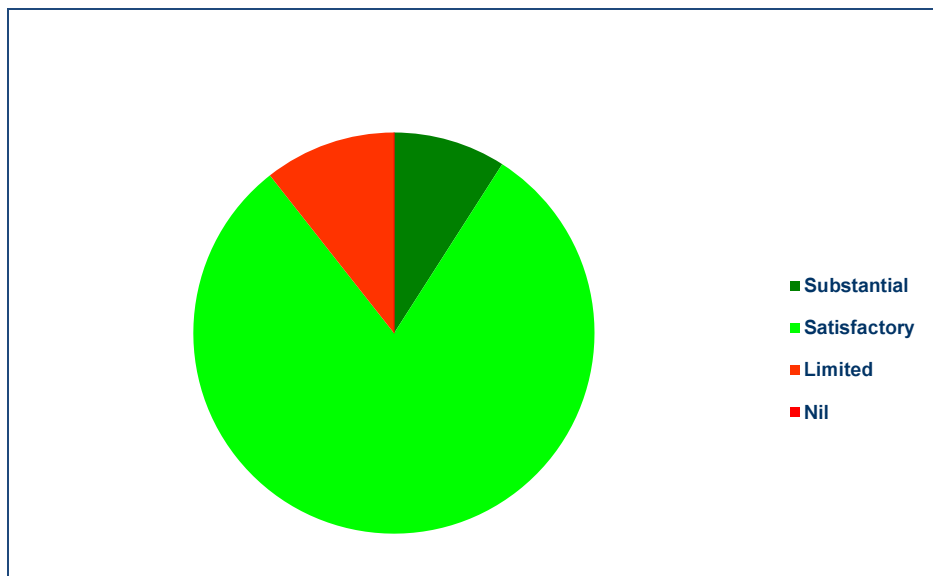
1.6. Head of Internal Audit Annual Opinion Statement

- 1.6.1. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2013/14, including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management arrangements.
- 1.6.2. The internal audit plan for 2013/14 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

1.7. Basis of Assurance

- 1.7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.
- 1.7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including such as External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the tri borough arrangement.
- 1.7.3. The audit work that was completed for the 2013/14 financial year is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 1.7.4. The pie chart below shows the levels of audit assurance achieved for the 2013/14 year. 89% of the systems audited achieved an assurance level of Satisfactory or higher, of which six audits received Substantial Assurance. 11% received a Limited Assurance and no Nil Assurance reports were issued in 2013/14. . Two of the seven Limited Assurance reports were for schools and a further three were audits undertaken at the request of management who had already identified weaknesses or concerns.

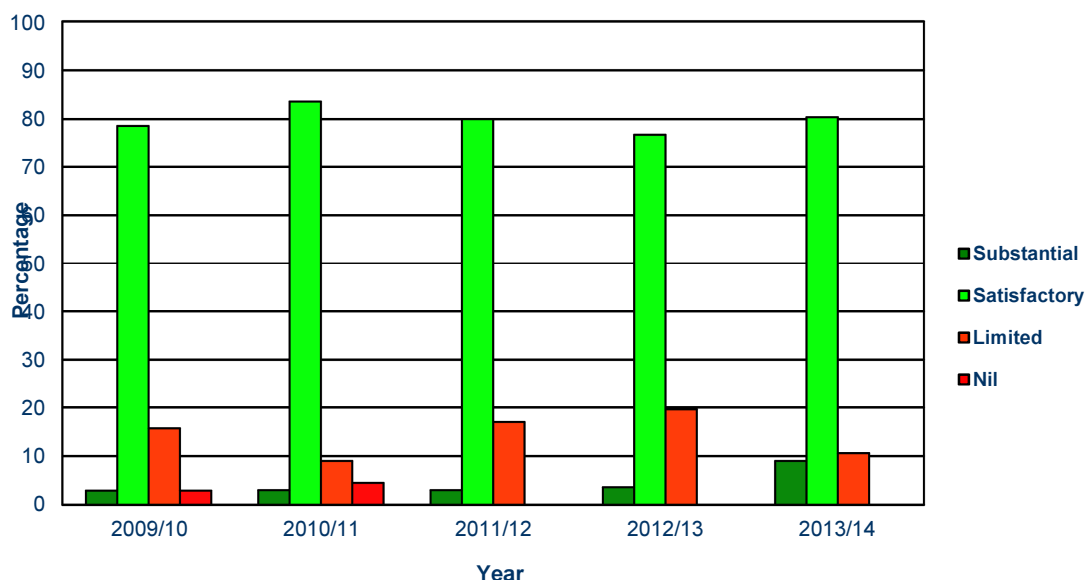
Assurance Levels for the year to 31 March 2014



- 1.7.5. The bar chart below shows the levels of assurance provided for all systems audited

since the 2009/10 financial year. The distribution of assurance opinions shows a decrease in Limited assurance reports and an increase in Substantial assurance reports. Given the significant changes that continue to occur across the Council, which would usually be expected to increase levels of control weakness, this is considered a positive outcome.

Assurance Levels of Reports from 2009/10 to 2013/14

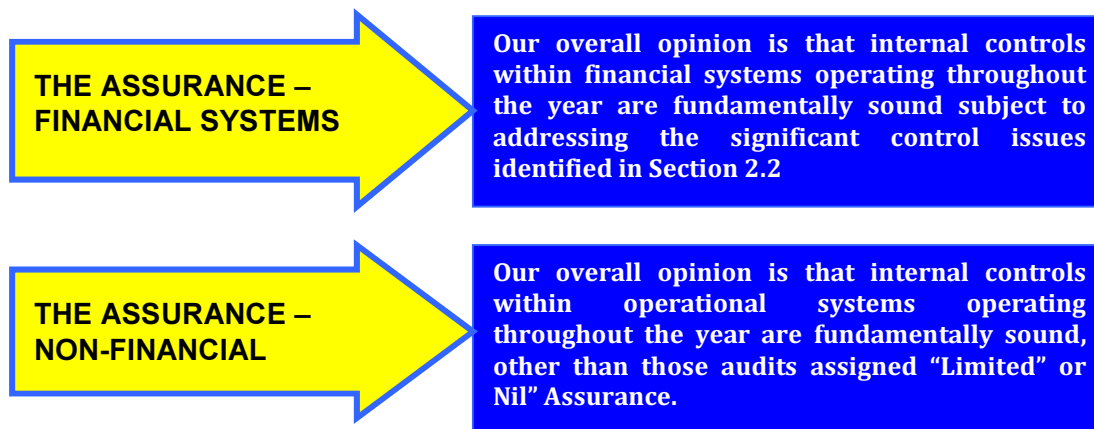


1.7.6. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2014/15 to confirm that they have been implemented. The table below shows the percentage of recommendations past their implementation date reported as implemented. The volume of recommendations that have been implemented over the period help demonstrate the value of Internal Audit as an agent for change and improvement. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit, Pensions and Standards Committee.

| Financial year | Recommendations Raised | Recommendations Implemented | % Implemented as at 11 June 2014 |
|----------------|------------------------|-----------------------------|----------------------------------|
| 2013/14 | 118 | 117 | 99.2% |
| 2012/13 | 238 | 235 | 98.7% |

1.8. 2013/2014 Year Opinion

1.8.1. From the Internal Audit work undertaken in 2013/14, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2014 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 2.2. The assurance can be further broken down between financial and non-financial systems, as follows:



1.8.2. In reaching this opinion, the following factors were taken into particular consideration:

- a) The whole programme of internal audit work undertaken by Deloitte / Mazars between 1 April 2013 and 31 March 2014. This included a review of the Council's Corporate Governance and Risk Management arrangements;
- b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council on LBHF functions;
- c) Year-end review of Internal Audit against CIPFA's Public Sector Internal Audit Standards as part of the Annual Governance Statement (AGS) process in March 2014 provided a positive result;
- d) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
- e) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

1.9. The System of Internal Financial Control

1.9.1. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;

- Setting targets to measure financial and other performance;
- Clearly defined capital expenditure guidelines; and
- A formal programme and Project management discipline.

1.9.2. Our review of the effectiveness of systems of internal financial control is informed by:

- The work of internal audit as described in Appendices A, C and D; and
- The external auditors in their management letter and other reports.

1.9.3. From the above, we are satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within this report. Based on the management responses provided to our recommendations, we are also satisfied that mechanisms have been put in place which would identify and address any material areas of weakness.

1.10. Corporate Governance

1.10.1. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE and updated in 2013. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'satisfactory' level of assurance as to the Corporate Governance systems in place.

1.11. Risk Management

1.11.1. Two risk management audits were completed as part of the 2013/14 audit plan. Namely, financial risk management and an audit of risk management within the Housing and Regeneration department.

1.11.2. A Substantial assurance opinion was provided for Financial Risk Management with no recommendations being raised.

1.11.3. A Satisfactory assurance opinion was provided for the audit of Housing and Regeneration Departmental Risk Management. Two recommendations were raised that related to:

- Classifying risks in relation to PESTLEcc categories, and
- Keeping action plans within the risk register up to date and assigning risks to responsible officers.

1.11.4. An audit of the risk management arrangements within the Adult Social Care department was deferred from the 2012/13 audit plan. As such this audit has not been included in the table of audits completed in Appendix A. A Limited assurance opinion has been provided with the following key recommendations being raised:

- A risk management policy and procedure should be established for the Tri Borough Adult Social Care Service.
- The risk register should be amended to include existing controls; proposed controls; inherent and residual risk; and actions taken and assurance that they have been successfully completed.
- The risk register should include detail on independent assurance and controls relied on from third parties and other Council service lines.

- An approach to communicating relevant risks and controls across the department and the three boroughs should be agreed and the management reporting requirements for the department should be defined.
- The frequency of review of the Adult Social Care risk register should be agreed.

1.11.5. In drawing together our opinion we have relied upon:

- Our assessment of risk management through individual audits;
- The role of the Bi Borough Risk Manager who has Council wide responsibilities for co-ordinating and implementing the risk management policies across the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea; and
- The work of Internal Audit as described in Appendices A, C and D.

1.12. We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

CHIEF INTERNAL AUDITOR

June 2014

2. Detailed Report

2.1. Introduction

2.1.1. This section outlines the following:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements; and
- A brief summary of the audit service performance against agreed performance measures.

2.2. Significant Control Weaknesses

2.2.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2013/14, the following significant issues were identified:

- A Limited Assurance opinion was provided for our audit of the Use of Consultants and Interims. This followed a Nil assurance opinion being provided in 2010/11. Although the design of the control system was found to be satisfactory, a large amount of non-compliance was identified;
- Weaknesses were identified in the Council's supply chain resilience arrangements;
- The corporate contracts register was found to be incomplete; however, a new system, CapitaleSourcing, has since been implemented and it is envisaged that this will improve the maintenance of the contracts register;
- Public Health, financial accounting and charging was audited and is the basis for the Annual Governance entry on the subject included at paragraph 2.2.2 of this report;
- Two schools received Limited Assurance opinions (St Pauls CE Primary School and St Thomas of Canterbury Catholic Primary School), which is an improvement on the previous year where four schools received a Limited Assurance opinion.

2.2.2. Significant control weaknesses stated in the Council's Annual Governance statement include:

- Whilst the Council remains resilient to its main contractors it remains at risk of service interruption in responding to the failure of a critical subcontractor and business continuity plans do not always allow for this risk. The Bi-borough Procurement Strategy Board are reviewing the systems and processes associated with resilience of the supply chain and a Tri-borough solution is in development.
- The council is required under its contract standing orders to record its contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded (using the London Councils Contracts Database where these have a total value of £50,000 and over). It is apparent that the register was incomplete. A review of contracts was being undertaken by Corporate Procurement.
- Health and Safety Management: There has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012- 2013 and into 2013-2014. This issue was raised following a prosecution by the Health and Safety Executive. Improvements have included enhanced training, support, resource and guidance. A map of Health and Safety risks has also been compiled and is reviewed quarterly. This matter is therefore considered closed.
- Public Health, financial accounting and charging: As of the 1st April 2013 local authorities have a key role in improving the health and wellbeing of their local population and working in partnership with clinical commissioning groups and other health institutions. This involves commissioning and collaborating on a range of public health services. A review of the financial accounting and charging arrangements set out by the Department of Health (DoH) established a limited assurance on expenditure made in accordance with the DoH grant conditions. The conditions cover how the grant may be spent and the activities on which it may be spent. The current Business Partners, with the assistance of the Business Support Team, have been making significant progress with addressing these issues.
- Adult Social Care risk management: Management of risk is intrinsically important to the successful delivery of objectives. The department recognises the importance of a risk management process that are embedded and integrated into business processes. Many elements of operational risk management are considered to be effective however these are not managed within a structure that is consistent with the Tri-borough risk management strategy. These include consideration of a departmental risk register comprising strategic, business as usual and change risks that are measured, allocated, categorised and reviewed. Departmental procedures have been reviewed and an action plan implemented to improve the issues identified.

2.3. Key Issues

2.3.1. There are a range of key issues that are likely to be of significance for the 2014/15 year and beyond that Internal Audit need to be aware of. These include:

- The continued impact of the current economic climate on the Council's finances through reduced levels of income with councils facing further reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and the performance

levels and financial stability of organisations the Council works with;

- The transformation programme and projects continue to be undertaken to deliver savings. This degree of change brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect Internal Audit involvement in transformation projects and new initiatives to continue, both to provide assurance and provide support for new systems being 'right first time';
- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea during this period of change may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- On 11 February 2013 Hammersmith & Fulham signed up to a managed services contract with BT that began a radical redesign of the Council's human resources and finance services. This project will lead to significant changes to systems, process and ways of working across the Council. Progress in implementation of the programme has been subject to delays is now scheduled to go live in by September 2014 at the latest. Effective programme management arrangements are critical for the successful and timely implementation of this project,

2.4. Qualifications to the opinion

2.4.1. Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate co-operation from officers and members.

2.5. Other Assurance Bodies

2.5.1. In formulating the overall opinion on internal control, we took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) The annual letter from the Authority's external auditors; and
- b) Internal audit work undertaken by Royal Borough of Kensington and Chelsea and Westminster City Council as part of the Tri Borough arrangement.

2.6. Risk Management Process

2.6.1. The principle features of the risk management process are described below:

2.6.2. Risk Management Strategy

The Authority has established a joint Risk Management Strategy with its Tri-borough partners that sets out its policy and attitude to risk. The Strategy:

- a) explains the Authority's underlying approach to risk management;
- b) documents the roles and responsibilities of the Authority and directorates;
- c) outlines key aspects of the risk management process; and
- d) identifies the main reporting procedures.

This Strategy has been communicated to key employees and can be accessed on the Tri-borough Intranet site, TriBnet.

2.6.3. Risk Registers

The Authority has departmental and divisional risk registers in place, as well as registers for specialist areas including IT, finance and fraud. Procedures are in place for risk registers to be reviewed at least on a bi-annual basis. We adopt a risk based auditing approach.

2.7. Audit Plan

- 2.7.1. The Operational Plan for the 2014/15 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage. We agreed and discussed the audit plan with Executive Directors and Directors. We also consulted various other sources and coordinated the plan with those of the Royal Borough of Kensington and Chelsea and Westminster City Council.
- 2.7.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.
- 2.7.3. The level of Internal Audit resources was considered adequate for the 2013/14 year. Also The Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of a contractor, Deloitte and then Mazars, to deliver the core audit service plus the use of the audit services from RBKC and WCC to deliver parts of the audit programme where the audits related to tri- and bi-borough services.

2.8. Internal Audit Assurance Levels

- 2.8.1. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. Two audited this year have shown deterioration in control since the last time they were audited: St Pauls CE Primary School and St Thomas of Canterbury Primary School. The remaining areas have either remained the same or improved. Use of Consultants and Interims has increased from the previous Nil Assurance opinion but still received a Limited Assurance opinion this year for compliance with procedures. There is an ongoing programme of follow up work for all reports receiving a "Limited" or "Nil" assurance opinion to ensure that recommendations are implemented.
- 2.8.2. Of the seven audits that received a Limited Assurance opinion (six final and one draft reports) three were Council wide audits, two were schools and two fell within Environment Leisure and Residents Services. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.
- 2.8.3. Nine follow up visits were undertaken in 2013/14 to determine if recommendations raised within the 2012/13 audit visits have been implemented including one follow up undertaken by the Royal Borough of Kensington and Chelsea. A summary of our findings can be found in Appendix D.
- 2.8.4. In total, 87 recommendations have been followed up, of which 51 were either fully

implemented or no longer relevant, representing 59% of all those tested. If partially implemented recommendations are added this totals 78% of all those tested. This is a deterioration since 2012/13. The follow up regime will continue so that it can continue to provide assurance going forward and the result of all follow ups will continue to be reported to the Audit Pensions and Standards Committee.

2.8.5. We also undertook follow-ups on priority 1 recommendations raised in reports given 'Substantial' assurance and Management Letters where no assurance level was provided. Of the 4 priority 1 recommendations followed up, 2 were assessed as fully implemented and 2 as partly implemented. The recommendations and results of our follow up work can be seen in appendix D.

2.9. Internal Audit Performance

2.9.1. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2012/13, with all targets being achieved or narrowly missed exceeded with one exception. Considering the impact of Tri-Borough working on delivery in 2013/14 and the impact of the Public Sector Internal Audit team transferring from Deloitte to Mazars in February 2014, this is a good achievement. Focus will be given to maintaining or improving these performance standards in 2014/15.

2.9.2. The target of delivering 95% of the audit plan by the end of the 2013/14 financial year was achieved and this is the fifth year in a row in which this target has been achieved. It should be noted that 155 audit days were deferred into the 2013/14 year audit plan due to project delays or reasonable management requests to defer. This compares to 148 in the previous year. The majority of the days carried forward relate to audits of the Managed Services Programme that has been subject to delays.

2.9.3. While Deloitte/Mazars undertake their own quality reviews of their audit work, Hammersmith and Fulham also undertake quality reviews of a sample of their files to gain an assurance on the quality of audit work undertaken on behalf of the council. A total of 8 reviews were undertaken on 2013/14 year audit files, covering 3 generalist and 5 IT audits. None of these found any significant issues.

2.10. Compliance with CIPFA Public Sector Internal Audit Standards

2.10.1. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA Public Sector Internal Audit Standards. Our assurance is drawn from:

- a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte / Mazars;
- b) A review under way in 2014 against the new enhanced PSIA Standards.

2.11. Working with External Audit

2.11.1. The Council's new external auditors were appointed in October 2012 and do not intend to rely on the work on internal audit at this stage other than our work on the Managed Services Programme. We have been in liaison with External Audit and will continue to offer information and support where requested.

2.12. Internal Audit Provision Going Forward

2.12.1. The following aspects will impact on the future delivery of the Internal Audit service:

- Tri Borough working with Westminster and RBKC, including the establishment of a Tri Borough Director for Audit, Fraud, Risk and Insurance, has led to increased coordination of the 2014/15 planning process across the three boroughs. This approach aims to increase the level of assurance received by each Council as well as better coordinating audit work across the three boroughs; and
- As more transformation projects and changes to service delivery are being undertaken, there is likely to be increased requirement for Internal Audit involvement in transformation projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption. An example is the contract in Housing and Regeneration Dept with MITIE for the delivery of a range of key council housing systems, to which Internal Audit provided support in the 2013/14 year with the new systems due to be audited for the first time in the 2014/15 year.
- There is increasing development of tri-borough services. This will increase the level of coordination of audit planning for the three councils, it will also result in new processes and procedures developing that will need audit input and early audit coverage to ensure their adequacy and effectiveness. The developments include the proposals for a tri-borough corporate services within which the Internal Audit Division sits, which should affect the placing of the service within the overall organisation.
- As already mentioned earlier in this report at paragraph 2.3.1, the three councils have all signed up to a managed services contract with BT for the delivery of all their financial and HR systems. We will continue to monitor this major project with the go live date now planned to be 1 September 2014, and will need to provide early audit coverage of the new systems.

APPENDIX A - Assurance Levels 01/04/2013 – 31/03/2014

The table below provides a summary of the assurances assigned to each of our audits. Where the direction of travel column is blank, no similar audit has previously been conducted.

| | | Audit Opinion | | | | |
|-------------------------------|--|---------------|---------|--------------|-------------|------------|
| Department | Audit | None | Limited | Satisfactory | Substantial | Issued |
| FINALISED | | | | | | |
| Corporate/ Cross departmental | Local Support Payments | | | | | 31/07/2013 |
| Corporate/ Cross departmental | Supply Chain Resilience | | | | | 25/01/2014 |
| Corporate/ Cross departmental | Financial Risk Management | | | | | 12/05/2014 |
| Corporate/ Cross departmental | Contracts Register | | | | | 26/03.2014 |
| Adult Social Care | Homecare | | | | | 11/06/2014 |
| Adult Social Care | Housing Related Support Contract Management | | | | | 17/10/2013 |
| Children’s Services | Bayonne Nursery School | | | ↔ | | 04/11/2013 |
| Children’s Services | Vanessa Nursery School | | | ↔ | | 20/08/2013 |
| Children’s Services | John Betts Primary School | | | ↔ | | 12/03/2014 |
| Children’s Services | Larmenier and Sacred Heart Catholic Primary School | | | ↔ | | 04/02/2014 |
| Children’s Services | Lena Gardens Primary School | | | ↔ | | 05/11/2013 |
| Children’s Services | Miles Coverdale Primary School | | | ↔ | | 20/08/2013 |
| Children’s Services | Old Oak Primary School | | | ↔ | | 04/02/2014 |
| Children’s Services | Sir John Lillie Primary School | | | ↔ | | 04/11/2013 |
| Children’s Services | St Augustine’s Catholic Primary School | | | ↔ | | 08/10/2013 |
| Children’s Services | St Pauls Primary School | | ← | | | 04/02/2014 |
| Children’s Services | Wendell Park Primary School | | | ↔ | | 04/11/2013 |
| Children’s Services | St Thomas of Canterbury Catholic Primary School | | ← | | | 16/04/2014 |
| Children’s Services | William Morris Sixth Form | | | ← | | 16/04/2014 |

| | | Audit Opinion | | | | |
|------------------------------------|--|---------------|---------|--------------|-------------|------------|
| Department | Audit | None | Limited | Satisfactory | Substantial | Issued |
| Children's Services | Phoenix High School | | | ↔ | | 04/02/2014 |
| Children's Services | Queensmill School | | | ↔ | | 27/11/2013 |
| Children's Services | Canberra Primary School | | | ↔ | | 19/08/2013 |
| Children's Services | Early Help Project | | | | | 03/06/2014 |
| Children's Services | Project Management - MASH (Multi Agency Safeguarding Hub) | | | | | 03/06/2014 |
| Children's Services (IT) | Framework Social Care System- Application | | | | | 20/05/2014 |
| Corporate Services | Budgetary Control | | | | | 31/07/2013 |
| Corporate Services | Housing Benefit | | | ↔ | | 04/02/2014 |
| Corporate Services | Concessionary fares | | | | | 17/03/2014 |
| Corporate Services | Debtors | | | → | | 03/06/2014 |
| Corporate Services (IT) | IT Procurement | | | | | 04/02/2014 |
| Corporate Services | Pensions Administration | | | | → | 14/04/2014 |
| Corporate Services (IT) | BACS | | | | | 17/03/2014 |
| Corporate/ Cross departmental (IT) | IT Project Management Standards | | | | | 09/06/2014 |
| Corporate Services (IT) | Telecommunications | | | | | 30/01/2014 |
| Corporate Services (IT) | MyAccount and eServices | | | | | 18/09/2013 |
| Corporate Services | Agilisys - Enhanced Revenue Collection Contract Management | | | | | 14/11/2013 |
| Corporate Services | NNDR | | | → | | 15/05/2014 |
| Housing and Regeneration | Regeneration Programmes and Projects - Shepherds Bush | | | | | 24/01/2014 |
| Housing and Regeneration | Regeneration Programmes and Projects - Earls Court | | | | | 13/02/2014 |
| Housing and Regeneration | Sale of Council Housing Properties | | | | | 14/02/2014 |
| Housing and Regeneration | Housing Applications and Allocations | | | | | 26/03/2014 |
| Housing and Regeneration | Fixed Term Tenancies | | | | | 26/03/2014 |
| Environment, Leisure and | Register Office | | | | | 20/08/2013 |

| | | Audit Opinion | | | | |
|--|---|---------------|---------|--------------|-------------|------------|
| Department | Audit | None | Limited | Satisfactory | Substantial | Issued |
| Resident Services | | | | | | |
| Environment, Leisure and Resident Services | Street Enforcement | | | | | 20/11/2013 |
| Environment, Leisure and Resident Services | Sports Centre Contracts | | | | | 03/12/2013 |
| Environment, Leisure and Resident Services | Linford Christie Outdoor Sports Centre | | | | | 03/12/2013 |
| Environment, Leisure and Resident Services | North End Road Market | | | | | 16/05/2014 |
| Transport and Technical Services | Regeneration Programmes and Projects - King Street and Civic Offices | | | | | 18/03/2014 |
| Transport and Technical Services | Utilities Procurement | | | | | 21/02/2014 |
| Transport & Technical Services | TTS programme Management | | | | | 23/05/2014 |
| Transport & Technical Services | Parking Suspensions | | | | | 24/01/2014 |
| DRAFT ISSUED | | | | | | |
| Corporate/ Cross departmental | Corporate and Partnership Governance | | | ↔ | | 04/04/2014 |
| Corporate/ Cross departmental | Use of Consultants and Interims * | | → | → | | 14/02/2014 |
| Corporate/ Cross departmental | Information Management and Data Sharing | | | | | 03/06/2014 |
| Adult Social Care | Commissioning; Procurement and Contract Management in Adult Social Care | | | | | 02/04/2014 |
| Adult Social Care | ASC programme Management | | | | | 14/04/2014 |
| Corporate Services | Project Management - Timebase by Tricostar (case management system) | | | | | 05/06/2014 |
| Environment, Leisure and | Waste Disposal | | | | | 17/04/2014 |

| | | Audit Opinion | | | | |
|--|--|---------------|---------|--------------|-------------|------------|
| Department | Audit | None | Limited | Satisfactory | Substantial | Issued |
| Resident Services | | | | | | |
| Environment, Leisure and Resident Services | ELRS programme Management | | | | | 17/04/2014 |
| Environment, Leisure and Resident Services | SERCO Contract Management | | | | | 03/06/2014 |
| Housing and Regeneration | Departmental Risk Register - HRD | | | ↔ | | 27/03/2014 |
| Housing and Regeneration (IT) | iWorld application | | | | | 28/08/2013 |
| Housing and Regeneration | Leasehold Service Charges | | | | | 31/03/2014 |
| Transport and Technical Services | Section 106 Funding | | | | | 02/04/2014 |
| Transport and Technical Services | Property Disposals | | | | | 31/03/2014 |
| NOT YET ISSUED | | | | | | |
| Adult Social Care | Direct Payments | | | | | |
| Children's Services | Schools Employee Led Mutual | | | | | |
| Corporate Services | Project Management - One Place online services | | | | | |
| Total | | 0 | 7 | 53 | 6 | |

| | |
|---|----|
| Total Reports (including those not yet issued) | 68 |
|---|----|

* As part of the Use of Consultants and Interims audit we found the design of the control framework to be satisfactory; however, there was a significant degree of non-compliance across the Council with the procedure for recruitment of additional resources. As such we have provided a split assurance opinion with Satisfactory Assurance being provided on the adequacy of the system of controls and Limited Assurance on the application of these controls.

In addition to the work detailed above, the table below provides a summary of the assurances assigned to each audit undertaken by the RBKC or WCC internal audit teams that relate to LBHF functions.

| | | Audit Opinion | | | | |
|----------------------------------|--|---------------|---------|--------------|-------------|------------|
| Department | Audit | None | Limited | Satisfactory | Substantial | Issued |
| FINALISED | | | | | | |
| Corporate / Cross Departmental | Tri Borough IT Strategy and Governance | | | | | 21/03/2014 |
| Children's Services | Troubled Families – Part 1 | | | | | 26/07/2014 |
| Corporate Services | Insurance | | | | | 14/5/2014 |
| Transport and Technical Services | Street Lighting | | | | | 11/12/2013 |
| Public Health | Information Governance Toolkit | | | | | 16/04/2014 |
| Corporate / Cross Departmental | Tri Borough Network Security | | | | | 27/01/2014 |
| Public Health | Financial Accounting and Charging (part 1) | | | | | 09/04/2014 |
| NOT YET ISSUED | | | | | | |
| Corporate Services | Pensions Investment | | | | | |
| Corporate / Cross Departmental | Total Facilities Management: Contract Management/ICF | | | | | |
| Public Health | Governance | | | | | |
| Transport and Technical Services | Traffic Management | | | | | |
| Children's Services | Troubled Families – Part 2 | | | | | |
| Total | | 0 | 1 | 6 | 0 | |

Assurance Levels

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

| | |
|-------------------------------|--|
| 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. |

Direction of travel

| | |
|-----------------|---|
| → | Improved since the last audit visit. Position of the arrow indicates previous status. |
| ← | Deteriorated since the last audit visit. Position of the arrow indicates previous status. |
| ↔ | Unchanged since the last audit report. |
| No arrow | Not previously visited by Internal Audit. |

APPENDIX B - Internal Audit Performance – 2013/14

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Authority. The table below shows the actual and targets for each indicator for the period.

| | Performance Indicators | Annual Target | Performance | Variance |
|---|---|----------------------|--------------------|-----------------|
| 1 | % of deliverables completed (2013/14) | 95% | 95% | 0 |
| 2 | % of planned audit days delivered (2013/14) | 95% | 98% | +3% |
| 3 | % of audit briefs issued no less than 10 working days before the start of the audit | 95% | 95% | 0 |
| 4 | % of Draft reports issued within 10 working days of exit meeting | 95% | 93% | -2% |
| 5 | % of Final reports issued within 5 working days of the management responses | 100% | 91% | -9%* |

*Average time to issue final reports in 2013/14 was 3.4 days

APPENDIX C: Internal Audit work for which an assurance opinion was not provided

The table below provides a summary of the audit work for which no overall assurance opinion was provided.

| Department | Audit | Issued |
|--------------------------------|------------------------------------|---------------|
| Final | | |
| Corporate Services | Bribery Act | 05/06/2013 |
| Corporate Services | Duplicate Payments | 28/06/2013 |
| Corporate Services | Continuous Assurance | 28/10/2014 |
| Corporate Services | Contracts Register Summary Report | 30/01/2014 |
| Children Services | Children's Services Procurement | 10/12/2013 |
| Housing and Regeneration | Housing Repairs Contract ITT | 04/02/2014 |
| Public Health | Information Governance Toolkit* | 16/04/2014 |
| Transport & Technical Services | General Development Control Return | 21/08/2013 |
| Corporate Services | Corporate Gas Safety: tenancies | 15/01/2014 |

APPENDIX D - Follow up Audits

Follow visits were undertaken on the following audits that received a 'Limited' or 'Nil' assurance opinion in their 2008/09 or 2009/10 audit visit. The number of recommendations found to be implemented was as follows:


| Department | Audit | Recommendations | Implemented | Partly Implemented | Not implemented | No longer applicable |
|----------------------------------|---------------------------|-----------------|-------------|--------------------|-----------------|----------------------|
| Adult Social Care | Safeguarding | 9 | 7 | 2 | 0 | 0 |
| Children's Services | Cambridge School | 9 | 4 | 4 | 1 | 0 |
| Children's Services | Greenside School | 9 | 5 | 2 | 1 | 1 |
| Children's Services | Fostering | 16 | 8 | 4 | 4 | 0 |
| Corporate Services (IT) | HFBP Inventory Management | 8 | 6 | 2 | 0 | 0 |
| Corporate Services (IT) | ICT Programme Management | 11 | 10 | 1 | 0 | 0 |
| Corporate Services (IT) | Mobile Phones | 7 | 7 | 0 | 0 | 0 |
| Housing and Regeneration | Theft of Valuable Metals | 5 | 2 | 3 | 0 | 0 |
| Transport and Technical Services | Parking Pay and Display | 13 | 2 | 9 | 2 | 0 |
| Total | | 87 | 51 | 27 | 8 | 1 |
| % | | 100% | 59% | 31% | 9% | 1% |

*Undertaken by Royal Borough of Kensington and Chelsea Internal Audit team.

In addition to the follow up visits undertaken seven priority 1 recommendations raised in substantial assurance reports and management letters where no assurance opinion was provided were followed up to confirm implementation. The results were as follows:

| Priority 1 Recommendations | Implemented | Partly Implemented | Not implemented | No longer applicable |
|----------------------------|-------------|--------------------|-----------------|----------------------|
| 4 | 2 | 2 | 0 | - |
| % | 50% | - | 50% | - |

Agenda Item 13

| | |
|---|--|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 30 June 2014 |
| INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JANUARY TO 31 MARCH 2014 | |
| 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 – Senior Audit Manager | Contact Details: Tel: 0208 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 January to 31 March 2014 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 January to 31 March 2014 as well as reporting on the performance of the Internal Audit service for the 2013/14 financial year.
- 4.2. In order to minimise the volume of paperwork being sent to Committee members, documents detailing outstanding recommendations, as well as the full text of any limited or nil assurance reports have not been appended to this report. However, the information has been made available to all members separately.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Coverage

- 5.1.1. The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 5.1.2. A total of 22 audit reports were finalised in the third quarter of 2013/2014 from 1 January to 31 March. In addition 2 management letters and one follow up were issued.
- 5.1.3. For the one follow up undertaken, 2 recommendations had not been implemented and 9 had been partly implemented. A further follow up visit will be scheduled in 2014/15 to confirm that progress has been made with implementation of the outstanding recommendations.
- 5.1.4. Three audit reports issued in this period received limited or nil assurance: St Paul's CE Primary School, Supply Chain Resilience and Contracts Register.
 - 5.1.4.1. St Paul's CE Primary School made 6 recommendations, all of which have been reported as implemented.
 - 5.1.4.2. Supply Chain Resilience made 7 recommendations, of which two have been reported as implemented and the remainder are not yet due; and
 - 5.1.4.3. Contracts Register made 4 recommendations, none of which are yet due to be implemented.
- 5.1.5. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.

- 5.1.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently no reports outstanding that were due to be signed off on or before 31 March 2014.
- 5.1.7. There are now 4 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to 9 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 reduce the number of outstanding issues.
- 5.1.8. The breakdown of the 4 outstanding recommendations between departments are as follows:
- Children's Services (Non Schools) – 3
 - Corporate Services – 1
- 5.1.9. 3 of the recommendations listed are over 6 months past the 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.
- 5.1.10. Management have confirmed that three of the recommendations previously reported to the Audit Pensions and Standards Committee will not be fully implemented; however, compensating controls are in place. The risk of not implementing these recommendations are accepted by management. The recommendations can be seen in appendix C.

5.1.11. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below. We are pleased to report that for all years prior to the 2013/14 year 100% of all the audit recommendations made have been implemented.

| | | |
|---|-------|---|
| Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented. | 98.7% | 235 recommendations implemented out of a total of 238 3 recommendations outstanding |
|---|-------|---|

| | | |
|---|-------|--|
| Percentage of 2013/14 year audit recommendations past their implementation date that have been implemented. | 99.2% | 117 recommendations implemented out of a total of 118 1 recommendation outstanding |
|---|-------|--|

5.1.12. The Committee asked that we provide information on emerging issues that might exist. To this end I have provided a brief outline below:

- the change of administration may have an impact on audit plans, the most obvious being the planned audit of the closedown of Sullivan school;
- A draft audit report has just been issued titled Managed Services High Level Controls. Three High Priority audit recommendations were raised under implementation, the report states that although clear use is being made of the MS project implementation tool, the high priority recommendations have been raised in relation to this regarding:
 - the use and monitoring of the Agresso Implementation Methodology (AIM);
 - Use and monitoring of an Assurance Team Report on Trend Activities, and;
 - Delivery and agreement of Implementation Plan Regarding scope Revision changes
- An audit has been undertaken of the Amey contract by Kensington & Chelsea as part of the tri-borough audit programme. The audit has a 'limited' audit assurance rating. The three high priority recommendations are that LINK officers review Amey's arrangements for inviting tenders for variable elements of the contract to ensure they are transparent and deliver value for money, that Link Management continue to ensure that Amey's IT systems are fully implemented and that they are managing their performance to meet contractual requirements, and that Link Management determine whether information is available from April 2014 to enable accurate cost apportionment to be calculated;
- A review of a previous investigation, in respect of a whistle-blowing allegation of the expired Kiers contract, is being undertaken.

5.2. Internal Audit Service

5.2.1. Part of the CIA's function is to monitor the quality of Deloitte/Mazars 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 2013/14 financial year.

Performance Indicators 2013/14

| Ref | Performance Indicator | Target | Pro rata target | At end of 2013/14 | Variance | Comments |
|-----|---|--------|-----------------|-------------------|----------|--|
| 1 | % of deliverables completed (2013/14) | 95% | 95% | 95% | 0% | 97 deliverables issued out of a total plan of 102 (accounting for audits carried forward) |
| 2 | % of planned audit days delivered (2013/14) | 95% | 95% | 97% | +2% | 926 days delivered out of a total plan of 957 days (accounting for audits carried forward) |
| 3 | % of audit briefs issued no less than 10 working days before the start of the audit | 95% | 95% | 95% | 0% | 41 out of 39 briefs issued more than ten working days before the start of the audit. |
| 4 | % of Draft reports issued within 10 working days of exit meeting | 95% | 95% | 93% | -2% | 67 out of 72 draft reports issued within 10 working days of exit meeting |
| 5 | % of Final reports issued within 5 working days of the management responses | 95% | 95% | 91% | -4% | 42 out of 46 final reports issued within 5 working days. |

5.3. Audit Planning

5.3.1. Amendments to the 2013/14 year Internal Audit plan agreed by the Committee are shown at Appendix B.

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 January to 31 March 2014 |
| Appendix B | Amendments to 2013/14 Internal Audit Plan |
| Appendix C | Recommendations Not Implemented By Management |

APPENDIX A

Audit reports Issued 1 January to 31 March 2014

We have finalised a total of 22 audit reports for the period to 1 January to 31 March 2014. In addition, we have issued a further 2 management letters and one follow up.

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 | 2013/14 | Old Oak Primary | Andrew Christie | Satisfactory |
| 2 | 2013/14 | Phoenix High School | Andrew Christie | Satisfactory |
| 3 | 2013/14 | Larmenier and Sacred Heart School | Andrew Christie | Satisfactory |
| 4 | 2013/14 | John Betts Primary | Andrew Christie | Satisfactory |
| 5 | 2013/14 | St Pauls C.E. Primary | Andrew Christie | Limited |
| 6 | 2013/14 | Payment Card Industry Data Security Standard (PCI DSS) | Jane West | Satisfactory |
| 7 | 2013/14 | Telecommunications | Jane West | Satisfactory |
| 8 | 2013/14 | Housing Benefits | Jane West | Satisfactory |
| 9 | 2013/14 | IT Procurement | Jane West | Satisfactory |
| 10 | 2013/14 | BACS | Jane West | Satisfactory |
| 11 | 2013/14 | Concessionary Fares | Jane West | Substantial |
| 12 | 2013/14 | Debtors | Jane West | Satisfactory |
| 13 | 2013/14 | Supply Chain Resilience | Lyn Carpenter | Limited |
| 14 | 2013/14 | LBHF Contracts Register | Lyn Carpenter | Limited |
| 15 | 2013/14 | Shepherd's Bush Regeneration Project Management | Mel Barrett | Satisfactory |
| 16 | 2013/14 | Sale of Council Housing Properties | Mel Barrett | Satisfactory |
| 17 | 2013/14 | Earl's Court Regeneration Project Management | Mel Barrett | Satisfactory |
| 18 | 2013/14 | Housing Applications and Allocations | Mel Barrett | Satisfactory |
| 19 | 2013/14 | Fixed Term Tenancies | Mel Barrett | Satisfactory |
| 20 | 2013/14 | Parking Suspensions | Nigel Pallace | Satisfactory |
| 21 | 2013/14 | Utilities Procurement | Nigel Pallace | Satisfactory |
| 22 | 2013/14 | King Street Regeneration Project | Nigel Pallace | Satisfactory |

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 |
|-----|------------|-------------------------------------|---------------|
| 23 | 2012/13 | Contracts Register - Summary Report | Lyn Carpenter |
| 24 | 2013/14 | Housing Repairs ITT | Mel Barrett |

Follow ups

| No. | Audit Plan | Audit Title | Implemented | Partly Implemented | Not Implemented | Not Applicable |
|-----|------------|-----------------------------------|-------------|--------------------|-----------------|----------------|
| 25 | 2013/14 | Parking Pay and Display Follow up | 2 | 9 | 2 | 0 |

Amendments to 2013/14 Audit Plan


| | Department | Audit Name | Nature of Amendment | Reason for amendment |
|---|--------------------------|--|---------------------|--|
| 1 | Housing and Regeneration | Adult Education | Added | Added at request of Head of Service |
| 2 | Housing and Regeneration | HRD Performance Management | Added | Added at request of Director of Finance |
| 3 | Corporate Services | Service Demand Reduction Planning | Removed | Audit not viable at present time due to change programmes being undertaken. |
| 4 | Corporate Services | Project Management - Future Shape | Removed | Duplication of work already being undertaken in IT Project Management Standards audit. |
| 5 | Children's Services | Project Management - Neighbourhood Community Budget: Queens Park | Removed | Project not managed by LBHF. |
| 6 | Children's Services | Project Management – Multi Agency Safeguarding Hub (MASH) | Added | To replace Neighbourhood Community Budget: Queens Park audit |
| 7 | Children's Services | Development of Schools Guidance | Added | Added at request of CHS Director of Finance and Resources |
| 8 | Housing and Regeneration | Economic development/Business regeneration | Removed from plan | Scope proposed duplicated audits undertaken in 2012/13 |

Recommendations Not Implemented By Management

Management have advised that they will not be implementing the recommendations listed below and that they accept the risk of not implementing them.

| Ref | Audit year | Department | Audit Name | Assurance | Recommendation | Priority (1/2/3) | Responsible Officer | Reason for non-implementation |
|-----|------------|--------------------|---|-------------|--|------------------|--|--|
| 1 | 2009/10 | Corporate Services | Data Storage and Backup Recovery Audit | Substantial | <p>A formal procedure should be established to monitor the retention and destruction of data records (paper and electronic files) within the Council's departments to ensure that these are done in line with the guidelines for local authorities.</p> <p>Once established, responsibility for monitoring compliance should be assigned to relevant persons within the various departments.</p> | 2 | Information Manager | <p>IT Strategic Operations Group (ITSOG) agreed in February 2014 that no action will be taken in respect of this recommendation.</p> <p>Risk accepted.</p> |
| 2 | 2009/10 | Corporate Services | Data Storage and Backup Recovery Audit (HFBP) | Substantial | <p>A process should be established for carrying out periodic test restores for back up data across all Council systems.</p> | 2 | Server Infrastructure Manager (HFBP)/ Head of Business Technology (LBHF) | <p>Test restores of backup data are currently undertaken on a sample basis. The Business Continuity team lead two exercises each year which call on a critical application each time to be tested as part of service resilience readiness.</p> <p>In addition, Backups are tested periodically through the means of upgrades where they are taken before and then used in the event of a rollback.</p> |

| | | | | | | | | |
|---|---------|--------------------|-------------------------|-------------|--|---|--|---------------|
| 3 | 2011/12 | Corporate Services | Lynx Application (HFBP) | Substantial | Documented restore procedures should be established and a procedure put in place to regularly test the Lynx backup tapes and data. | 2 | | As per Ref. 2 |
|---|---------|--------------------|-------------------------|-------------|--|---|--|---------------|

| | |
|--|---|
|  | <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>30 June 2014</p> |
| <p>INTERNAL AUDIT CHARTER AND STRATEGY – REVIEWED 2014</p> | |
| <p>Open Report</p> | |
| <p>For Information</p> | |
| <p>Key Decision: No</p> | |
| <p>Wards Affected: None</p> | |
| <p>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</p> | |
| <p>Report Author: Geoff Drake – Senior Audit Manager</p> | <p>Contact Details: Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk</p> |

1. EXECUTIVE SUMMARY

- 1.1. This provides an update version of the Internal Audit Charter and Strategy following a 2014 year review. While there are a few minor word changes this is essentially unchanged from the version reports to the Committee a year ago.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

H&F Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the H&F Business Board for approval and to Audit, Pensions and Standard Committee to note.

Definition

Internal Audit is defined by the Public Sector Internal Audit Standards (Relevant Internal Audit Standard Setters, 2012) as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Purpose

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Hammersmith & Fulham Business Board, the BiBorough Joint Management Team (JMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

Scope

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Responsibility

The Audit, Pensions and Standards Committee

The highest level of governing body is the Audit, Pensions and Standards Committee and is charged with the responsibility to direct and/or oversee the activities and management of the Council.

The Audit, Pensions and Standards Committee will advise the Executive on:

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

- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

BiBorough Director of Internal Audit

The Council's Head of Internal Audit (The BiBorough Director of Internal Audit) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council.

Objectives

In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit may undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Joint Venture Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Hammersmith and Fulham Business Board (HFBB) who act as the Corporate Management Team and the Audit, Pensions and Standards Committee (APSC).
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of HFBB. It is then presented to HFBB and APSC at least annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the APSC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to HFBB and APSC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both HFBB and the APSC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to HFBB and the APSC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit (the BiBorough Director of Audit) has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the Audit, Pensions and Standards Committee (APSC)
- Monitoring Officer
- Any other member of the Hammersmith & Fulham Business Board

The independence of the Head of Internal Audit is further safeguarded by ensuring that the annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the APSC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the BiBorough Internal Audit service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to

the APSC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Director of Internal Audit has the freedom to report without fear or favour to all officers and members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

Counter Fraud, Corruption and Irregularity

Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

The Council has a Corporate Anti-Fraud Service as part of the BiBorough Internal Audit Service and a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy and risks identified in the Counter Fraud and Bribery Risk Assessments.

The role of the Contracted-Out Service

The Contractor shall provide the Services in accordance with the provisions of the Contract.

In relation to the performance of the Services, the Contractor or its Operatives carrying out such Services:

- in a good, safe, skilful and efficient manner
- in accordance with all relevant provisions of the Contract Documents and Specification.
- in accordance with all applicable statutes, statutory instruments, rules, regulations and byelaws.
- in a manner which meets all applicable financial standards specified by the Council.
- in a manner which shall promote and enhance the image and reputation of the Council.
- in accordance with all applicable standards set by the British Standards Institute and equivalent EC Standards and all applicable professional and financial authorities
- in accordance with Good Industry Practice.

The Relationship of Head of Internal Audit (the BiBorough Director of Audit) and the Contractor

The Authorised Council Officer responsible for the management of the contract shall be the Executive Director of Finance and Corporate Governance delegated to the BiBorough Director of Audit.

Relationship between the Council and the Contractor

The Contract governs the relationship between the Council and the Contractor in respect of the provision of the Services by the Contractor to the Council and to any Other Councils.

The Contractor is responsible and accountable to the Director of Audit and their nominees for the provision of the audit service that they are contracted to provide. The Director of Audit is responsible and accountable to the Section 151 Officer, the Business Board as the Council's Executive and to the Audit, Pensions and Standards Committee for the Audit Service including the service provided by the Contractor.

Due Professional Care

The Internal Audit function is bound by the following standards:

- The Chartered Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Director of Audit and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Audit Strategy

Scope

Strategic planning, audit planning, documenting, evaluating, testing and reporting are phases within audit process.

Process

1. The internal audit process can be seen on the following diagram:



2. Strategy

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit, Pensions and Standards Committee and to Hammersmith & Fulham Business Board for approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, Hammersmith & Fulham Business Board and in particular to the Chief Financial Officer in support of discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Director for Audit, Fraud, Risk and Insurance), Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit, Pensions and Standards Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it does not deliver the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by a mixture of in-house staff and the Council's internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit.

The Internal Audit Service is a Bi-borough Service hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit reviews across the services which are either tri or bi borough. Sovereign audits will continue on services which remain unchanged.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with Hammersmith and Fulham Business Board and management.
- Discussions with Tri and Bi borough Executive Directors.
- The Tri, Bi and Sovereign risk registers
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

Management views and suggestions are taken into account when producing the audit plan and the Head of Internal Audit will ensure feedback from or attendance at Departmental Management Team meetings will take place as part of the annual planning process

The Internal Audit Plan 2013-14 was based on the following:

§ **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk

processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the Tri, Bi and Sovereign risk registers. The move to a bi-borough shared risk resource will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- § **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- § **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- § **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- § **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- § **Fraud and Ad Hoc Work:** The Corporate Anti Fraud Service, within the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to the Audit, Pensions and Standards Committee on a regular basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit, Pensions and Standards Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Reviewed and Agreed

| Date | Reviewed by | Position | Authorised by | Position |
|------------|--------------------|------------------------|---------------|------------------------|
| May 2013 | Michael Sloniowski | BiBorough Risk Manager | Geoff Drake | Chief Internal Auditor |
| March 2012 | John Kanes | Internal Audit Manager | Geoff Drake | Chief Internal Auditor |
| March 2011 | John Kanes | Internal Audit Manager | Geoff Drake | Chief Internal Auditor |
| March 2010 | John Kanes | Internal Audit Manager | Geoff Drake | Chief Internal Auditor |

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

Document is Restricted

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

Document is Restricted

Agenda Item 19

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

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