London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Tuesday 16 September 2014
7.00 pm
COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor PJ Murphy Councillor Iain Cassidy (Chair) 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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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: 08 September 2014

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
Agenda

16 September 2014

7. PENSION FUND EMPLOYERS 125 - 130

To receive a report from the Tri-Borough Director for Treasury & Pensions on the employers that are part of the Pension Fund

8. PENSION FUND CASHFLOW POSITION 131 - 135

To receive a report from the Tri-Borough Director for Pensions & Treasury on the cashflow position of the Pension Fund over the preceding year and projections for the next twelve months

9. STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2013/14 136 - 279

To receive a report from the Head of Corporate Accountancy & Capital presenting the Annual Accounts and the external auditor's opinion on them

10. OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN 280 - 284

To receive a report from the Senior Audit Manager describing progress on implementing recommendations made by the external auditor and in the Fraud Response Plan

11. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2014 285 - 295

To receive a report from the Senior Audit Manager summarising internal audit activity during the period 1 April to 30 June 2014

12. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT 296 - 345

To receive a report from the Bi-Borough Risk Manager on the arrangements in place for identifying and managing key risks

13. DATES OF FUTURE MEETINGS

The following meeting dates are proposed:

- Monday 2nd December 2014
- Wednesday 11th February 2014

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

15. MINUTES 346 - 348

To approve as an accurate record and the Chairman to sign the minutes of the exempt discussion at the meeting held on 30th June 2014

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes

Monday 30 June 2014

PRESENT

Committee members: Councillors Michael Adam, PJ Murphy, Iain Cassidy (Chair), Guy Vincent, Adam Connell, Ben Coleman and Nicholas Botterill

Other Councillors: Councillor Michael Cartwright

Officers: Craig Bowdery (Principal Committee Coordinator), Geoff Drake (Chief Internal Auditor), Jonathan Hunt (Tri-Borough Director for Treasury & Pensions), Andrew Hyatt (Head of Fraud), Francis Murphy (Head of Procurement), Alastair Sutherland (Deloitte Total Reward) and Jane West (Executive Director for Finance & Corporate Services)

34. MINUTES OF THE PREVIOUS MEETING

Members noted that there were a number of matters arising from the previous meeting that had not been resolved. These included:

Minute 19:	That officers supply the committee with overtime figures That officers supply a breakdown of administrative costs to the fund
Minute 22:	Officers to bring forward a report on admitted bodies and their position in the fund
Minute 24:	Officers to supply a list of assets identified for disposal and their income target
Minute 26:	Officers to supply the information requested regarding underpayments and what percentage the repayment of the total amount paid
Minute 28:	Officers to provide information on gas safety for leaseholders
Minute 29:	Officers to provide a full list of Children's Services/Education risks
Minute 31:	With regard to the unimplemented recommendations for the Tri-Borough Fostering Service, the Senior Audit Manager reported that four recommendations had not been implemented. Three of these were financial and would be implemented as soon as the Agresso system went live and the fourth was that a service review should be conducted. This review was currently underway.

Officers apologised for the large number of outstanding actions, which were due to a change in committee support. Officers undertook to address all outstanding actions.

RESOLVED –
That the minutes of the meeting held on 13th February 2014 be agreed as a correct record and signed by the Chair.

35. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Johnson and Loveday.

36. DECLARATIONS OF INTEREST

There were no declarations of interest.

37. APPOINTMENT OF VICE CHAIR

RESOLVED –
That Cllr Michael Adam be appointed Vice-Chair for the 2014/15 municipal year.

38. PENSION FUND QUARTERLY UPDATE

The Committee received a report from the Tri-Borough Director for Pensions and Treasury updating on the investment performance and funding level of the Pension Fund as at 31st March 2014. Officers explained that since 31st March 2013, the funding level of the Pension Fund had increased from 83% to 86%. Alastair Sutherland, Deloitte Total Reward (the Fund's investment advisor), was also present and he explained that it had been an interesting quarter with equity markets delivering positive returns while the bond markets struggled. Overall the Fund was performing well with one manager, Majedie, performing particularly strongly when measured against their benchmark.

Members noted that MFS, the Fund's manager with a remit for overseas equity, was consistently performing below its benchmark, and it was asked whether the Fund should continue with them. Mr Sutherland explained that he rated MFS highly as a research-driven manager. In his view it would be more appropriate to question whether MFS had been given the most appropriate mandate and so he would advise against leaving them. Despite being the only manager that has been below its benchmark for much of the last five years, the Committee was informed that parts of the fund performed well and the organisation remained sound. Officers explained that they would be looking at asset allocation and reviewing which managers were used.

Members asked whether the Council benchmarked the performance of the Fund against other councils. Officers reported that they had access to data for the rest of the Local Government Pension Scheme, and funding levels were roughly in line with other councils.

It was asked whether the funding level of 86% for the Fund represented a risk. Officers explained that this meant that if everyone who was part of the scheme asked for their share at the same time, only 86% of them could be paid. Therefore whilst the funding level represented a risk, it was not a significant one as this could not occur as payouts were over at least the next 60 years.

RESOLVED –
That the report be noted.

39. PENSION FUNDS BUSINESS PLAN

The Committee received a report from the Tri-Borough Director for Pensions and Treasury presenting the Tri-Borough Pension Fund business plan for 2014/15. Officers noted that since becoming a tri-borough team in 2012, they had found working to be a lot easier and more productive. Members highlighted that Cumbria council had many examples of good governance and that officers should consider whether any of them could be applied in Hammersmith & Fulham.

RESOLVED –
That the report be noted.

40. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATIONS

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a consultation by the Department for Communities & Local Government on the Local Government Pension Scheme (LGPS). Officers explained that the consultation advocated an increased use of Collective Investment Vehicles (CIVs), which the Council supported. However the consultation also proposed a greater use of passive investments, which officers felt should be a decision down to each council according to local circumstances.

Officers explained for the Committee that CIVs would provide a pool for funds to access investors, which would deliver savings by sharing fees. CIVs would also bring together more fund managers, which would ensure more scrutiny and stronger governance as each learned from the other. Members remarked that the consultation seemed contrary to the Government's commitment to localism and was actually more centralising in its prescription of how funds should be managed. Officers reported that the Government's support of CIVs was generally accepted by pension fund officers nationally, but the proposed guidance that passive investments should be prioritised over active ones was causing some concern.

Some members cautioned against focussing too much on reducing fees and highlighted that sometimes more dramatic results could be achieved through making more significant changes. As such, the performance outcomes were more important that the level of fees paid. Members also expressed concern regarding the level of autonomy the Council would have if it were part of a proposed London CIV, and whether it would be able to continue appointing the managers it wanted. Officers explained that London Councils was developing the London CIV on this basis with councils able to act independently within a framework. Officers undertook to provide a full presentation on the CIV at a future meeting.

RESOLVED –

i) That the report be noted; and

ii) That a presentation on the CIV be given at a future meeting.

41. CAPITAL E SOURCING

The Committee received a presentation from the Head of Procurement and Westminster City Council Head of Procurement Operations on the CapitalEsourcing programme. Officers explained that the system could be adjusted for each procurement, so that different cost to quality ratios could be employed depending upon the need of the specific tendering exercise. The system did not replace the need for a buyer who knew what they were doing, but it made the process simpler and more efficient with standardised processes.

Members discussed the potential to sell the system to other councils and asked what income could be generated. Officers explained that for each additional authority joining the platform, 3% of their license fees would be paid back to WCC as the lead on the framework, this in effect would result in a reduction of Tri-Borough license fees.

It was asked what measures had been taken to make the system as accessible as possible for Small and Medium Enterprises (SMEs). Officers described how the system would allow for an extended tender period if desired, and that an ongoing development group was planned that would include SME representation.

Members suggested that if the Council had invested money to make the tendering process easier for businesses, then businesses should be approached to renegotiate costs. Officers explained that the easier system should be reflected in the number and costs of bids received, and that ultimately the easier the system the more bids were likely to be received, which gave a better chance of securing value for money. .

RESOLVED –

That the presentation be noted.

42. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

The Committee received a report from the Bi-Borough Risk Manager presenting the Tri-Borough risk register. Members asked about the consistency of how risks are scored across the three councils, and officers explained that they were considering distinguishing those risks that only affected a single borough or affected one borough more than others. Members also asked for details to be provided on the measures taken by the Council to protect against cyber-terrorism and officers undertook to provide a report. Concern was expressed regarding the location of the IT servers and whether they were located in or out of London. Officers explained that many of the Council’s systems were now hosted remotely across the country, which made them quite resilient to outside attacks.

Members noted that the housing department had only identified four risks, and asked whether officers were confident that this represented a thorough consideration of the department's risks. Officers explained that departments were encouraged to take ownership of their risk registers, but that there was also a longer list that could be provided.

RESOLVED –

i) That the report be noted;

ii) That a briefing on the Council's response to the risk of cyber-terrorism be presented to the next committee; and

iii) That risk registers for the Housing and Regeneration Department be made available to members of the Audit, Pensions and Standards Committee

43. CORPORATE ANTI FRAUD SERVICE (CAFS) ANNUAL REPORT

The Committee received a report from the Tri-Borough Head of Fraud updating on all anti-fraud activity undertaken from 1st April 2013 to 31st March 2014. Members noted the proposal to establish a Single Fraud Investigation Service (SFIS) to investigate fraud across local authorities, HMRC and DWP. It was asked whether the delays to the implementation of the Universal Credit would cause delays to the SFIS. Officers explained that this was a recommendation of a recent Parliamentary Select Committee, but the Government appears to have decided against it. Officers undertook to provide a full report on the SFIS for the September committee meeting, but highlighted some issues of concern. These included a loss of local knowledge by investigators and a possible reduction in non-welfare benefit anti-fraud activity such as tackling sub-letting.

RESOLVED –

That the report be noted.

44. OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN

The Committee received a report from the Senior Audit Manager presenting the progress made implementing the recommendations made by the Audit Commission and the Fraud Response Plan. It was reported that all entries were now closed.

RESOLVED –

That the report be noted.

45. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2013/14

The Committee received a report from the Chief Internal Auditor summarising all audit work undertaken during the 2013/14 financial year.

Members asked whether Internal Audit was adequately resourced and whether being tri-borough had meant a reduction in resources for the audit team. Officers explained that there had not been a reduction in the resource delivering audits. It was anticipated that there would be a reduction in need as services became fully integrated under tri- and bi-borough, although this may be offset against the additional resource needed in such a change environment where there are more projects and new systems that require auditing. At the present time officers were confident the team had the required resources, with additional funding being received to help implement and test the new Agresso system.

The Committee highlighted the control weaknesses identified in the Annual Governance Statement, particularly with regard to Adult Social Care. Officers reported that they were confident the department was addressing the issue and that they continued to audit the controls in place. Members suggested that the ASC department report this to the Health, Adult Social Care & Social Inclusion PAC.

Members also discussed the various assurance levels given and the use of 'partly implemented'. Officers explained that once an audit was completed, a number of recommendations were made, with a timetable for when the recommendations should be implemented by. Internal Audit then tracked the progress in implementing the recommendations and undertook a follow up once they were reported as implemented. The 'partly implemented' term referred to a situation where the recommendation had not been fully and effectively implemented as the department thought, as a result the department were aware of the additional action required and Internal Audit would track progress on those additional actions required. Members raised concerns in relation to the age of the recommendations reported as followed up and the level of partially and not implemented recommendations and asked for a report back on the current position and the importance of the recommendations still not implemented.

RESOLVED –

i) That the report be noted;
ii) That the Health, Adult Social Care & Social Inclusion PAC be invited to consider the risk management and assurance arrangements of the Tri-Borough Adult Social Care department; and
iii) That Internal Audit report back on the position regarding follow up recommendations that were reported as not implemented

46. <u>INTERNAL AUDIT QUARTERLY REPORT</u>

The Committee received a report from the Senior Audit Manager on the internal audit activity undertaken between 1st January and 31st March 2014. Members asked whose decision it was if it was decided that an audit recommendation was not to be implemented. Officers explained that it was a management decision, with the seniority of who made that decision dependant on the recommendation's significance.

RESOLVED –

That the report be noted.

47. INTERNAL AUDIT CHARTER AND STRATEGY

The Committee received a report from the Senior Audit Manager updating the Internal Audit Charter and Strategy following a 2014 review.

RESOLVED –
That the report be noted.

48. DATES OF FUTURE MEETINGS

The following dates were agreed:

- Tuesday 16th September 2014
- Tuesday 1st December 2014
- Wednesday 11th February 2015

49. 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.

50. PENSION FUND CUSTODIAN APPOINTMENT

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a tender process undertaken with Westminster City Council to appoint a custodian for the Pension Fund using the national LGPS framework.

51. PENSION FUND ACTUARIAL EXTENSION

The Committee received a report from the Tri-Borough Director for Pensions and Treasury which proposed extending the Pension Fund actuarial services contract so that it would be in line with RBKC's equivalent contract.

52. PENSION FUND INVESTMENT STRATEGY

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a review of the Pension Fund investment strategy and requesting approval for delegation to the Tri-Borough Director of Treasury to manage the cash-flow of investment portfolios.

Meeting started: 7.00 pm
Meeting ended: 9.45 pm

Chairman ....

Contact officer:

Committee Co-ordinator
Governance and Scrutiny
(:
E-mail:

Audit, Pensions & Standards Committee – action tracker 2014/15

Meeting	Item and Minute number	Action	Lead	Completed?
13th February 2014	Capita Presentation (19)	That officers supply the committee with overtime figures That officers supply a breakdown of administrative costs to the fund	Jonathan Hunt	Yes
13th February 2014	Pension Fund – Funding Strategy Statement (22)	Officers to bring forward a report on admitted bodies and their position in the fund	Jonathan Hunt	Yes
13th February 2014	Treasury Management Strategy (24)	Officers to supply a list of assets identified for disposal and their income target	Christopher Harris	Yes
13th February 2014	Grant Report (26)	Officers to supply the information requested regarding underpayments and what percentage the repayment of the total amount paid	Chris Harris	Yes
13th February 2014	Annual Governance Statement action plan (28)	Officers to provide information on gas safety for leaseholders	Michael Sloniowski	Yes
13th February 2014	Combined Risk Management report (29)	Officers to provide a full list of Children's Services/Education risks	Michael Sloniowski	Yes

30th June 2014	LGPS Consultations (40)	That a presentation on the CIV be given at a future meeting	Jonathan Hunt	
30th June 2014	Combined Risk Management report (42)	That a briefing on the Council's response to the risk of cyber-terrorism be presented to the next committee; That risk registers for the Housing and Regeneration Department be made available to members of the Audit, Pensions and Standards Committee	Ed Garcez Michael Sloniowski	Yes Yes
30th June 2014	Head of Internal Audit Annual Report (45)	That the Health, Adult Social Care & Social Inclusion PAC be invited to consider the risk management and assurance arrangements of the Tri-Borough Adult Social Care department; and That Internal Audit report back on the position regarding follow up recommendations that were reported as not implemented	Craig Bowdery Geoff Drake	Yes Yes
30th June 2014	Pension Fund Actuarial Extension (51)	Officers explore whether the contract could incorporate other councils beyond the tri-borough and whether RBKC's contract includes a break clause.	Jonathan Hunt	

h&f hammersmith & fulham	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16th September 2014**
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 30th June 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 at 30th June 2014 remained at 86% from the last update as at 31st March 2014. This is an improvement from 83% at the last triennial valuation at 31st March 2013.

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	16th Floor, Westminster City Hall

LIST OF APPENDICES:

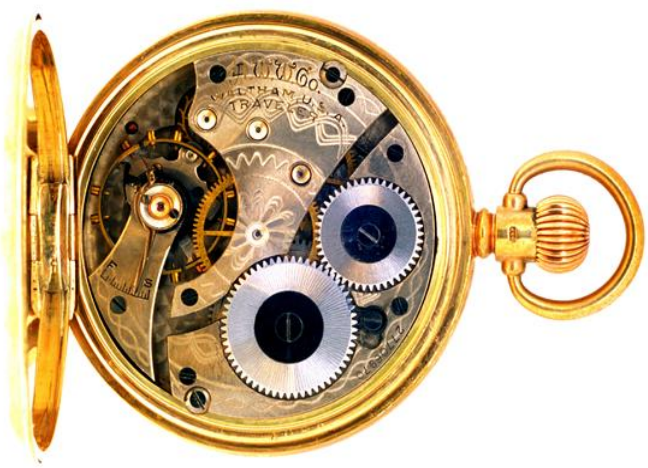
Appendix 1: Deloitte Quarterly report for quarter ended 30th June 2014

Appendix 2: Barnett Waddingham Funding Update report at 30th June 2014

London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 30 June 2014

Executive Summary



Deloitte Total Reward and Benefits Limited
August 2014

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Appendices

1. Market Background

Three and twelve months to 30 June 2014

The second quarter of 2014 saw positive returns on UK equities, with the FTSE All Share Index returning 2.2%. Whilst the first two months of the quarter saw positive UK equity returns as a result of continuing positive economic data, the FTSE All Share Index delivered a negative return over the month of June. Equity markets were likely to have been affected by the Governor of the Bank of England's statement that UK interest rates may rise earlier than anticipated. Larger companies outperformed smaller companies considerably, with the FTSE 100 Index returning 3.2% and the FTSE Small Index returning 0.1% over the quarter.

There was a wide range of performance at the sector level, with Health Care delivering the highest return (9.8%) and Technology being the worst performing sector (-8.1%).

Over the 3 months to 30 June 2014, global equity markets outperformed the UK in both local and sterling terms, delivering returns of 4.6% and 2.7% respectively. Currency hedging was therefore beneficial to investors over the quarter. The Emerging Markets region was the strongest performing over the quarter, returning 5.0% in sterling terms and 7.1% in local currency terms. Europe (ex UK) was the lowest performing region over the period, returning 0.3% in sterling terms and 3.7% in local currency terms.

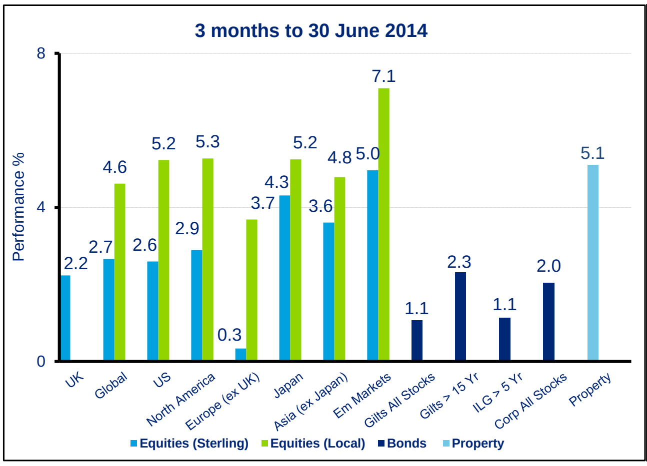
UK nominal gilts performed positively over the second quarter of 2014 as yields fell at longer maturities, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 1.1% and 2.3% respectively. Corporate bond performance was positive over the quarter as credit spreads narrowed. The iBoxx All Stocks Non Gilt Index returned 2.0% over the period.

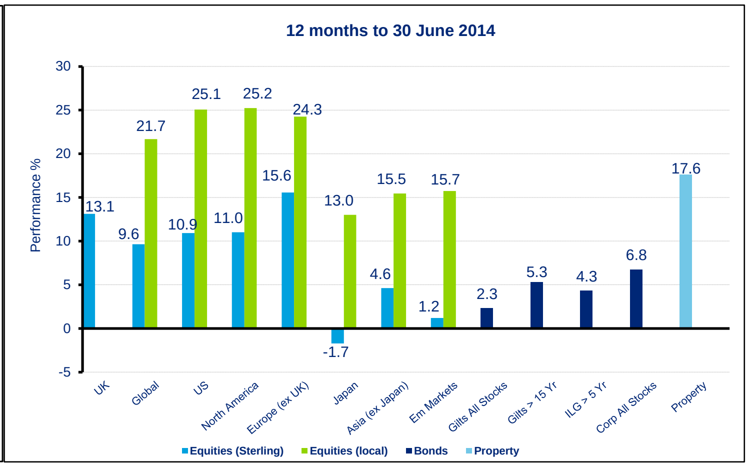
The FTSE All Share Index returned 13.1% over the year to 30 June 2014. Smaller companies played a key role in in this return, with the FTSE Small Cap Index returning 19.1%. Over the 12 months to 30 June 2014, the Health Care sector delivered the highest return of 21.3%. On the other hand, the Financial sector delivered the lowest return of 4.0%.

Global markets outperformed the UK significantly over the year to 30 June 2014 in local currency terms but underperformed the UK in sterling terms. The FTSE All World Index returned 21.7% in local currency terms, yet only 9.6% in sterling terms. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were positive over the year to 30 June 2014, with yields increasing at shorter maturities and falling at the longer end of the curve. The All Stocks Gilt Index returned 2.3% whilst the Over 15 Year Gilt Index returned 5.3%. Real yields on UK index-linked gilts fell over the year, with the Over 5 Year Index-linked Gilts Index returning 4.3%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 6.8%, as credit spreads narrowed.

The UK property market continues to rise, returning 5.1% over the quarter and 17.6% over the year to 30 June 2014.





2. Performance Overview

Breakdown of Fund Performance by Manager as at 30 June 2014						
Fund	**Manager**	**3 month (%)**	**1 year (%)**	**2 year (%) p.a.**	**3 year (%) p.a.**	**5 year (%) p.a.**
UK Equity Mandate						
	Majedie	1.4	20.3	24.7	15.6	17.7
FTSE All Share		2.2	13.1	15.5	8.9	14.5
Difference		-0.8	7.2	9.2	6.7	3.2
Overseas Equity Mandate						
	MFS	2.3	8.8	14.9	9.2	15.0
MSCI AC World Growth (ex UK)		2.3	9.4	14.7	8.7	14.4
Difference		0.0	-0.6	0.2	0.5	0.6
Dynamic Asset Allocation Mandates						
	Barings	1.5	4.2	5.6	4.5	7.9
3 Month Sterling LIBOR + 4% p.a		1.1	4.5	4.6	4.7	4.7
Difference		0.4	-0.3	1.0	-0.2	3.2
	Ruffer	0.3	0.8	7.2	4.8	8.6
3 Month Sterling LIBOR + 4% p.a		1.1	4.5	4.6	4.7	4.7
Difference		-0.8	-3.7	2.6	0.1	3.9
Matching Fund						
	Goldman Sachs	0.0	3.0	4.2	3.0	3.2
3 Month Sterling LIBOR + 2% p.a		0.6	2.5	2.6	2.7	2.7
Difference		-0.6	0.5	1.6	0.3	0.5
	Legal & General	2.5	9.0	6.7	n/a	n/a
Bespoke liability related benchmark		1.2	5.2	4.5	n/a	n/a
Difference		1.3	3.8	2.2	n/a	n/a
Private Equity						
	Invesco	14.2	13.1	14.3	16.4	n/a
	Unicapital	-2.4	-2.5	6.3	2.9	n/a
Total Fund		1.6	9.4	12.6	9.2	12.0
*Benchmark**		1.7	7.9	9.6	8.6	11.1
Difference		-0.1	1.5	3.0	0.6	0.9
Liability Benchmark + 2.2% p.a.		1.2	5.2	1.8	8.8	9.9

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 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	1.7	9.9	13.0	9.7	12.5
Net of fees[(1)]	1.6	9.4	12.6	9.2	12.0
Benchmark[(2)]	1.6	7.4	9.1	8.1	10.6
Relative	0.1	2.5	3.9	1.5	1.9

Source: Northern Trust

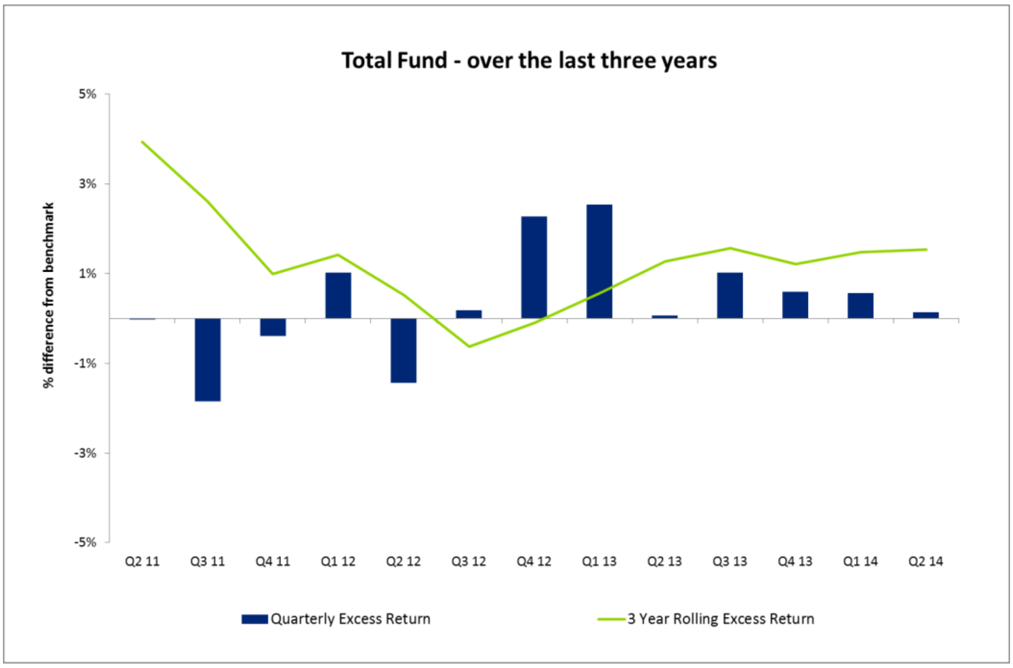
(1) Estimated by Deloitte

(2) Average weighted benchmark

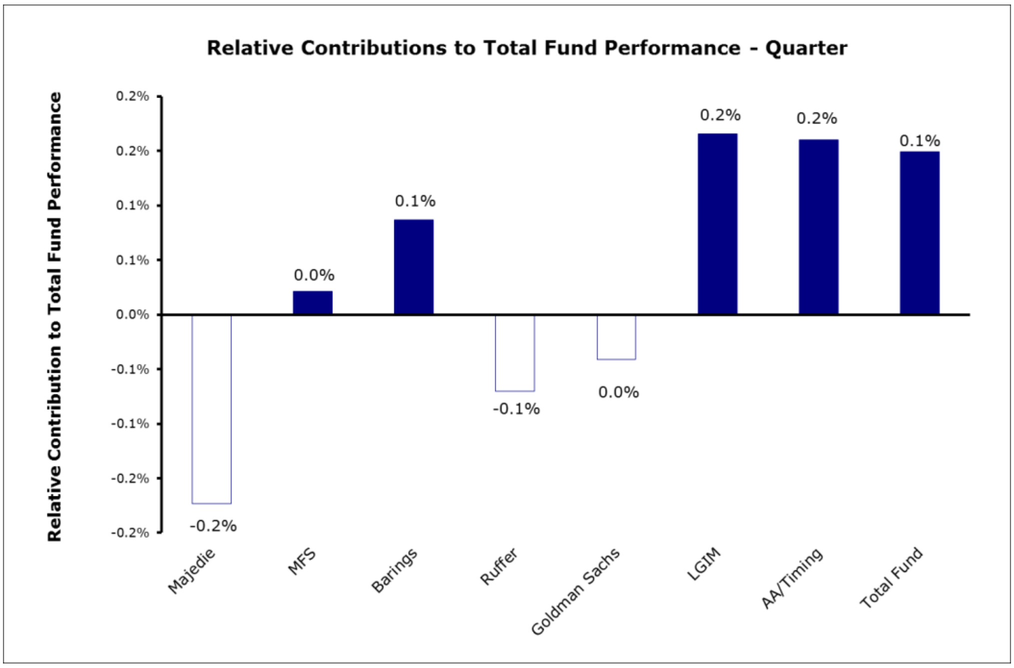
Over the quarter, the Total Fund marginally outperformed its fixed weighted benchmark as well as outperforming the Liability + 2.2% benchmark by 0.4% on a net of fees basis.

Over the one year period to 30 June 2014 the Fund outperformed its benchmark by 2.5%. Over the three years the outperformance relative to the benchmark is 1.5% per annum.

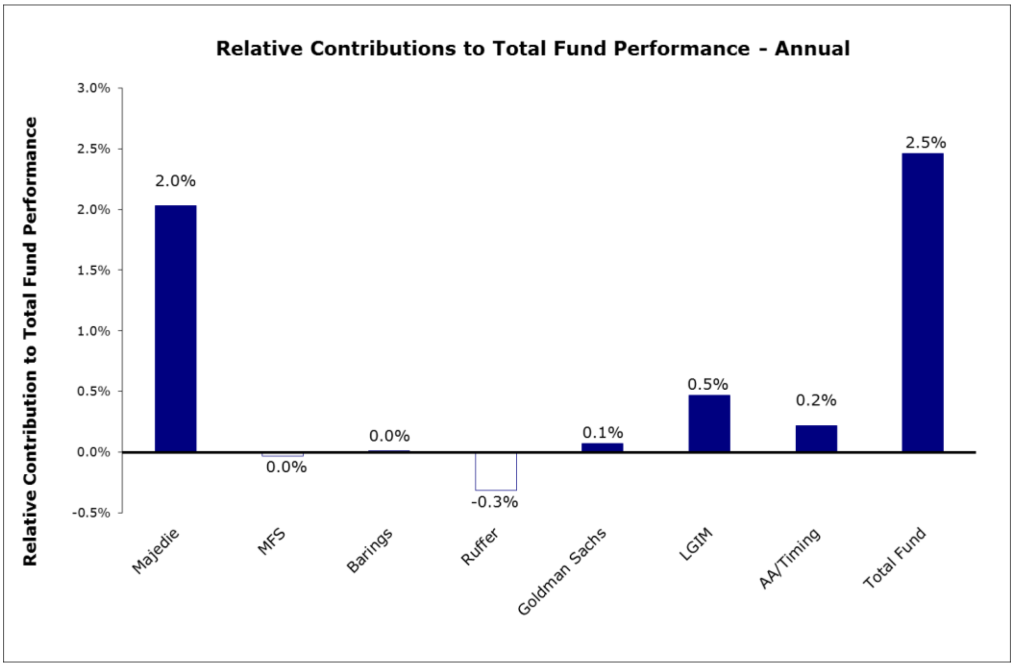
The chart below compares the performance of the Fund relative to the fixed weight benchmark over the three years to 30 June 2014, highlighting the strong relative returns over the last couple of years – much of which can be attributed to the outperformance achieved by Majedie.



Attribution of Performance to 30 June 2014



The Fund outperformed the composite benchmark by 0.1% over the second quarter of 2014, with the positive impact of Barings and LGIM and being overweight equities being offset by Majedie's underperformance over the quarter.



Over the last year the Fund outperformed the composite benchmark by 2.5%, with Majedie driving the longer term outperformance, more than offsetting the below-target performance from Ruffer.

Asset Allocation

The table below shows the assets held by manager as at 30 June 2014 alongside the Benchmark Allocation.

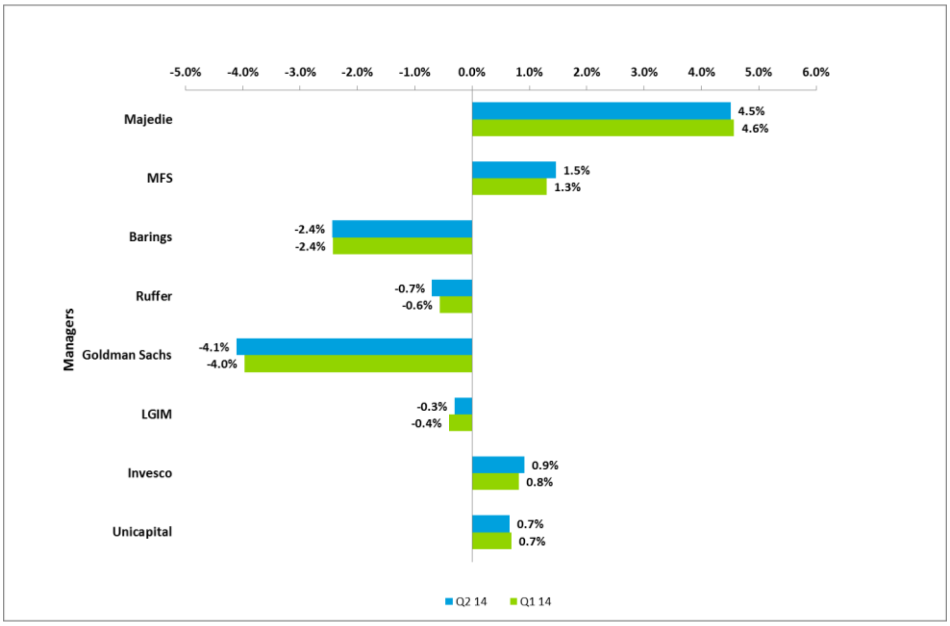
		Actual Asset Allocation				
Manager	**Asset Class**	**31 Mar 2014 (£m)**	**30 Jun 2014 (£m)**	**31 Mar 2014 (%)**	**30 Jun 2014 (%)**	**Benchmark Allocation (%)**
Majedie	UK Equity (Active)	207.1	210.2	27.1	27.0	22.5
MFS	Overseas Equity (Passive)	182.0	186.5	23.8	24.0	22.5
	Total Equity	**389.1**	**396.7**	**50.9**	**51.0**	**45.0**
Barings	Dynamic	125.3	127.3	16.4	16.4	18.8
Ruffer	Absolute Return	81.4	81.7	10.6	10.5	11.2
	Sub –total	**206.6**	**209.1**	**27.0**	**26.9**	**30.0**
Goldman Sachs	Absolute Return Bond	65.2	65.3	8.5	8.4	12.5
LGIM	Matching	92.6	94.9	12.1	12.2	12.5
	Total Matching	**157.8**	**160.3**	**20.6**	**20.6**	**25.0**
Invesco	Private Equity	6.2	7.1	0.8	0.9	0.0
Unicapital	Private Equity	5.2	5.1	0.7	0.7	0.0
	Total Private Equity	**11.4**	**12.2**	**1.5**	**1.6**	**0.0**
	Total	**765.0**	**778.2**	**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. £13.2m with most asset classes delivering positive returns, led by equities.

As can be seen below, the Fund remains overweight Majedie and MFS relative to the benchmark allocation at the expense of Barings and Goldman Sachs. Subsequent to the quarter end, the Fund's holding in the Barings fund was realised with the proceeds retained as cash pending an outcome on the discussions on the investment strategy.



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

Majedie launched its new global and US equity funds at the end of June, seeding the funds with money from funds managed for Majedie Investments. While the global funds will be managed along similar lines to the current UK funds, adopting a multi manager approach, the US fund will be a single manager fund Adrian Brass.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities.

MFS

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

Deloitte View: We continue to regard MFS' global equity capabilities positively but recognise that the performance of the strategy utilised by the Fund has not lived up to expectations and has lagged some of the organisation's other global equity offerings.

Barings

Barings has made a number of team change announcements in August. The one with potentially the most important impact is that Percival Stanion, portfolio manager on the flagship DAAF product, resigned from Barings. Along with Percival, Andrew Cole and Shaniel Ramjee are also leaving.

- Percival has been head of Barings' Multi Asset Group and running the DAAF since its launch. The DAAF's asset allocation views have very much been driven by Percival's economic outlook and we have always considered him the key man on the DAAF team. Percival has chaired Barings' Strategic Policy Group (SPG) for a number of years.
- Andrew Cole is a member of Barings' Global Multi Asset Group and lead manager on the Baring Multi Asset Fund (a more retail focussed version of DAAF). He is also a member of the SPG and leads its Risk Sub Group.
- Shaniel is an investment manager in the Global Multi Asset Group responsible for macroeconomic and multi asset research and portfolio construction.

Percival and Andrew will both be serving 6 months' notice periods while Shaniel will serve 3 months. There has been no announcement to date about where the individuals are going, but our expectation is that they are leaving as a team to set up elsewhere.

In response to these departures, there are a number of other changes announced by Barings:

- Ken Lambden joins as new CIO from Schroders where until March 2013 he was Head of Global Equities. Ken will become CIO effective 15 September. Ken will also join the SPG when he arrives.
- Marino Valensise, the current CIO at Barings will move to head the Multi Asset Group and Chair the SPG, with immediate effect. Marino will also become lead fund manager on the DAAF. Marino is already a member of the SPG.

Deloitte view - The departure of Percival has always been a trigger for review of the DAAF. Combined with Andrew's leaving (and to a lesser extent Shaniel), this makes the changes significant and raises the question of how the product will evolve (and perform) going forward. As such, we will be carrying out a research visits with the new team as soon as possible.

Update: Following notification that the DAAF suffered outflows of approximately £1.9bn on the first dealing date after the news of Stanion's departure, we recommended that the Committee realised its holding at the next available dealing date. With the level of redemptions likely to increase, we were concerned about whether the fund would be able to achieve its performance objective and whether Barings would have to start delaying redemptions given the level of illiquid holdings within the fund.

Ruffer

There were no changes to the team or process over the quarter.

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 continues to grow its business across both the passive management and investment solutions areas and in this regard has enhanced its pooled LDI range with a 'Best of Swaps and Gilts' funds, launched during Q2 2014.

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

5. Majedie – UK Equity

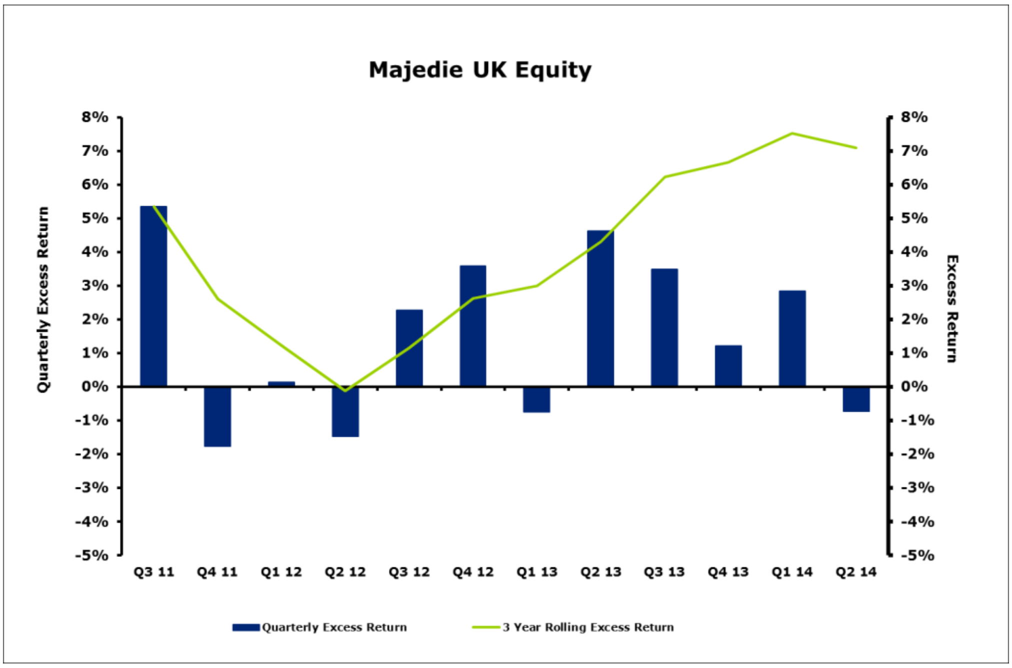
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund (no more than 30%), the UK Focus Fund and a holding in Majedie's long/short equity fund, Tortoise (no more than 10%).

UK equity – Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	1.5	20.7	25.1	16.0	18.1
Net of fees[(1)]	1.4	20.3	24.7	15.6	17.7
Benchmark	2.2	13.1	15.5	8.9	14.5
Target	2.7	15.1	17.5	10.9	16.5
Relative to Benchmark	-0.6	7.6	9.6	7.1	3.6

Source: Northern Trust

(1) Estimated by Deloitte



The underperformance of the UK Equity Fund over the quarter was the main contributor to underperformance. While the UK Focus Fund outperformed, its gains were offset to a large extent by underperformance from the Tortoise Fund.

Majedie attributes the underperformance over the quarter within the UK Equity Fund in particular to the relative underperformance of small caps, some of which could have been expected to occur as some point given the good run they have had. In contrast, performance within the Focus Fund was helped by a couple of stock specific factors, including the bid for Wolfson Microelectronics.

6. MFS – Overseas Equity

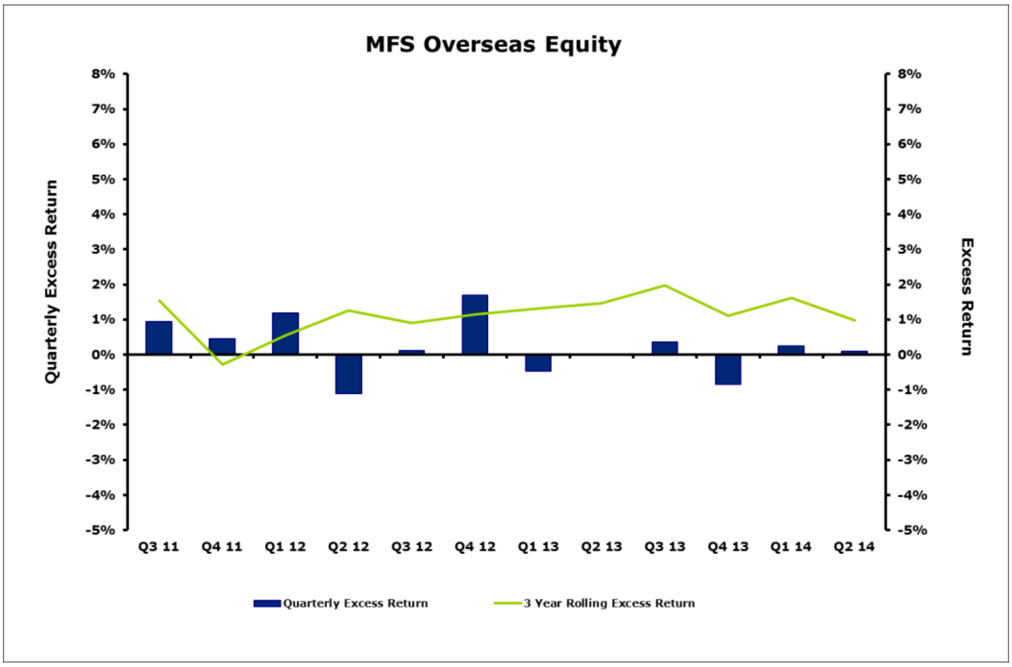
MFS was appointed to manage an overseas equity portfolio with the objective of delivering 2% outperformance on MSCI AC World Growth Ex UK Index benchmark over rolling three year period. The manager is remunerated on a tiered fixed fee based on the value of assets.

Overseas Equity – Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
MFS – Gross of fees	2.4	9.2	15.4	9.7	15.5
Net of fees[(1)]	2.3	8.8	14.9	9.2	15.0
Benchmark	2.3	9.4	14.7	8.7	14.4
Target	2.8	11.4	16.7	10.7	16.4
Relative to Benchmark	0.1	-0.1	0.7	1.0	1.0

Source: Northern Trust

(1) Estimated by Deloitte



The MFS fund outperformed its benchmark by 0.1% over the quarter and underperformed by -0.1% over the one year period to 30 June 2014.

MFS has a growth bias and for the purposes of this analysis is measured against a growth index. While fund has outformed its benchmark over the longer term, it has not been able to meet its target of outperforming by +2% p.a.

Within the portfolio turnover remains low relative to most other funds with the gains from stock selection over the quarter being offset by sector and currency positioning.

7. Barings – Dynamic Asset Allocation

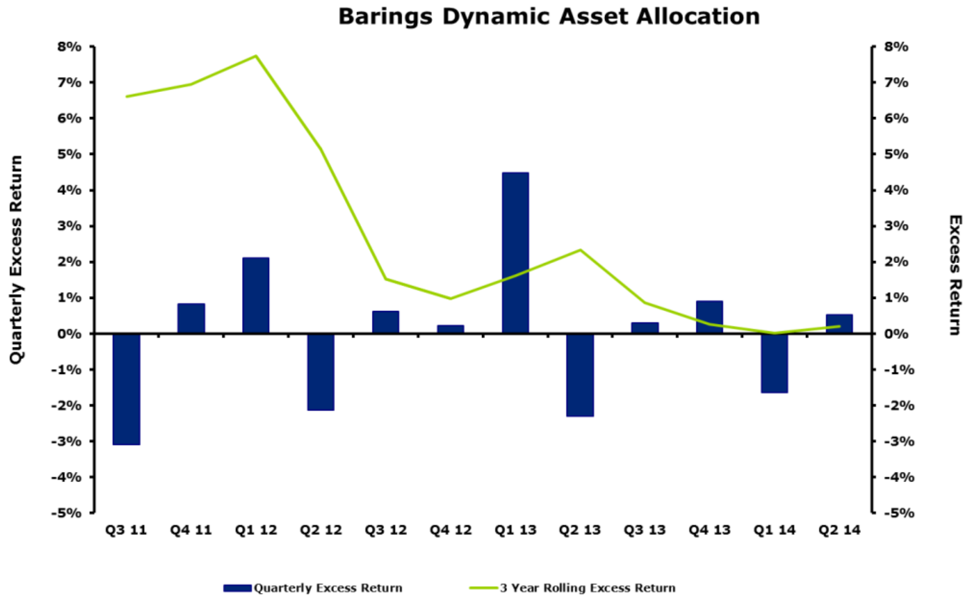
Barings was appointed to manage a dynamic asset allocation portfolio with the aim of outperforming the 3 Month sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Barings – Gross of base fees	1.7	4.6	6.1	4.9	8.4
Net of fee[(1)]	1.5	4.2	5.6	4.5	7.9
Benchmark	1.1	4.5	4.6	4.7	4.7
Target	1.1	4.5	4.6	4.7	4.7
Relative to Benchmark	0.5	0.1	1.6	0.2	3.7

Source: Northern Trust

(1) Estimated by Deloitte



Barings outperformed over the quarter, returning 1.5% net of fees against a target return of 1.1%. Over longer periods of three and five years the fund has outperformed its target of LIBOR + 4% by 0.2% and 3.7% p.a. respectively, helped by the very strong performance in the first quarter of 2013.

Over the previous quarter, the strategy had experienced weak returns from Japanese equities, however this quarter there was a reversal which saw a meaningful contribution from the Japanese equity positions, helping the fund outperform despite underperformance from UK equities.

The main change within the portfolio over the quarter was a reduction in the US high yield exposure in favour of emerging market government bonds.

8. Ruffer – Absolute Return

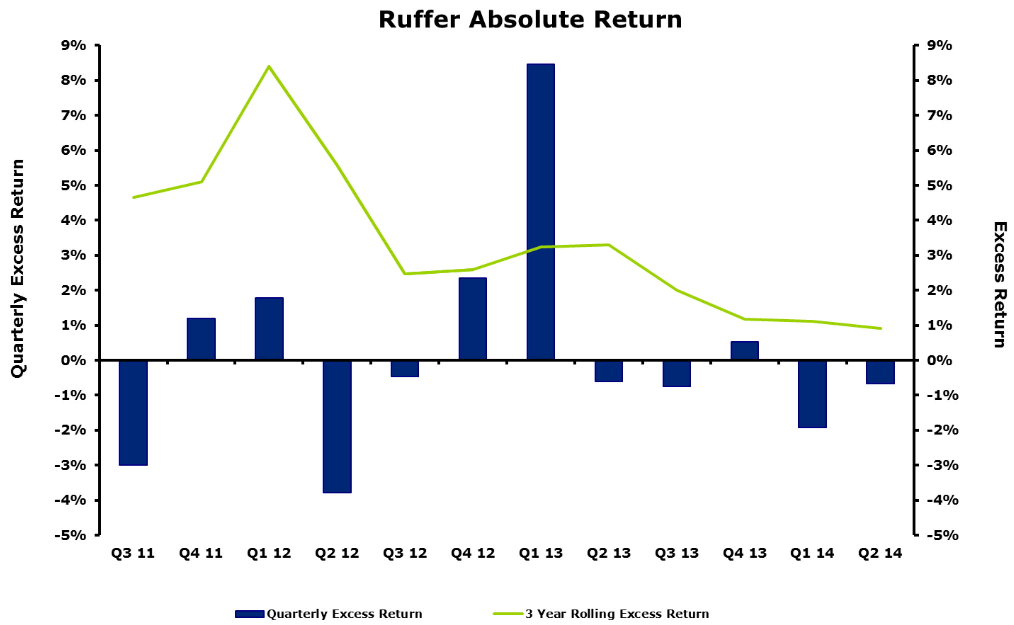
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	0.5	1.6	8.0	5.6	9.5
Net of fees[(1)]	0.3	0.8	7.2	4.8	8.6
Benchmark	1.1	4.5	4.6	4.7	4.7
Target	1.1	4.5	4.6	4.7	4.7
Relative to Benchmark	-0.7	-2.9	3.4	0.9	4.7

Source: Northern Trust

(1) Estimated by Deloitte



Ruffer underperformed its target by 0.7% and by 2.9% respectively over the quarter and one year period to 30 June 2014. However, over the longer periods Ruffer has comfortably outperformed its target, mainly due to expectional performance around the turn of the year 2012/13.

Performance was broadly flat over the quarter as a result of holdings in options detracting (which were in the portfolio to provide protection and suffered as a result of further declines in market volatility), offsetting the positive performance from holdings in US Treasury Inflation Protected Securities. Ruffer believes there is confidence returning to the Japanese markets and therefore has maintained its position in Japanese equities.

9. Goldman Sachs – Absolute Return Bonds

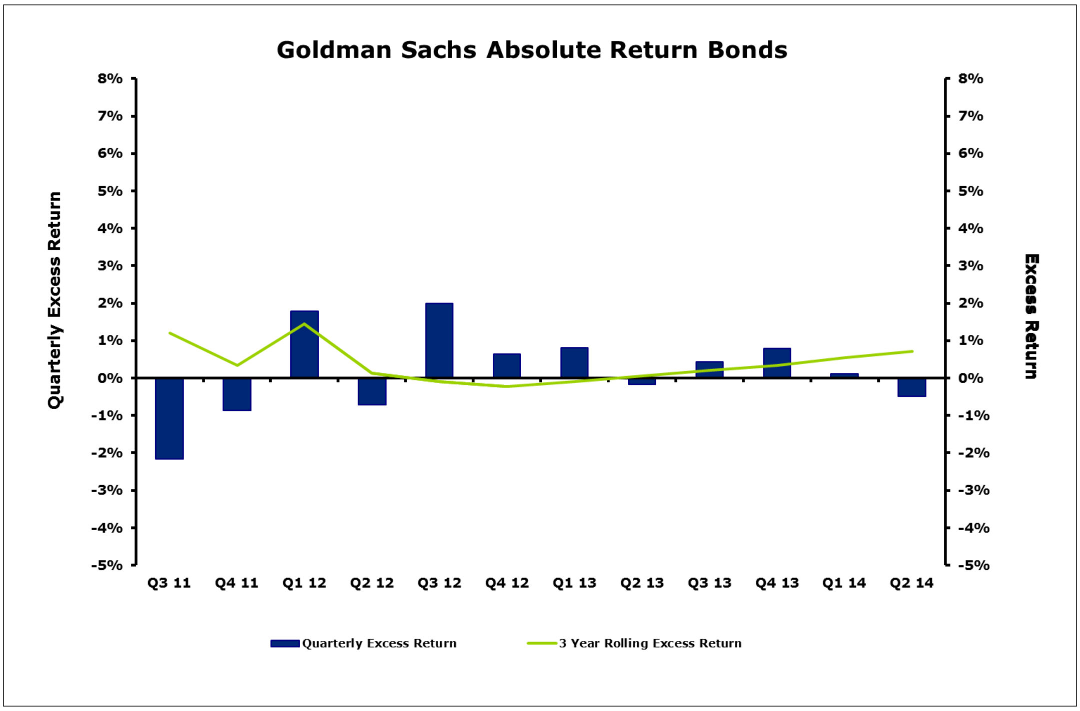
Goldman Sachs was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Goldman Sachs – Gross of fees	0.1	3.4	4.7	3.4	3.6
Net of fees(1)	0.0	3.0	4.2	3.0	3.2
Benchmark	0.6	2.5	2.6	2.7	2.7
Target	0.6	2.5	2.6	2.7	2.7
Relative to Benchmark	-0.5	0.8	2.1	0.7	0.9

Source: Northern Trust

(1) Estimated by Deloitte



Goldman Sachs underperformed its target by 0.5% over the quarter. Over the one and three year periods, the fund has performed ahead of its target by 0.8% and 0.7% respectively.

During the quarter the main contributors to performance were cross-sector and country strategies whilst the duration strategy significantly detracted. Like many absolute return funds, Goldman Sachs positioned the fund for interest rate to rises, and therefore the duration strategy underperformed as US treasury yields fell during the quarter.

10.LGIM – LDI Bonds

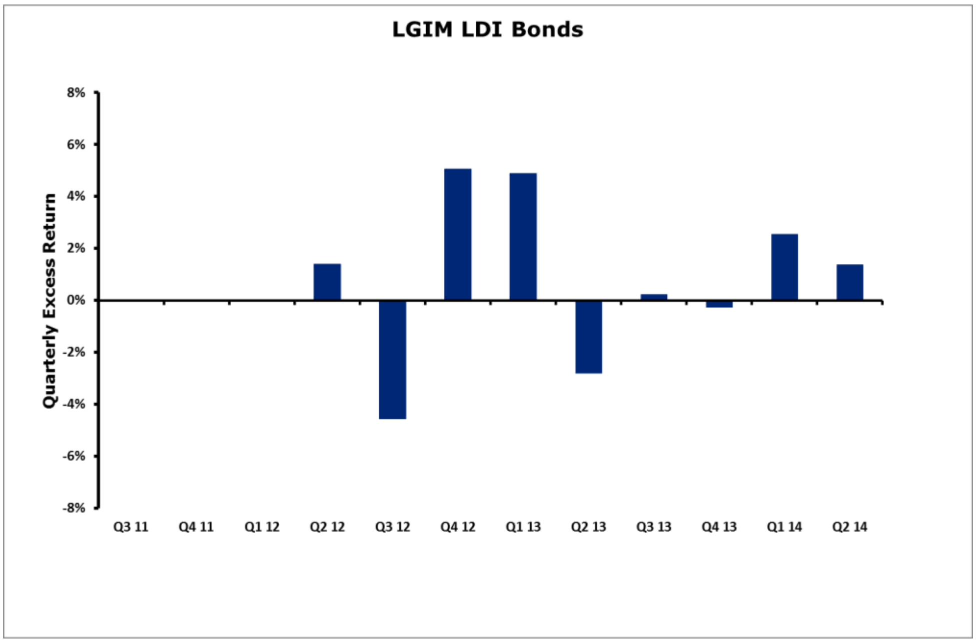
LGIM has a liability matching mandate with the aim of tracking the performance of a leveraged mixture of inflation-linked bonds. Fees are charged based on the value of assets, subject to a minimum fee each year.

Investment Performance to 30 June 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Since Inception 31/03/12 (% p.a.)
LGIM – Gross of fees	2.5	9.1	6.8	1.1
Net of fees[(1)]	2.5	9.0	6.7	1.1
Benchmark	1.2	5.2	4.5	0.7
Target	1.2	5.2	4.5	0.7
Relative	1.4	3.9	2.3	0.4

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 measurement benchmark by 1.4%.

It should be borne in mind that the portfolio has not been rebalanced since it was put in place. The initial structure of the mandate was based on cash flows from the 2010 valuation provided by the previous investment advisor. The current measurement benchmark may no longer be appropriate.

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 2.2% 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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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Barnett Waddingham

London Borough of Hammersmith and Fulham Pension Fund

Funding Update Report

as at 30 June 2014

Graeme D Muir FFA
Barnett Waddingham LLP

20 August 2014

Contents

1. Introduction

1.1. We have carried out a quarterly monitoring assessment of the London Borough of Hammersmith and Fulham Pension Fund as at 30 June 2014. The purpose of this assessment is to provide an update on the funding position.

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.

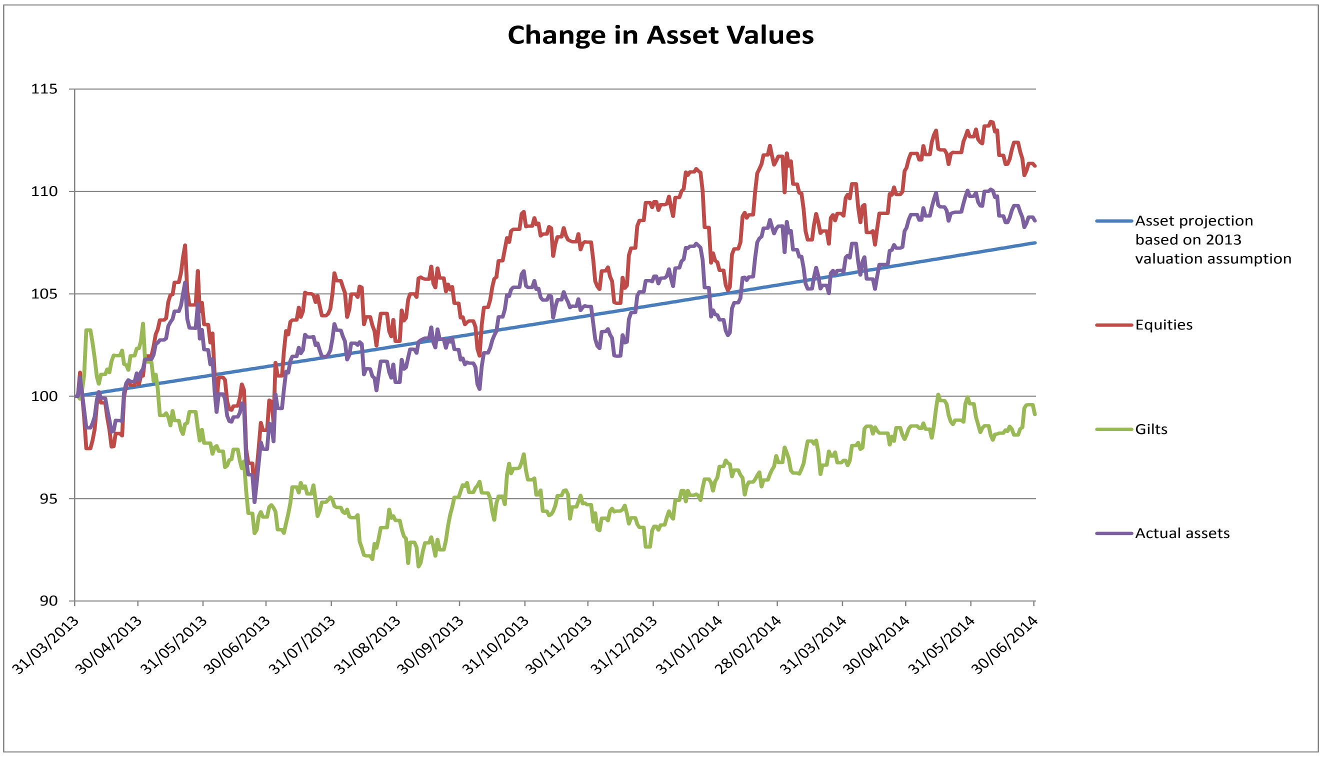
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the London Borough of Hammersmith and Fulham Pension Fund as at 30 June 2014 is as follows:

Assets (Market Value)	30 June 2014		31 March 2014		31 March 2013	
	£000's	%	£000's	%	£000's	%
Absolute Return	195,357	25.1%	193,609	25.4%	191,468	26.4%
Commodities	2,612	0.3%	2,843	0.4%	4,615	0.6%
Hedge Funds	94,918	12.2%	92,584	12.1%	101,396	14.0%
UK and Overseas Equities	440,023	56.4%	433,511	56.8%	390,299	53.9%
Gilts	26,097	3.3%	26,286	3.4%	23,755	3.3%
Cash and Accruals	20,603	2.6%	14,058	1.8%	12,553	1.7%
Total Assets	**779,610**	**100%**	**762,891**	**100%**	**724,086**	**100%**

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2014 is estimated to be 2.4%. The return achieved since the previous valuation is estimated to be 8.6% (which is equivalent to 6.8% per annum).

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 30 June 2014 in market value terms is 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)	30 June 2014		31 March 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.76%	-	2.78%	-	2.74%	-
Salary Increases	4.56%	1.80%	4.58%	1.80%	4.54%	1.80%
Discount Rate	6.00%	3.24%	6.06%	3.28%	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 broadly similar as at the 2013 valuation, maintaining 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 30 June 2014 is 85.6% and the average required employer contribution would be 21.3% of payroll assuming the deficit is to be paid by 2035.
- This compares with the reported (smoothed) funding level of 82.9% and average required employer contribution of 21.9% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 30 June 2014 is 6.0% per annum. The investment return required to restore the funding level to 100% by 2035, 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.

Graeme D Muir FFA
Partner

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	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate	Return required to restore funding
March 2013	715,915	863,421	(147,506)	83%	13.9%	8.3%	22.2%	6.0%	6.8%
April 2013	723,791	867,688	(143,897)	83%	14.0%	8.1%	22.0%	6.0%	6.8%
May 2013	728,946	868,509	(139,564)	84%	13.9%	7.8%	21.7%	6.0%	6.8%
June 2013	731,739	867,699	(135,960)	84%	13.7%	7.7%	21.4%	6.0%	6.8%
July 2013	735,705	868,567	(132,861)	85%	13.7%	7.5%	21.2%	6.1%	6.8%
August 2013	737,087	868,857	(131,770)	85%	13.6%	7.5%	21.0%	6.1%	6.9%
September 2013	741,569	872,754	(131,185)	85%	13.6%	7.4%	21.0%	6.1%	6.9%
October 2013	746,859	877,215	(130,356)	85%	13.6%	7.4%	21.0%	6.1%	6.8%
November 2013	750,901	877,319	(126,419)	86%	13.5%	7.2%	20.7%	6.1%	6.8%
December 2013	755,725	881,184	(125,459)	86%	13.5%	7.1%	20.7%	6.1%	6.8%
January 2014	760,194	884,185	(123,991)	86%	13.5%	7.1%	20.6%	6.1%	6.8%
February 2014	763,200	887,025	(123,825)	86%	13.5%	7.1%	20.6%	6.1%	6.8%
March 2014	767,141	891,546	(124,405)	86%	13.6%	7.1%	20.7%	6.1%	6.8%
April 2014	774,710	898,649	(123,939)	86%	13.4%	7.3%	20.7%	6.0%	6.8%
May 2014	777,240	903,058	(125,818)	86%	13.4%	7.4%	20.9%	6.0%	6.8%
June 2014	779,486	910,481	(130,995)	86%	13.6%	7.7%	21.3%	6.0%	6.8%

	London Borough of Hammersmith & Fulham **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16th September 2014**
PENSION FUND ANNUAL REPORT 2013/14	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Local Government Pension Scheme regulations require the Pension Fund to prepare and publish an annual report by 1st December every year. The report for 2013/14 which the Committee is asked to approve has been prepared in line with the requirements of the regulations and having regard to the CIPFA guidance on the preparation of annual reports. The external auditors are expected to give an unqualified opinion on the annual report, as detailed in their draft opinion shown in the report.

2. RECOMMENDATIONS

2.1. That the Pension Fund Annual Report 2013/14 be approved, subject to final audit sign-off.

3. REASONS FOR DECISION

3.1. The Local Government Pension Scheme (LGPS) Regulations 2013 require the Pension Fund to publish an annual report covering the financial year by 1st December 2014.

4. INTRODUCTION AND BACKGROUND

4.1. The Local Government Pension Scheme Regulations 2013 require all Local Government Pension Funds to prepare and publish an annual report on the activities of the Fund by 1st December following the end of the financial year. The regulations set out the areas to be covered in the report and guidance from CIPFA provides further detail of the requirements.

5. PROPOSAL AND ISSUES

5.1. The LGPS regulations require the Pension Fund annual report to include information about the following:

- Management and Financial performance;
- Investment Policy;
- Administration;
- Funding;
- Pension Fund Accounts;
- Links to Statement of Investment Principles, Funding Strategy Statement and Communication Policy Statement.

5.2. The annual report for 2013/14 attached at Appendix 1 includes all of the requirements above and has been prepared having regard to the CIPFA guidance.

5.3. The Funding Strategy Statement was last reviewed in February 2014, and it is planned to review it in line with the next actuarial valuation in 2016. The Communication Policy Statement was last reviewed in September 2013 and an update will be prepared as required. The last review of the Statement of Investment Principles was in June 2012 and an update to this will be prepared when the committee have concluded the review of investment strategy.

5.4. As reported elsewhere on this agenda, the Pension Fund accounts have been audited by the external auditors, KPMG. They have also reviewed the annual report for consistency with the accounts and their unqualified draft opinion is included on page 47 of the annual report.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. The production of the annual report is required by the LGPS regulations and therefore there are no other options to consider.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

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

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

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

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

LIST OF APPENDICES:

Appendix 1: Pension Fund Annual Report 2013/14

London Borough of Hammersmith & Fulham
Pension Fund
Annual Report
2013-2014


Contents

Chairman's report

The Audit, Pensions & Standards Committee is responsible for overseeing the management of the London Borough of Hammersmith & Fulham Pension Fund including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's annual report for the year 2013-14.

During the year the value of the Fund rose by £39m following positive absolute investment returns over the year. The Fund's investment return outperformed the target return by a very pleasing 7.6%. The Committee has continued to monitor the Fund closely at every meeting, and challenged the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

The results of the actuarial valuation of the Fund as at 31st March 2013 were discussed with the Fund Actuary during the year and the final report was published in March 2014. The report showed an improvement in the funding level from 74% to 83% since the previous valuation in March 2010. The high investment returns in the period between valuations was a major contributor to this result. As part of the valuation process, the Committee also reviewed the Funding Strategy Statement to ensure this remains relevant going forward.

Following the actuarial valuation result, the Committee is now undertaking a review of the investment strategy to ensure the Fund remains on track to meet the objective of ensuring there are sufficient assets to meet all the liabilities. This will be on-going during 2014-15 with any proposed changes considered in detail and their implementation carefully managed.

In April 2014 the new Local Government Pension Scheme was implemented and the scheme changed from a final salary based scheme to a career average scheme. It is envisaged that the new scheme will be more cost effective and fairer to all scheme members in the long term.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Committee during 2013-14, as well officers, advisers and investment managers.

Councillor Iain Cassidy
Chairman of Audit, Pensions & Standards Committee

Introduction

The Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established by the Superannuation Act 1972, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from the Fund's investments. The employer contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years.

The benefits payable from the Fund are set out in the Local Government Pension Scheme regulations. Prior to 1st April 2014, the LGPS was a final salary scheme which paid pensions on the basis of final salary and length of service. Since 1st April 2014 the scheme has become a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension is based on their earnings throughout their career, rather than solely on their final salary.

In summary the benefits payable are:

- A guaranteed pension based on career average revalued earnings and length of service;
- Option to take up to 25% of pension as a tax-free lump sum;
- Death and survivor benefits;
- Early payment of pensions in the event of ill health;
- Pension increases in line with Consumer Price Inflation (CPI).

This annual report starts with the Management and Performance section which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.

The Investment section follows and details the Fund's investment strategy, arrangements and performance. This is followed by Scheme Administration which sets out how the administration of the scheme's benefits and membership is undertaken. Section 4 outlines the funding position of the Fund with a statement from the Fund's actuary and section 5 provides the Fund's annual accounts and notes.

The report concludes with a list of contacts in section 6 and a glossary of some of the more technical terms in section 7.

1. Management and Performance

Governance Arrangements

The London Borough of Hammersmith & Fulham Council has delegated decision making powers in respect of pensions matters to the Audit, Pensions and Standards Committee (the Committee). The Committee is made up of nine elected representatives of the Council – five from the administration and four opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights.

The Committee meets at least four times a year and has the following terms of reference:

- To determine the overall investment strategy and strategic asset allocation of the Pension Fund;
- To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund;
- To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable;
- To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls;
- To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents;
- To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy;
- To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report;
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;
- To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries;
- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;
- To approve the arrangements for the provision of AVCs for fund members;
- To receive and consider the auditor's report on the governance of the Pension Fund.

The Committee reports to the full Council annually on its activities. The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance and other officers, and as necessary from the Fund's appointed actuary, advisors and investment managers.

The current membership of the Audit & Pensions Committee is as follows:
Councillor Iain Cassidy (Chairman)
Councillor Michael Adam (Vice Chairman)
Councillor Nicholas Botterill
Councillor Ben Coleman
Councillor Adam Connell
Councillor Donald Johnson
Councillor Mark Loveday
Councillor PJ Murphy
Councillor Guy Vincent

The membership of the Committee during the 2013/14 year was:
Councillor Michael Adam (Chairman)
Councillor PJ Murphy (Vice Chairman)
Councillor Michael Cartwright
Councillor Charlie Dewhirst
Councillor Robert Iggulden
Councillor Lucy Ivimy
Eugenie White (Co-Opted member)

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles. This measurement should result in a statement of full, partial or non compliance with a further explanation provided for any non or partial compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's published statement can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Images/Governance%20Compliance%20Statement%20Feb%2011_tcm21-151895.pdf

Scheme Management and Advisers

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience and this includes the Pensions teams.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments across the three boroughs. The team is based at Westminster's offices. The Pension Funds continue to be managed separately in accordance with each borough's strategy and so each continues to have sovereignty over decision making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the tri-borough working aims.

Officers

Executive Director of Finance & Corporate Governance (section 151 officer)	Jane West
Tri-Borough Pensions Team	Jonathan Hunt Nikki Parsons Alex Robertson Nicola Webb
Bi-borough Pensions Manager	Maria Bailey

External Advisers

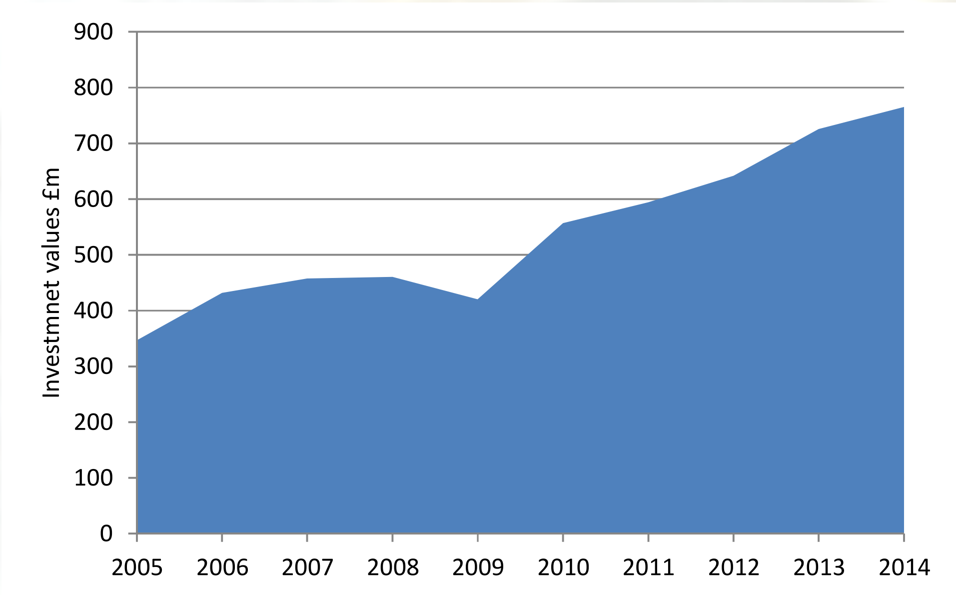
Investment Adviser	Deloitte
<u>Investment Managers</u> Active Equity managers Dynamic Asset Allocation managers Matching Fund managers Private Equity managers	 Majedie Asset Management MFS International (UK) Limited Baring Asset Management Limited Ruffer LLP Goldman Sachs Asset Management Legal & General Investment Management Invesco Unigestion
Custodian & Bankers	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	Capita Employee Benefits
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2013/14 was positive both in absolute terms and relative to the Fund's target. The return was 6.4%, which was 7.6% above the target set by the Fund, which was actually negative in this period (-1.2%). There were no changes of investment manager during the year. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

The table below shows how the value of the Fund's investments have increased over time by showing the total value at 31st March every year for the last ten years:

Value of the Fund over the last ten years



The Pension Fund Account, Net Assets Statement and Notes to the Accounts set out in section 5 provide more detail about the financial transactions during the year and the value of assets at the end.

Risk Management

The Fund has recognised that the most significant long term risk is that the Fund's assets are not sufficient to meet the liabilities. In the light of this, the Fund has set a "Liability Benchmark" to measure the movement in the liabilities and also to assist in monitoring investment performance to ensure it exceeds it.

In order to achieve this level of performance, the Fund has decided to invest in assets, the value of which can fluctuate significantly. To mitigate this risk, an investment strategy which covers a wide range of asset classes and geographical areas has been implemented, to ensure diversification. All of the investments are undertaken in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 and only following advice from the Fund's investment adviser.

All of the Fund's assets are managed by external investment managers and they are required to provide an audited internal controls report regularly to the Fund which sets out how they ensure the Fund's assets are managed in accordance with the Investment Management Agreement the Council has signed with each investment manager. A range of investment managers are used to diversify manager risk. All the Fund's assets are held for safekeeping by the custodian, who is independent of all the investment managers. They are also required to provide an audited internal controls report to the Fund on a regular basis.

The Funding Strategy Statement sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

2. Investment Policy and Performance

The Fund's investment policy, objectives and strategy are summarised below and set out in detail in the Statement of Investment Principles, which can be found at the link shown later in this section. One of the Fund's key objectives is to manage employers' liabilities effectively and one of the key risks for the Fund is that the assets will fall short of the liabilities. As a result the investment policy is set and performance measured by reference to a benchmark which reflects the liabilities.

Investment Benchmark and Objective

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

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

The investment benchmark for the Fund as a whole is the Liability Benchmark plus 2.2% per annum. The investment objective is to achieve the Liability Benchmark plus 2.5% per annum.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Pension Funds to prepare, maintain and publish a statement setting out the investment policy of the Fund. In addition Pension Funds are required to demonstrate compliance with the six "Myners Principles".

The "Myners Principles" are a set of recommendations relating to the investment of pension funds which were originally prepared by Lord Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. The current version of the principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

The Fund's published statement can be found in the Pension Fund section of the following website:

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%20June%202012_tcm21-174597.pdf

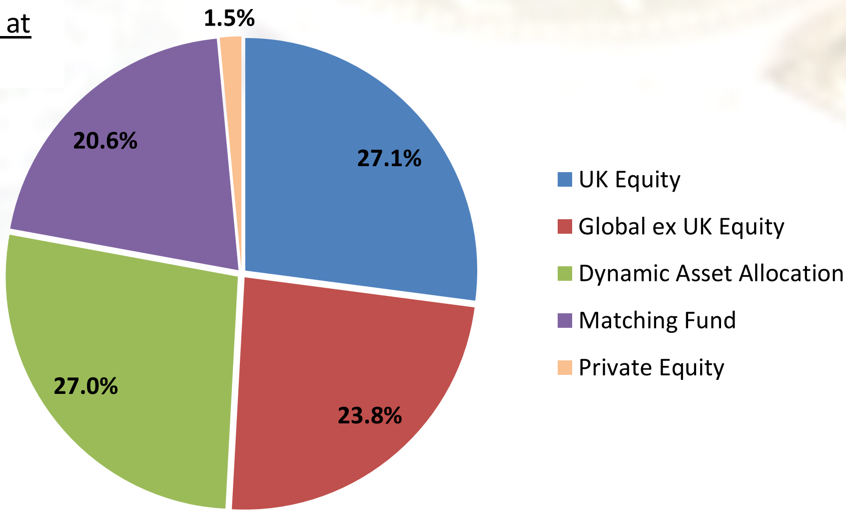
Investment Strategy

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

The table and graph below shows how the Fund was split between the four main portfolios at 31st March 2014. The split at 31st March 2013 is shown in the table for comparison.

Portfolio	Benchmark	Market Value at 31/03/2014 £000s	% of Fund at 31/03/2014	Market Value at 31/03/2013 £000s	% of Fund at 31/03/2013
UK Equity	22.5%	207,054	27.1%	173,322	23.9%
Global ex UK Equity	22.5%	182,013	23.8%	171,675	23.7%
Dynamic Asset Allocation	30.0%	206,552	27.0%	203,026	28.0%
Matching Fund	25.0%	157,833	20.6%	164,316	22.6%
Other	0%	11,442	1.5%	13,336	1.8%
TOTAL	100%	764,894	100.0%	725,675	100.0%

Split of investments at 31st March 2014



The main change to the split of the portfolios in the year 2013/14 was an increase in the proportion in UK Equities, due to the performance of this portfolio. The "Other" category is made up of private equity investments – the Fund committed to making investments of up to £15m in 2004 and 2007. These commitments have largely been paid now and the monies are being distributed back to the Fund.

Investment Managers

The Fund has appointed external investment managers within the four main portfolios. The investment managers have clear benchmarks and targets, which place maximum accountability for performance on the manager. The detail of these is set out in the Statement of Investment Principles. The table below shows how the Fund's assets were allocated between the investment managers at 31st March 2014, and at 31st March 2013 for comparison.

Investment Manager	Market Value at 31/03/2014	% of Fund at 31/03/2014	Market Value at 31/03/2013	% of Fund at 31/03/2013
UK Equity				
Majedie Asset Management	207,054	27.1%	173,322	23.9%
Global ex UK Equity				
MFS International (UK) Ltd	182,013	23.8%	171,675	23.6%
Dynamic Asset Allocation				
Baring Asset Management Ltd	125,250	16.4%	123,116	17.0%
Ruffer LLP	81,302	10.6%	79,910	11.0%
Matching Fund				
Goldman Sachs Asset Management	65,248	8.5%	62,919	8.7%
Legal and General Investment Management	92,585	12.1%	101,397	14.0%
Private Equity				
Invesco	6,221	0.8%	7,265	1.0%
Unigestion	5,221	0.7%	6,071	0.8%
TOTAL	764,894	100.0%	725,675	100.0%

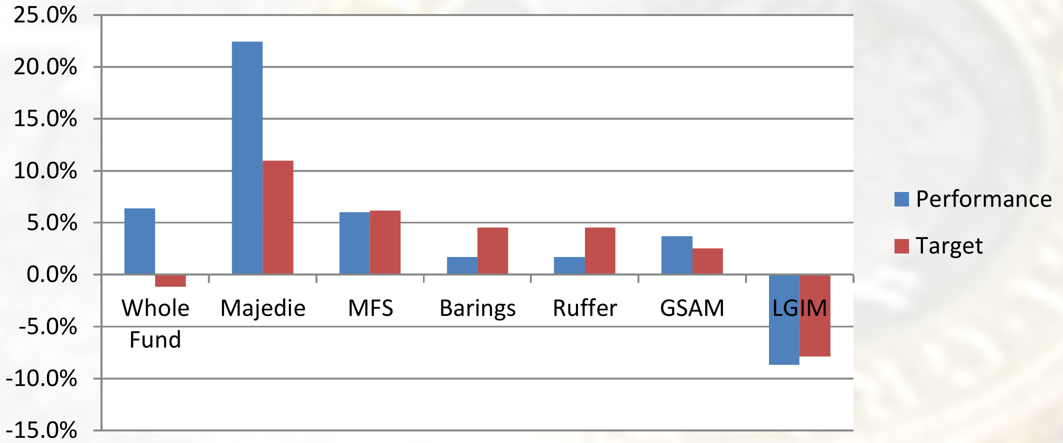
Investment Performance

The table below shows the performance of the Fund against the target in 2013/14, the previous financial year, and the annualised performance over three and five years.

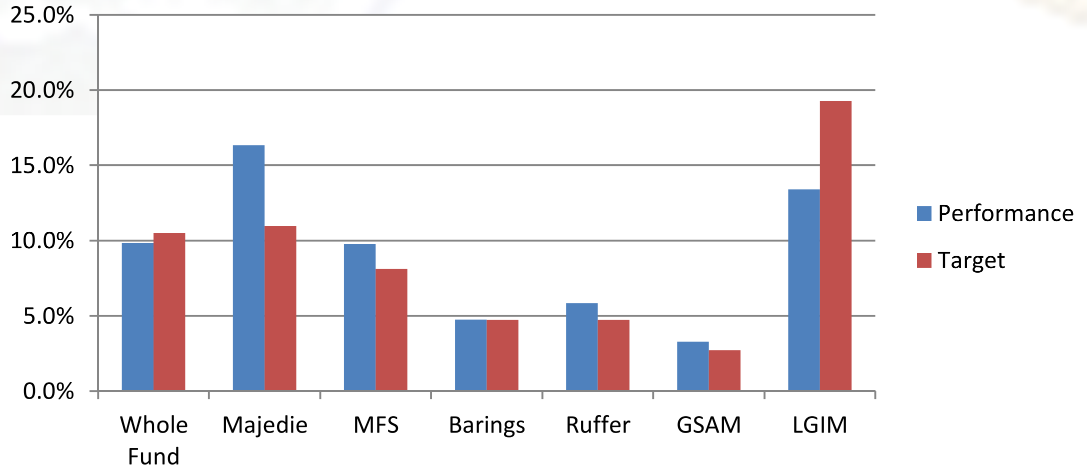
	2013/14	2012/13	3 years	5 years
Performance	6.4%	15.1%	9.9%	13.5%
Target (Liability Benchmark + 2.5%)	(1.2%)	11.9%	10.5%	10.9%
Out / (under) performance against target	7.6%	3.2%	(0.6%)	2.6%

Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Committee. The graphs below show the performance of the investment managers against their targets over 2013/14 and annualised over three years.

2013/14 performance against targets



Three Years annualised performance against targets



The graphs show that the Majedie Asset Management outperformance dominated the investment performance in 2013/14. Goldman Sachs was the only other manager to outperform their target over this short period. In the longer term all the investment managers except Legal and General Investment Management outperformed their targets. Due to movement in the index linked gilts which make up the whole fund benchmark and target, the whole Fund underperformed the target by 0.6% over the three year period.

Responsible Investment

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. Following consideration of how to address the issue, in the light of the resources available to the Fund, it has been decided to delegate responsibility for the consideration of responsible investment matters to the Fund's investment managers. The Committee believes this is the most efficient approach for a Fund of this size.

The investment managers are required to report to the Fund on how they implement their responsible investment policy including voting decisions they take on behalf of the Fund in their quarterly reports.

Custody and Banking

The Fund has appointed a global custodian, independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments – this is Northern Trust. They are also responsible for the settlement of all investment transactions and the collection of income. The Fund's bank account is also held at Northern Trust. Funds not immediately required to pay benefits are invested in Northern Trust's AAA rated money market fund.

3. Scheme Administration

The Local Government Pension Scheme ("LGPS") is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a defined benefit pension scheme and the benefits payable from the Fund are set out in the Local Government Pension Scheme regulations. Prior to 1st April 2014, the LGPS was a final salary scheme which paid pensions on the basis of final salary and length of service. Since 1st April 2014 the scheme has become a Career Average Revalued Earnings (CARE) scheme, so that a scheme member's pension is based on their earnings throughout their career, rather than solely on their final salary.

Service Delivery

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. Capita Employee Benefits have been contracted under a framework to perform the pension administration service for the London Borough of Hammersmith and Fulham and the Council monitors their performance via a series of agreed targets. The framework allows other London boroughs to enter into a call off contract for a range of pension administration services.

Membership of the Fund

The Fund provides pensions not only for employees of the London Borough of Hammersmith and Fulham, but also for the employees of a number of scheduled and admitted bodies. Scheduled Bodies are organisations which have the right to be a member of the Local Government Pension Scheme under the regulations e.g. academies. Admitted bodies participate in the scheme via an admission agreement, which is a legal document made between the Council and the organisation. Examples of admitted bodies are not for profit organisations with a link to the Council and contractors who have taken on the Council's services and therefore staff have been transferred.

The table below shows that although the number of employers has been growing in recent years, due to an increase in academies and free schools and outsourcing of Council services, there was a reduction in 2013/14. This has been a result of a number of employers exiting the Fund as all active members have left.

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Employers	25	29	30	35	31

A list of the Fund's employers with active contributing members is set out at the end of this section.

The table below shows the Fund's membership over the last five years. Although there has been a small rise in the number of active members over the last year, in general the active membership has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of the schemes.

	31st March 2010	31st March 2011	31st March 2012	31st March 2013	31st March 2014
Contributors	4,176	4,064	3,837	3,782	3,963
Deferred	4,900	5,217	5,409	5,546	5,785
Pensioners & Dependents	4,067	4,174	4,265	4,379	4,463
Total Membership	13,143	13,455	13,511	13,707	14,211

Employer List

The following is a list of the employers with current active contributing members.

Scheduled Bodies	Admitted Bodies
London Borough of Hammersmith & Fulham	3BM
Bentworth Academy	Amey Services Limited
Burlington Danes Academy	Disabilities Trust
Conway Academy	Eden Food Service
Fulham College Academy Trust	ETDE Infrastructure
Hammersmith Academy	F M Conway Ltd
Lady Margaret Academy	Family Mosaic
Lena Gardens Academy	Family Mosaic Supporting People
London Oratory School	Fulham Palace Trust
Mortlake Crematorium Board	Glencross Cleaning Ltd
Sacred Heart High School	H & F Bridge Partnership
Swift Ark Academy	Medequip Assistive Technology
West London Free School	Mitie Group plc
	Pinnacle PSG Limited
	Quadron
	Serco
	Thames Reach
	Urban Partnership Group

Communication policy statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found at the following link:

http://www.lbhf.gov.uk/Images/Pension%20Fund%20Communication%20Policy%20Statement_tcm21-184905.pdf

Sources of information

Further information about the benefits payable from the Pension Fund can be found on the national Local Government Pension Scheme website www.lgps.org.uk . For further information about the administration of the scheme in Hammersmith and Fulham, visit the administrator's LGPS website www.mylgpspension.co.uk

Internal Dispute Resolution Procedure

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. If an issue cannot be resolved informally, a stage 1 appeal may be made to Sarah Milson, Head of Pensions at Capita Employee Benefits using the email address: lbhf.pensions@capita.co.uk and thereafter, if necessary a further appeal may be made to Debbie Morris, Bi-borough Director of HR for Hammersmith & Fulham and Kensington and Chelsea.

If the problem remains unresolved, members then have the right to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts, but are recorded in a disclosure note.

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange for an actuary to conduct an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2013.

The results of the valuation in 2013 are shown in the table below:

Value of Assets	£716m
Liabilities	(£863m)
Deficit	(£147m)
Funding Level	83%
Future Service Contribution Rate	13.6%
Past Service Recovery Contribution Rate	8.3%
Total Employer Contribution Rate	21.9%

These results show that the Fund had assets sufficient to meet 83% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.6% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 8.3% of payroll was set to recover the deficit over a 22 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Note 18 to the Pension Fund accounts on page 42 provides a statement from the Fund Actuary about changes since the valuation in 2013.

Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

The Fund's published statement can be found by following this link:

http://www.lbhf.gov.uk/Images/Funding%20Strategy%20Statement%202014_tcm21-187570.pdf

5. Pension Fund Accounts

This section sets out the full audited financial statements of the London Borough of Hammersmith and Fulham Pension Fund for the year ended 31st March 2014.

The Council's Responsibilities
The Council is required to:

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

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

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

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Executive Director of Finance and Corporate Governance
I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2014 and income and expenditure for the year for the financial year 2013/14.

Jane West, Executive Director of Finance and Corporate Governance

Fund Account

	Note	2013/14 £000	2013/14 £000	2012/13 £000	2012/13 £000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,692		23,136	
From Members	6	6,306	28,998	6,445	29,581
Individual Transfers In from other Pension Funds			3,324		1,575
Other Income			34		36
Benefits					
Pensions	7	(26,887)		(26,525)	
Lump Sum Retirement Benefits	7	(4,882)	(31,769)	(5,353)	(31,878)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,325)		(6,149)
Other Expenditure			-		(20)
Administrative Expenses	8		(643)		(632)
Net Additions (Withdrawals) from dealings with members			**(3,381)**		**(7,487)**
Returns on Investments					
Investment Income	9		9,680		9,930
Taxes on Income (Irrecoverable Withholding Tax)			(170)		(131)
Profit and losses on disposal of investments and changes in value of investments					
Realised	12		33,428		12,206
Unrealised	12		4,091		73,595
Investment Management Expenses	10		(4,905)		(2,667)
Net Returns on Investments			**42,124**		**92,933**
Net Increase (Decrease) in the net assets available for benefits during the year			**38,743**		**85,446**
Opening Net Assets of the Scheme			**724,086**		**638,640**
Closing Net Assets of the Scheme			**762,829**		**724,086**

Net Asset Statement as at 31st March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Investment Assets			
Index Linked Securities	13	26,286	23,755
Equities	13	320,772	297,086
Pooled Investment Vehicles	13	399,886	387,107
Commodities	13	1,890	3,585
Derivative contracts - forward foreign exchange	13	260	0
Cash Deposits	13	17,027	12,909
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	542	1,223
Investment Income Due	13	752	760
Investment Liabilities			
Derivative contracts - forward foreign exchange	13	(96)	0
Amounts Outstanding on Purchase of Investments	13	(2,425)	(750)
Net Investment Assets	13	**764,894**	**725,675**
Current Assets	20	278	199
Current Liabilities	21	(995)	(1,114)
Cash Balances		(1,348)	(674)
Net assets of the fund available to fund benefits at the period end.		**762,829**	**724,086**

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

Notes to the Pension Fund Accounts

Note 1: Description of Hammersmith and Fulham Pension Fund

a) General

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

The Fund is governed by the Superannuation Act 1972 and during 2013/14 was administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

From 1st April 2014, the Local Government Pension Scheme Regulations 2013 are effective changing the scheme from a final salary scheme to a career average revalued earnings based scheme. All benefits payable on service from 1st April 2014 onwards will be based on the average of each year of salary revalued in line with the Consumer Price Index.

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

b) Audit, Pensions & Standards Committee

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

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

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The Committee approved a Statement of Investment Principles on 28th June 2012 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myner's principles of investment management.

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%20June%202012_tcm21-174597.pdf

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

d) Membership

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

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

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

The following table is a membership summary of the scheme:

	31 March 2014	31 March 2013
Contributing employees	3,963	3,782
Pensioners receiving benefit	4,463	4,379
Deferred Pensioners	5,785	5,546

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

e) Tri Borough Working

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that has joined together has been the treasury and pension teams of the three boroughs.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster's offices.

The Pension Funds and Treasury operations will continue to be managed separately in accordance with Government Regulations and the current strategies agreed by the home boroughs who will continue to have sovereignty over decision making.

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the fund's transactions for 2013/14 and its position at year-end as at 31st March 2014. The accounts have been prepared in accordance with IAS 26 and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. IAS26 gives administering authorities the option to disclose this information in the Net Asset statement, in the notes to the accounts or by appending an actuarial report, prepared for this purpose. The authority has opted to disclose this information in an accompanying report to the accounts which is discussed in Note 19.

Note 3: Summary of significant accounting policies

Fund Account – revenue recognition

a) <u>Contribution income</u>
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

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

c) Investment Income

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

Fund Account – Expense Items

d) Benefits Payable

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

e) Taxation

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

f) Administration expenses

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

g) Investment Management expenses

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

Net Assets Statement

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the

balance sheet date. Quoted securities are valued by Northern Trust, the fund's custodian and Pooled Investment Vehicles at the published bid prices or those quoted by their managers.
The values of the investment in Private Equity fund of funds are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

i) Derivatives

The only derivatives held by the Fund are forward foreign exchange contracts. Forward foreign exchange contracts are valued by establishing the gain or loss that would arise on closing out the contract at the accounting date by entering into an equal and opposite contract on that date.

j) Foreign Currency Transactions

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the reporting date.

k) Cash and Cash Equivalents

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

l) Financial Liabilities

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

m) Actuarial Present Value of Promised Retirement Benefits

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

n) Additional Voluntary Contributions

Members of the fund may choose to make additional voluntary contributions (AVCs) into a separate scheme run by Zurich Assurance in order to obtain additional pension benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included within the accounts in accordance with the relevant regulations. They are disclosed in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

o) Recharges from the General Fund

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

Note 4: Critical Judgements in applying accounting policies

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are on the basis of best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

a) Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 18. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

b) Unquoted private equity investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

Note 5: Events after the Balance Sheet

The market value of the investments varies over time depending on the performance of the markets, as discussed in Note 17. At 31st July 2014 the value of the investments had risen to £777m.

A further significant event took place at the end of August when the fund manager at the Barings Dynamic Asset Allocation Fund announced his resignation. Following the advice of the Fund's advisers, this holding was sold.

Note 6: Contributions receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make balancing contributions determined by the fund's actuary to maintain the solvency of the fund.

The tables below and overleaf show a breakdown of the total amount of employers' and employees' contributions made during the year by the Council and each scheduled and admitted body.

	Employers'		Employees'	
	2013/14	**2012/13**	**2013/14**	**2012/13**
	£000	**£000**	**£000**	**£000**
LB Hammersmith and Fulham	18,854	19,923	5,008	5,507
LBHF Councillors	40	38	18	17
Sub-Totals Administering Authority	**18,894**	**19,961**	**5,026**	**5,524**
Mortlake Crematorium Board	59	53	16	14
London Oratory School	115	105	51	46
Burlington Danes Academy	119	113	55	52
Hammersmith Academy	118	64	32	30
Conway Academy	18	8	4	2
West London Free School	70	33	18	9
Bentworth Academy	39	22	10	6
Lady Margaret Academy	143	65	36	18
Sacred Heart High School	134	101	34	29
Fulham College Academy Trust	347	27	93	8
Bridge Academy	132	0	33	0
Swift Ark Academy	46	0	12	0
Lena Gardens Academy	3	0	1	0
Sub-Totals Scheduled Bodies	**1,343**	**591**	**395**	**214**

	Employers'		Employees'	
	2013/14	**2012/13**	**2013/14**	**2012/13**
	£000	**£000**	**£000**	**£000**
F M Conway Ltd	49	61	16	21
Urban Partnership Group	38	51	10	14
H&F Community Law Centre	0	6	0	2
Family Mosaic	67	86	22	27
Disabilities Trust	2	4	1	1
Thames Reach	6	6	2	2
Medequip Assistive Technology	7	9	2	2
Eden Food Service	240	256	79	79
Fulham Palace Trust	41	41	12	12
Family Mosaic Supporting People	11	15	5	6
Glencross Cleaning Ltd	3	3	1	1
Inspace Partnerships Ltd	35	59	11	19
H & F Bridge Partnership	297	938	121	134
Kier	81	138	25	43
Kier - Non HR Contract	2	4	1	2
P H Jones Ltd	3	5	1	2
Irish Cultural Centre	(1)	6	0	1
E C Harris LLP	11	7	4	2
Crime Reduction Initiatives	2	5	1	2
Quadron	240	240	68	68
Serco	472	481	205	210
Tendis	7	21	2	6
Turners	53	120	17	43
ETDE Infrastructure	24	22	8	8
3BM	183	0	68	0
Pinnacle Housing Services	80	0	30	0
Pinnacle Estate Services	211	0	72	0
Mitie Property Services Ltd	118	0	44	0
Amey Community Limited	173	0	57	0
Sub-Totals Admitted Bodies	**2,455**	**2,584**	**885**	**707**
Grand Totals	**22,692**	**23,136**	**6,306**	**6,445**

Note 7: Benefits Payable

The table below shows a breakdown of the total amount of benefits payable.

	Pensions		Lump Sum Retirement Benefits		Lump Sum Death Benefits	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000	£000	£000
LB Hammersmith and Fulham	(26,100)	(25,809)	(3,984)	(4,753)	(443)	(331)
Councillors	(1)	(1)	0	0	0	(19)
Sub-Totals Administering Authority	**(26,101)**	**(25,810)**	**(3,984)**	**(4,753)**	**(443)**	**(350)**
Mortlake Crematorium Board	(47)	(45)	0	0	0	(17)
London Oratory School	(8)	(2)	(33)	(15)	0	0
Burlington Danes Academy	(28)	(19)	0	0	0	0
Sub-Totals Scheduled Bodies	**(83)**	**(66)**	**(33)**	**(15)**	0	**(17)**
H&F Community Law Centre	(44)	(45)	(1)	(33)	0	0
H&F Police Consultative Group	(7)	(7)	0	0	0	0
ROOM the National Council	(5)	(6)	0	0	0	0
Family Mosaic	(128)	(117)	(25)	(5)	0	0
Greenwich Leisure Ltd	(3)	(3)	0	0	0	0
Blythe Neighbourhood Council	(2)	(1)	0	0	0	0
Inspace Partnerships Ltd	(48)	(46)	(47)	0	0	0
Kier	(4)	(1)	(39)	(10)	0	0
Turners	(18)	(14)	(19)	(37)	(8)	0
Urban Partnership Group	(2)	(3)	0	0	0	0
Disabilities Trust	0	(9)	0	(2)	0	0
EC Harris LLP	(12)	(12)	0	0	0	0
Eden Food Service	(19)	(18)	0	(11)	0	(71)
F M Conway Ltd	(21)	(16)	(71)	0	0	0
H & F Bridge Partnership	(273)	(256)	(135)	0	0	0
Quadron	(32)	(31)	0	0	0	0
Serco	(85)	(64)	(66)	(49)	(11)	0
Sub-Totals Admitted Bodies	**(703)**	**(649)**	**(403)**	**(147)**	**(19)**	**(71)**
Grand Totals	**(26,887)**	**(26,525)**	**(4,420)**	**(4,915)**	**(462)**	**(438)**

Note 8: Administrative Expenses

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

	2013/14 £000	2012/13 £000
Provision of Pension Administration	(315)	(407)
Support Services including IT	(258)	(179)
External audit fees	(21)	(21)
Actuarial fees	(39)	(22)
Other fees	(10)	(3)
	(643)	**(632)**

Note 9: Investment Income

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

	2013/14 £000	2012/13 £000
Dividends from Equities	9,393	8,774
Income from Index-Linked Securities	226	232
Interest on Cash Deposits	34	133
Private Equity/Other	27	449
Currency profit/loss	0	342
Total	**9,680**	**9,930**

Note 10: Investment Expenses

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

	2013/14 £000	2012/13 £000
Management fees	(4,698)	(2,518)
Custody and performance monitoring fees	(124)	(110)
Investment consultancy	(58)	(39)
Other	(25)	0
	(4,905)	**(2,667)**

Of the management fees in 2013/14, a total of £1,550k was in respect of performance fees (£218k in 2012/13).

Note 11: Investment Strategy

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

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

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

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

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

	31 March 2014		31 March 2013	
	Market Value £000	**Total %**	**Market Value £000**	**Total %**
Majedie Asset Management	207,054	27.1	173,322	23.9
MFS International (UK) Ltd	182,013	23.8	171,675	23.6
Baring Asset Management Ltd	125,250	16.4	123,116	17.0
Ruffer LLP	81,302	10.6	79,910	11.0
Goldman Sachs Asset Management	65,248	8.5	62,919	8.7
Legal and General Investment Management	92,585	12.1	101,397	14.0
Invesco Private Equity	6,221	0.8	7,265	1.0
Unigestion Private Equity	5,221	0.7	6,071	0.8
	764,894	**100.0**	**725,675**	**100.0**

The Committee has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. The bank account for the Pension Fund is also held with Northern Trust. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's.

Note 12: Reconciliation of movement in investments

The table below shows a reconciliation of the movement in the total investment assets of the fund during 2013/14.

	Value at 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	**Value at 31 March 2014**
Fund Manager	£000	£000	£000	£000	£000
Majedie Asset Management	169,017	55,759	(55,301)	33,226	202,701
MFS International (UK) Ltd	169,995	55,855	(53,374)	7,608	180,084
Baring Asset Management	123,116	123	(560)	2,571	125,250
Ruffer LLP	72,406	29,464	(29,932)	27	71,965
Goldman Sachs Asset Management	62,916	0	(15)	2,329	65,230
Legal & General Investment Management	101,396	0	0	(8,812)	92,584
Invesco Private Equity	6,714	43	(1,084)	351	6,024
Unigestion Private Equity	5,973	325	(1,232)	94	5,160
Sub-total	**711,533**	**141,569**	**(141,498)**	**37,394**	**748,998**
Cash Deposits	12,909			(35)	**17,027**
<u>Other Investment Balances</u>					
Investment Income due	760			155	**752**
Pending trade purchases	(750)			7	**(2,425)**
Pending trade sales	1,223			(2)	**542**
Totals	**725,675**	**141,569**	**(141,498)**	**37,519**	**764,894**

The equivalent analysis for 2012/13 is provided below:

Fund Manager	**Value at 1 April 2012** £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	**Value at 31 March 2013** £000
Majedie Asset Management	160,140	45,447	(61,369)	24,799	169,017
MFS International (UK) Ltd	165,100	54,424	(70,828)	21,299	169,995
Baring Asset Management	114,060	114	0	8,942	123,116
Ruffer LLP	36,746	60,588	(31,768)	6,839	72,406
Goldman Sachs Asset Management	59,637	0	(2)	3,281	62,916
Legal & General Investment Management	81,804	0	0	19,592	101,396
Invesco Private Equity	7,600	122	(1,853)	845	6,714
Unigestion Private Equity	5,530	570	(343)	216	5,973
Barings English Growth Fund	12	0	0	(12)	0
Sub-total	**630,629**	**161,265**	**(166,163)**	**85,801**	**711,533**
Cash Deposits	8,366				12,909
Other Investment Balances					
Investment Income due	1,470				760
Pending trade purchases	(127)				(750)
Pending trade sales	1,042				1,223
TOTAL	**641,380**			**85,801**	**725,675**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £486,770 (£499,743 in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Note 13: Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading at the balance sheet date. All investments are quoted unless stated.

	31 March 2014		31 March 2013	
	£000	£000	£000	£000
Designated at fair value through Profit and Loss				
United Kingdom				
Index Linked Securities - Public Sector		13,889		14,398
Equities		97,204		88,668
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	95,598		76,981	
Managed Fund - L & G LDI Bespoke Fund	92,584		101,396	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	65,230		62,916	
Managed Fund - Baring Dynamic Asset Allocation Fund	125,250		123,116	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	3,129		3,487	
Managed Fund - Ruffer Baker Steel Gold Fund	550		1,030	
Managed Fund - Ruffer Mid & Smaller Companies Fund	567		443	
Managed Fund - Ruffer Protection Strategies Intl Fund	757	383,665	463	369,832
Commodities - Gold Bullion Securities 0% Undated Notes		1,890		3,585
Total United Kingdom		**496,648**		**476,483**
Overseas				
Index Linked Securities - Public Sector		12,397		9,357
Equities				
North America	119,409		111,824	
Japan	11,672		14,695	
Europe (ex UK)	69,062		57,533	
Pacific Basin	11,258		11,260	
Other	12,167	223,568	13,106	208,418
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	403		621	
Managed Fund - Ruffer Japanese Fund	3,096		2,672	
Managed Fund - Red Kite Compass Fund	1,058		865	
Managed Fund - Ruffer Global Smaller Companies Fund	480		430	
Managed Fund - Private Equity (Unquoted)				
Invesco - North America	6,024		6,714	
Unigestion - Europe	5,160	16,221	5,973	17,275
Derivative contracts - forward foreign exchange		260		0
Total Overseas		**252,446**		**235,050**

	31 March 2014		31 March 2013	
	£000	£000	£000	£000
Other Investment Balances				
Amounts outstanding on Sale of Investments *	542		1,223	
Investment Income Due *	752	1,294	760	1,983
Loans and Receivables				
Cash Deposits	17,027		12,909	
Contributions due from Employers	181		123	
Contributions due from Members	63		43	
Combined Benefits	34	17,305	33	13,108
Financial Liabilities designated as fair value through profit and loss				
Derivative contracts - Forward Foreign Exchange	(96)		0	
Amounts outstanding on Purchase of Investments **	(2,425)	(2,521)	(750)	(750)
Financial Liabilities at Amortised Cost				
Unpaid Benefits	(277)		(256)	
Investment Management Expenses	(710)		(855)	
Administration Expenses	(8)		(3)	
Cash Balances	(1,348)	(2,343)	(674)	(1,788)
Net assets of the scheme available to fund benefits at the period end		**762,829**		**724,086**

* The classification of these assets has been corrected from Loans and Receivables at 31st March 2013 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost at 31st March 2013 to Financial Liabilities designated through profit and loss.

Investments exceeding 5% of net assets

The table below shows the Fund investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

	2013/14	2013/14	2012/13	2012/13
	£000	%	£000	%
Baring Dynamic Asset Allocation Fund	125,250	16.4	123,116	17.0
Legal & General LDI Bespoke Fund	92,584	12.1	101,396	14.0
Majedie UK Focus Fund	68,030	8.9	54,616	7.5
Goldman Sachs Libor plus 1 Fund	65,230	8.6	62,916	8.7

Analysis of derivatives

The Pension Fund investment managers use forward foreign exchange contracts to reduce currency risk when undertaking investment transactions in foreign currencies. This is in line with their investment management agreements with the Fund. The Fund held no other types of derivative at 31 March 2014 or 31 March 2013.

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	USD	261	EUR	(190)		(1)
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	44	GBP	(36)	0	
Up to one month	EUR	28	GBP	(23)	0	
Up to one month	EUR	1	GBP	(1)	0	
Up to one month	EUR	14	GBP	(12)	0	
Up to one month	JPY	34,485	GBP	(203)		(2)
Up to one month	JPY	35,246	GBP	(208)		(2)
Up to one month	GBP	11,781	JPY	(2,002,000)	119	
Up to one month	JPY	186,600	GBP	(1,090)		(3)
Up to one month	JPY	109,800	GBP	(640)		(1)
Up to one month	JPY	543,607	GBP	(3,212)		(46)
Up to one month	GBP	698	JPY	(117,300)	15	
Up to one month	JPY	204,300	GBP	(1,199)		(8)
Up to one month	JPY	315,792	GBP	(1,867)		(28)
One to three months	GBP	5,967	USD	(9,800)	86	
One to three months	EUR	688	GBP	(575)		(5)
One to three months	GBP	4,275	EUR	(5,120)	40	
					260	(96)
Net forward foreign exchange contracts at 31 March 2014						**164**

Note 14: Fair Value of Financial Instruments and Liabilities

The following table summarises the Book Cost of the financial assets and financial liabilities by class of instrument compared with their Market Values (Fair Value).

	31 March 2014		31 March 2013	
	Market Value	Book Cost	Market Value	Book Cost
	£000	£000	£000	£000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	749,094	586,185	711,533	552,555
Amounts outstanding on Sale of Investments *	542	544	1,223	1,223
Investment Income Due *	752	752	760	760
Loans and Receivables				
Cash Deposits	17,027	17,027	12,909	12,909
Debtors	278	278	199	199
Financial Liabilities				
Designated at fair value through Profit and Loss				
Investment Liabilities	(96)	(96)	0	0
Amounts outstanding on Purchase of Investments **	(2,425)	(2,432)	(750)	(750)
Financial Liabilities at Amortised Cost				
Creditors	(995)	(995)	(1,114)	(1,114)
Cash Overdrawn	(1,348)	(1,348)	(674)	(674)
Total Value of Investments	**762,829**	**599,915**	**724,086**	**565,108**

* The classification of these assets has been corrected from Loans and Receivables in 2012/13 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost in 2012/13 to Financial Liabilities designated through profit and loss.

Note 15: Contingent Liabilities and Contractual Commitments

As at 31st March 2014, the fund had a commitment to invest a further £1.3million in two of the private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next two to three years.

Note 16: Stock Lending Agreements

The Fund did not participate in stock lending or underwriting.

Note 17: Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund’s liabilities are sensitive to inflation through pension and pay increases, interest rates and mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the relevant gilt yields.

For this reason, the benchmark used to measure the estimated movement in liabilities, The "Liability Benchmark" is calculated based on the movement of a selection of index-Linked gilts, which most closely match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4% 2017, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt 1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

a) Market Risk

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

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

Price Risk

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

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

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The fund recognises that a strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non sterling transactions. This reduces the overall currency risk the Fund is exposed to.

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The council has immediate access to its pension fund cash holdings.

The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments. As at 31 March 2014 the balance on this facility stood at £1.908m. These borrowings are of a limited short term nature.

Note 18: Funding Arrangements

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 28 March 2014 and this is available on the Council's website. This valuation set the employer contribution rates from 1st April 2014. The employer contributions in these financial statements were set at the valuation as at 31st March 2010.

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

Introduction

The last full triennial valuation of the London Borough of Hammersmith and Fulham ("LBHF") Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2014.

The most recent full actuarial valuation of the Fund was at 31 March 2013 and the results were published in March 2014. This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £148m which is lower than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 22 years, a total contribution rate of 21.9% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised overleaf:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% p.a.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

The effect of the change in the assumptions over the year is discussed in the final section

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the assets used was £716m and this has increased over the year to an estimated £767m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 86% which is an improvement on the position at 31 March 2013.

The assets have given a return of 6% over the year, which was in line with expected at the 2013 valuation. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Mark Norquay FFA
Associate, Barnett Waddingham LLP

Note 19: Actuarial Present Value of Promised Benefits

The table below shows the total net liability of the Fund as at 31st March 2014. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

	31st March 2014 £000	31st March 2013 £000
Present Value of Promised Retirement Benefits*	1,171,751	1,171,217
Fair Value of Scheme Assets (bid value)	(762,829)	(725,674)
Net Liability	**408,922**	**445,543**

*Present Value of Promised Retirement Benefits comprises of £1,124,662,000 (£984,337,000 in 2012/2013) and £47,089,000 (£186,880,000 in 2012/2013) in respect of vested benefits and non-vested benefits respectively as at 31 March 2014.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the above table is a summary of the actuary's report and the full report is published alongside the financial statements.

Note 20: Current Assets

Debtors	31st March 2014 £000	31st March 2013 £000
Contributions due - employers	181	123
Contributions due - employees	63	43
Sundry debtors	34	33
	278	**199**

Analysis of debtors	31st March 2014 £000	31st March 2013 £000
Local authorities	34	0
Central government bodies	0	0
Other entities and individuals	244	199
	278	**199**

Note 21: Current Liabilities

Creditors	31st March 2014 £000	31st March 2013 £000
Unpaid Benefits	(277)	(256)
Investment Management Expenses	(710)	(855)
Administration Expenses	(8)	(3)
	(995)	**(1,114)**

Analysis of creditors	31st March 2014 £000	31st March 2013 £000
Local authorities	0	0
Central government bodies	0	0
Other entities and individuals	(995)	(1,114)
	(995)	**(1,114)**

Note 22: Additional Voluntary Contributions

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although only one employee contributed to the Equitable Life scheme during the year contributing £66.24 for death-in-service benefits.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2014 was £223,020. At the year end there were 63 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2013/2014 was £42,869 and the total market value of the separately invested AVC's with Zurich Assurance at 31 March 2014 was £1,033,490.

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 23: Related Parties

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £506,238 in 2013/14 (£586,213 in 2012/13) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £18,894k in employer contributions to the Fund (2012/13 £19,961k).

During 2013/2014 as a result of the day to day administration of the fund the pension fund borrowed monies from the Council or invested some surplus monies with the Council. The pension fund paid £346 in interest to the Council during 2013/2014 (paid £4,127 in 2012/13). At 31st March 2014 the Council owed the Pension Fund £560,110.

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham Pension Fund on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 21 to 46.

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

As explained more fully in the Statement of the Executive Director of Finance and Corporate Governance's Responsibilities the Executive Director of Finance and Corporate Governance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hammersmith and Fulham for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

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

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Sayers
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
!5 Canada Square
Canary Wharf
London
E14 5GL
September 2014

6. Contacts

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Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager
c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
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W8 7NX
Email: pensions@lbhf.gov.uk

Capita Employee Benefits
London Borough of Hammersmith and Fulham Team
PO Box 195
Mowden Hall
Darlington
DH1 9FS
Telephone: 020 8339 7051
Email: lbhf.pensions@capita.co.uk

National Local Government Pension Scheme information website
www.lgps.org.uk

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923
Email: www.pensionsadvisoryservice.org.uk/online-enquiry

The Office of the Pensions Ombudsman
11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk

7. Glossary

Active member: Current employee who is contributing to a pension scheme.

Actuary: An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

Additional Voluntary Contributions (AVC): An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider(s).

Admitted Body: An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation: The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

Benchmark: A measure against which the investment policy or performance of an investment manager can be compared.

Deferred members: Scheme members, who have left employment or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

Defined Benefit Scheme: A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

Dynamic Asset Allocation Portfolio: A portfolio that involves the movement of assets through different investment markets as market conditions change.

Employer Contribution Rates: The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Index: A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Indexed Linked Securities: Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in the Retail Price Index.

Pooled Investment Vehicles: Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private Equity: Investments in companies not quoted on public stock exchanges. Commonly these are start up businesses (also known as venture capital) or buyouts of companies with a view to restructuring and selling on.

Return: The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Scheduled Body: An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unrealised Gains/Losses: The increase or decrease in the market value of investments held by the fund since the date of their purchase.

	London Borough of Hammersmith & Fulham **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16th September 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. The final tri-borough response to the Department for Communities and Local Government consultation was submitted in July 2014. The consultation focused on Collective Investment Vehicles and the balance of active and passive management of investments.

1.2. Officers have responded to a further consultation from the Department for Communities and Local Government, this time concerning scheme governance. This sought comments on draft regulations to implement the governance elements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme.

2. RECOMMENDATIONS

2.1. To note the report.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. In May 2014, the Department for Communities and Local Government (DCLG) published a consultation document – "Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies". This focused on Collective Investment Vehicles and the balance of active and passive management. This was discussed in a report to this committee on 30th June 2014, where initial thoughts in response to the consultation were provided.

4.2. In June 2014, the DCLG published another consultation, this time on draft regulations to implement the governance requirements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme (LGPS). The Public Sector Pensions Act 2013 sets out the governance requirements for all public sector pension schemes including the unfunded national schemes such as the Teachers Pension Scheme and the NHS, as well as the LGPS.

5. PROPOSAL AND ISSUES

"Opportunities for collaboration, cost savings and efficiencies."

5.1. As reported to the committee on 30th June 2014 the DCLG consultation on "Opportunities for collaboration, cost savings and efficiencies" focused on Collective Investment Vehicles and the balance of active and passive management. The final tri-borough response to this consultation is attached at Appendix 1 for the committee's information.

Draft regulations on scheme governance

5.2. On 23rd June 2014 DCLG published another consultation – this time on the draft regulations on scheme governance to implement the requirements of the Public Sector Pensions Act 2013 ("the Act") in the LGPS. Responses to this consultation were due to be submitted by 15th August 2014. A copy of the consultation paper is attached at Appendix 2.

5.3. One of the main provisions of the Act is for schemes which are subject to local administration, such as the LGPS, to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme. Pension boards are required to be set up by administering authorities by 1st April 2015.

5.4. The Act and the regulations state that the "scheme manager" will be responsible for administering, investing and managing the pension fund and may delegate these responsibilities to a committee, an officer or an investment manager (as appropriate). In the case of Hammersmith and Fulham, it is assumed the existing delegation to the Audit, Pensions and Standards Committee will continue to deal with these matters and make decisions regarding them.

5.5. The Act states that the pension board will be responsible for assisting the scheme manager (in LHBF's case the committee) in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. It is officers' understanding that the pension board will not be decision makers but will check that the scheme manager, and those with delegated responsibilities, comply with scheme regulations and other legislation particularly in terms of processes relating to the governance and administration of the scheme. Information available to date has been limited, but the remit of pension boards is expected to be clarified by the statutory guidance expected to be issued in October 2014.

5.6. The Act requires pension boards to have an equal number of employer representatives and scheme member representatives, the total of which cannot be less than four. Before appointment, the administering authority must be satisfied that the representatives have "the relevant experience and capacity to perform their roles" and that they do not have a conflict of interest. Consideration must be given to the process of appointing scheme member and employer representatives onto the local pension boards and whether there is likely to be sufficient interest and uptake for the number of roles required for each of the individual Funds.

5.7. The draft regulations state that elected members cannot be employer or scheme member representatives but they may be appointed (as can other types of members, such as independent experts) over and above the required representative members. The costs of local pension boards are to be regarded as administration costs charged to the fund.

5.8. Given that the policy issues concerning pension boards are already determined by the Act, the consultation was focused on the practicalities of setting up a board and implementing the Act. Given this focus, a tri-borough officer response was submitted to DCLG and this is attached at Appendix 3 for information.

5.9. One of the key issues raised by the consultation is the possibility of joint pension boards. The tri-borough response argues that such an arrangement for the tri-borough funds would allow for efficiencies and it would be advantageous for it to be available as an option. However if the final regulations allow such an approach, decisions will need to be made by the three councils at that time if this is something to be pursued.

5.10. Final regulations are expected to be published in October 2014, alongside statutory guidance. Officers will provide a further report once the final regulations and statutory guidance has been published. In the meantime, officers will commence preparations for the establishment of the pension board to ensure it is in place by 1st April 2015.

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 draft regulations make clear that the costs of administering pension boards can be charged to the Pension Fund. It is expected that the statutory guidance will include information about whether it will be appropriate to remunerate board members. This will enable officers to have a clearer picture as to the likely cost of the board, however it is not expected to be significant in the context of the Fund's overall administration costs.

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 response to consultation from Department of Communities and Local Government – Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies.

Appendix 2: The Local Government Pension Scheme (Amendment) Regulations 2014: Draft Regulations on Scheme Governance Consultation

Appendix 3: Tri-borough response to consultation from Department of Communities and Local Government – Draft Regulations on governance.

Tri-Borough Consultation Response

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington and Chelsea have been managing their respective pension fund investments for over two years as part of a Tri-Borough initiative, in part to reduce costs for the three councils. The funds remain sovereign in their decision making and asset allocation processes but considerable efficiencies and greater resilience in service provision have been achieved through the joint administration arrangements. Hence, we consider ourselves well placed to offer our views on the consultation on *The Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies* and we welcome this opportunity to respond.

We note that following the Call for Evidence carried out last summer, the work commissioned by CLG last autumn, the subsequent report from Hymans Robertson and this Consultation that there have been significant discussions on the structure of the LGPS which could have far reaching consequences. We welcome the substantive nature of the discussions and understand the importance of considering a broad range of ideas and approaches. The objective should be to reach agreement on a structure that will provide long term stability on a sustainable basis, rather than a quick-fix which may achieve short-term savings but at the expense of asset growth in the longer-term.

Before discussing the current consultation, we would like to consider some of the points made in the Government's response to the Call for Evidence on the future of the LGPS. The maintenance of the link between a fund's asset allocation and local determination is a key plank of local democracy – given the local impacts of the costs that would fall on the administering authority.

While the two primary objectives listed last summer were dealing with deficits and improving investment returns, the current consultation adds the reduction of costs and greater efficiencies.

We note that the Shadow Board will be asked to continue to explore options for dealing with deficits and trust that considerations such as these will be taken forward in the best interests of the LGPS as a whole.

The objectives for improving investment returns and the reduction of costs are not necessarily aligned because although passive management fees are undoubtedly cheaper, the higher costs of active management are often far outweighed by the higher returns achieved. The return net of fees is therefore the most important consideration. This is not only the case in rising equity markets. When markets fall, it is inevitable that the fund's loss will be commensurate with the market fall if the assets are passively invested. However, a good active manager should be able to protect a significant proportion of a fund's assets by switching into more favourable sectors or other asset classes.

There has been much discussion of whether size is a factor in generating better returns and outcomes. At best, these arguments have been inconclusive, with some small and some large funds performing very well while others of similar size languish lower in the league tables. Rather than size, it is likely that the strength of knowledge on the pension committee and the overall quality of the governance arrangements are determinants of performance.

Under the Tri-Borough arrangements, we have found greater efficiencies and significant advantages in the running of three funds which, though segregated, can all benefit from the sharing of ideas, discussion of strategies, reduction in costs and improved oversight. While this is noted in the current consultation, we believe there is more to be gained in this area from the adoption of similar approaches elsewhere, than is given credit for in the current Consultation.

This leads on to the current Consultation on the LGPS. We note that while the current consultation is focusing on fees, we firmly believe (as we demonstrate below) that the focus should be on outperformance over a relevant benchmark, net of fees. Focusing on the absolute level of fees may provide some understanding of costs the more relevant and useful information is what <u>value</u> is actually being added to the funds through the particular strategy. In some cases, the costs may be greater but these may be justified by higher returns. This last point seems to have been lost in the recent analysis by Hymans Robertson.

Turning to the questions posed in the current Consultation:

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.

Collective (rather than Common) Investment Vehicles (CIVs) are indeed a way for some funds to achieve economies of scale and deliver savings for a range of asset classes, but there is also a governance benefit (depending on how they are structured). The Tri-Borough Funds are working closely with London Councils and are supportive of their proposals for a London CIV. This proposed CIV is expected to be an effective model given the similar sizes of pension funds, the proximity of locations which facilitates joint meetings, as well as similar structural backgrounds of many London boroughs. Tri-Borough officers have been extensively involved in setting up the London CIV which is expected to be operational in 2015. The proposed London CIV will be available to London LGPS funds on a voluntary basis, ensuring that the individual pension committees retain the right to invest in the most effective and beneficial manner as they see fit.

The Tri-Borough Funds firmly believe that CIVs would allow groups of funds to achieve economies of scale and deliver significant savings. Within Tri-Borough, 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 (through a CIV), further savings could be achieved.

Looking further ahead, CIVs could provide opportunities to pool resources and have far stronger governance over illiquid and often fragmented asset classes such as private equity and infrastructure. Long-term investments such as these are well suited to the liability profiles of pension funds, but require specialist knowledge which would be best paid for collectively. At present, the main way of investing in these asset classes tends to be through fund of funds structures.

There are other ideas that could be considered alongside CIVs, where some large funds undertake a significant amount of asset management in-house (especially outside London). Such funds could provide services such as passive management to other LGPS funds. The legal vehicle of such an offer may have to be via a CIV for technical reasons, and that may have to be a different structure to the proposed London CIV. There may also need to be changes to regulation to allow one LGPS fund to manage assets on behalf of another LGPS fund.

As it is early days in the development of the CIV structure, we do not believe it is appropriate to set out in regulation a “one size fits all” model.

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

Yes. Asset allocation is a key decision taken by each pension committee and an important means of managing pension fund cashflows and deficits. It is also important that the <u>decision</u> regarding the use of active or passive management (itself a subset of asset allocation decisions) is made at the local level, since different types of investments will be appropriate for schemes with different membership profiles and funding levels.

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?

We do not have a fixed view on how many collective investment vehicles there should be, but there should be enough to make investing effective and efficient. There may be some geographic constraints to consider when establishing CIVs if governance and efficiencies are to improve as a result of the CIV structure. There are three key issues which determine our view on the number of collective investment vehicles:

Governance – To work effectively for the benefit of the LGPS, there needs to be a strong governance structure in place for any CIV. The larger the CIV, the more robust the governance structure needs to be. Given that funds will still be responsible for investment strategies locally, it is crucial they are able to input into the direction a CIV takes.

In London, this is being achieved by establishing a joint committee of elected members who represent the participating boroughs and have oversight of the CIV. This ensures that local democracy feeds through to the CIV and that the investment needs of the boroughs are met by the structure.

The geography of the CIV is important in this regard given that meetings with managers and other funds in the CIV may be more effective where held in person. For example, a CIV established in the North East may be of limited benefit to funds in the South West.

If there were to be only one or two CIVs nationally, not all Funds would be able to have representation and the local democratic input would be significantly reduced.

Capacity – As we set out in our response to the Call for Evidence, many of the best managers have a natural ceiling to their investment strategies and close to new business in order to protect this. This ensures that diminishing returns do not result from the market impact on price, which can happen when managing a large value of assets. If a small number of CIVs each of significant size were introduced, there is a risk that the best fund managers may not offer their best products because of this capacity issue.

Competition – In order to ensure that the LGPS continues to get the best possible deals from the industry, it is important to ensure there is competition. A monopoly situation of just one CIV is unlikely to lead to competitive pricing and value for money for the LGPS. However, if a number of CIVs were operating, comparisons between them would be possible, enabling the LGPS to put further pressure on the industry to deliver value for money.

It is our view that each CIV should offer all asset classes which the participating funds require and for which there is a clear benefit through the CIV structure. The structure of the proposed London CIV allows it to offer a range of asset classes through a series of sub funds. Therefore it is not necessary, or desirable, to have one CIV per asset class.

The London CIV is expected to have sub-funds representing different asset classes and will be driven by the needs and requests from the participating boroughs via the joint committee. This structure ensures the CIV remains relevant to the investment strategies which are being set locally.

The London CIV is also being set up on a voluntary basis, so that funds can still invest outside the CIV where this is more beneficial to them. It is our view that this flexibility is essential to enable LGPS funds to maximise their investment return and ultimately meet their liabilities.

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

Following the work undertaken by London Councils, we believe a CIV needs to have the following characteristics:

- Appropriate for professional institutional investors to pool assets;
- Capable of supporting a range of separately managed sub funds;
- 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.

As London Councils developed the work to set up the London CIV, they have taken external advice from experts in the fields of tax, law, asset servicing and had discussions with HM Treasury. This has led to the conclusion that a UK Authorised Contractual Scheme (ACS) is the most appropriate (if not, only) vehicle for a LGPS CIV.

The Tri-borough funds are represented on the London CIV working group so we have a good understanding that alternative structures are less attractive. An ACS is regulated by the Financial Conduct Authority, is tax transparent, enables the accessing of different asset classes and it is an on-shore UK based vehicle.

An appropriate governance structure would depend on how and where the CIV is established. In London, it has been agreed that this is best delivered through the Joint Committee. This ensures that local democracy flows through to the CIV and the development of what is offered is driven by the investment strategies of the participating boroughs.

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?

The decision of whether to invest on an active or passive basis is an integral part of asset allocation and the setting of an investment strategy for a Fund. The consultation states at paragraph 4.8 that "all asset allocation decisions should remain with the fund authorities". We believe this should include the decision of whether the management of the assets is on an active or a passive basis.

The Tri-Borough funds invest the majority of their assets on an active basis. We believe that long-term active asset management can play a key role in reducing deficits and contribution levels. We do not think it will be possible to eliminate fund deficits through passive management alone. The three pension Committees of the Tri-Borough funds have extensive knowledge and understanding of investment matters enabling them to make informed decisions and monitor effectively their investment strategies and the managers they have selected. This experience leads to good governance which has ensured the active strategies have been successful over long periods.

For example, the Royal Borough of Kensington and Chelsea pension fund has invested in active management strategies for over these 20 years. The returns from one active manager have exceeded the performance benchmarks by 1.6% per annum. Over the 20 years, this investment has earned the pension fund £196 million, net of fees. Had the funds been invested on a passive basis, the pension fund would have earned only £126 million – £70 million less than the active return.

The Hammersmith & Fulham and Westminster funds have invested with another manager on an active basis, since 2005. In this time these investments have earned £65 million and £68 million respectively over the index, net of all fees. This is double what would have been returned had the funds been invested on a passive basis.

For all three funds, this active return (net of fees) is significant added value, which has assisted in the reduction of the respective deficits.

Active management of assets is not just confined to portfolios of only equities or bonds, there are other investment options for funds to manage risk on an active basis and in particular protect against downturns in markets.

For example the Hammersmith and Fulham fund invested with a diversified fund manager on an absolute return basis in August 2008. During the following eight months, the FTSE All Share fell 26.8% while the fund delivered a positive return of 12.7% for Hammersmith and Fulham net of all fees. In total over the whole of the period Hammersmith and Fulham have invested with them the return net of fees has been 78.3%, whereas the FTSE All Share has returned only 56.2%. This demonstrates how difficult it is for passive investments to recover from a period of market underperformance.

Restricting LGPS funds' ability to invest in active management would have the, perhaps unintended, consequence of limiting the options for funds to manage risk through other investment options. If funds had a requirement to use some passive management, this would be a forced importing of risk to the fund's strategy. Investing passively or actively is not mutually exclusive, and indeed two of the Tri-Borough funds have taken a decision to be invested in both active and passive listed equities at the same time.

Passive management can be effected through a number of different indices and approaches. The consultation provides no definition of passive management and so it is not clear what range of approaches are considered appropriate.

LGPS funds are required to explain what the investment strategy is, and why, through the Statement of Investment Principles. It is in this document that a Committee's investment decisions are explained, and we believe this is the most appropriate document to state the decision whether to invest actively or passively.

This would enable the funds with the appropriate governance in place to continue to invest on an active basis where it is in the best interests of their fund and where value can be added.

Department for Communities and Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. 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

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings". The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk.
When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, 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.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. 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).

6. 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.

7. DCLG 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

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

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

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of "Local Government Pensions Scheme Advisory Board" and "local pension board".

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23**. Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

Local pension boards : guidance

2.24**. Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

Scheme advisory board : establishment

2.25**. Regulation 110(1)** provides that a scheme advisory board is established.

2.26**. Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27**. Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28**. Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

Scheme advisory board : membership

2.29**. Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30**. Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31**. Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33**. Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34**. Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35**. Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36**. Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37**. Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.”.

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty’s Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Tri-Borough Response to the Draft Regulations on Scheme Governance Consultation

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington and Chelsea have been managing their respective pension fund investments for over two years as part of a Tri-Borough initiative, in part to reduce costs for the three councils. The current proposals for an additional layer of scrutiny and bureaucracy are, in our view, unnecessary and will simply add to the cost and administrative burden on the Authorities.

However, the Tri-borough Pension Fund Officers have considered the Consultation on the Draft Scheme Governance Regulations for the new Local Government Pension Scheme and our views are outlined below:

Combined Section 101 Committee and Local Pension Board

The draft regulations could enable a single dual function body to carry out the functions of both a section 101 committee and those of a local pension board. In practice, a combined body would be subject to two separate legal codes; must ensure that all members have the appropriate knowledge, understanding, experience and capacity required for both roles; and comply with local government law on the political composition of committees.

Tri-Borough Comments: In practice it is hard to see how one body could both make decisions and scrutinise itself at the same time. There would also be issues of representation, as the equal number of employee and employer representatives would have to apply. The overall structure of this arrangement is therefore likely to be unwieldy.

Establishment of Local Pension Boards

There are two options as to how an administering authority could establish their local pension board:

- Option 1 - Undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would provide a ready-made set of provisions but it is argued that pension boards should be established on a bespoke basis best suited to their own role and responsibilities.
- Option 2 - Discretion is given to administering authorities to establish procedures such as voting rights, the establishment of sub-committees, the formation of joint committees and payments of expenses, political composition etc.

Tri-Borough Comments: Local discretion would be the preferred option, in order to provide flexibility and enable the most effective local arrangements to be put in place.

Joint Pension Boards

Some administering authorities are either already sharing or planning to share their administration with other administering authorities. Provision could be made for a single pension board to serve more than one administering authority.

Tri-Borough Comments: The Tri-Borough Pension Funds have already achieved efficiencies through its existing joint working arrangements. The establishment of a joint local Pensions Board could further enhance these benefits. This could be achieved by appointing equal employee and employer representatives across the individual Funds onto the Board. Having a joint board able to scrutinise and compare the three funds should improve governance across all three. A board responsible for three funds would be much better placed to make comparisons than one working in isolation and could help to share good practice. A single Tri-Borough board would incur lower costs than could be achieved by insisting on separate boards for each fund. There would be lower costs in expenses for members of the board and less money would be spent servicing a single board. Officers will also be required to support, manage and administer the work of just one joint pension board.

Communication Forums

The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

Tri-Borough Comments: Communication forums are a good idea from a governance perspective and are used to publicise the pension fund and benefits. However, the means of communication should continue to be determined locally, to maximise the benefits to scheme members and ensure that resources are targeted appropriately.

Public Sector Equality Duty

The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure the needs of all individuals are considered in their day to day work. Policies and services should be appropriate and accessible to all and meet different people's needs. Should the Scheme Advisory Board have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/compliance role of local pension boards to include the Equality Duty?

Tri-Borough Comments: Yes, we do feel that the Public Sector Equality Duty is appropriate to be considered.

Knowledge and Understanding

Pension board members would be required to have the knowledge and capacity to undertake that role. In contrast, committee members are under no regulatory requirement to do so (although they are recommended to have regard to the Knowledge and Skills Framework published by CIPFA).

Tri-Borough Comments: The law will require pension board members to have knowledge and understanding of relevant pension law and a working knowledge of the LGPS regulations and documentation. Appointed representatives will require access to training resources and time to fulfil their skills and knowledge obligations which are afforded to the role. It would seem appropriate that the equivalent knowledge and understanding requirements are applied to both the main committee and the board scrutinising it.

Agenda Item 7

	London Borough of Hammersmith & Fulham **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16th September 2014**
PENSION FUND EMPLOYERS	
Report of the Executive Director of Finance and Corporate Governance	
Open Report (Appendices 2-4 are exempt)	
Classification: For Information **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Authors: Nicola Webb, Tri-Borough Pension Fund Officer and George Lepine, HR Consultant	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. There are a number of different ways organisations can participate in the Local Government Pension Scheme (LGPS) and the length of their participation varies. The risk to the Fund of these employers is that they fail to meet the liabilities built up by their employees whilst they are part of the Fund. 91% of the active members of the Fund are employed by the Council, so in proportion to the overall Fund, the relative potential impact of the risk remains small.

1.2. The appendices to this report set out the details of each employer currently participating in the Fund and show a large number of these employers were in surplus at the last triennial valuation in March 2013. They also show that the Fund has protection in place in respect of most of these organisations in the form of guarantees or bonds.

2. RECOMMENDATIONS

2.1. To note the report.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. In addition to the Council, there are a number of other organisations participating in the Hammersmith and Fulham Pension Fund. There are several different ways an organisation can be part of the Fund and this determines how they are treated. These different ways are described below. Appendix 1 gives a more detailed summary.

Administering Authority – this is the Council responsible for running the Pension Fund.

Scheduled Bodies – these are organisations listed in the schedule to the LGPS regulations as being required to participate in the scheme for all their staff who are not eligible for another public sector pension scheme. In the main these are academies with non-teaching support staff.

Community Admission Bodies – these are not for profit organisations who do work in the local community. They are admitted to the Fund via an admission agreement, which is a legal document setting out the terms of their participation.

Transferee Admission Bodies - these are organisations undertaking the duties of an administering authority or scheduled body through a contract. They are also admitted to the Fund via an admission agreement to ensure the transferring staff members' pension rights are maintained.

4.2. Although the Fund's investments are managed at a whole fund level, each employer's liabilities are measured separately and the assets are split notionally to enable each employer's funding level to be separately measured and monitored.

4.3. Risk to the Fund arises from the possibility of an employer ceasing participation in the Fund without paying a sufficient amount in to meet the relevant liabilities. There are a number of ways in which the Fund can seek to protect itself from this risk. This report has been prepared at the request of the Committee to set out who the employers are, what the risk level is and how the risks are being managed.

4.4. When considering the employers in the Pension Fund, it is important to put their relative size in context with the Council. The pie chart overleaf shows the membership of the Fund split between the different types of employer. The table beneath shows a split of the deficit when it was last measured at the triennial valuation at 31st March 2013.

Chart 1: Split of membership

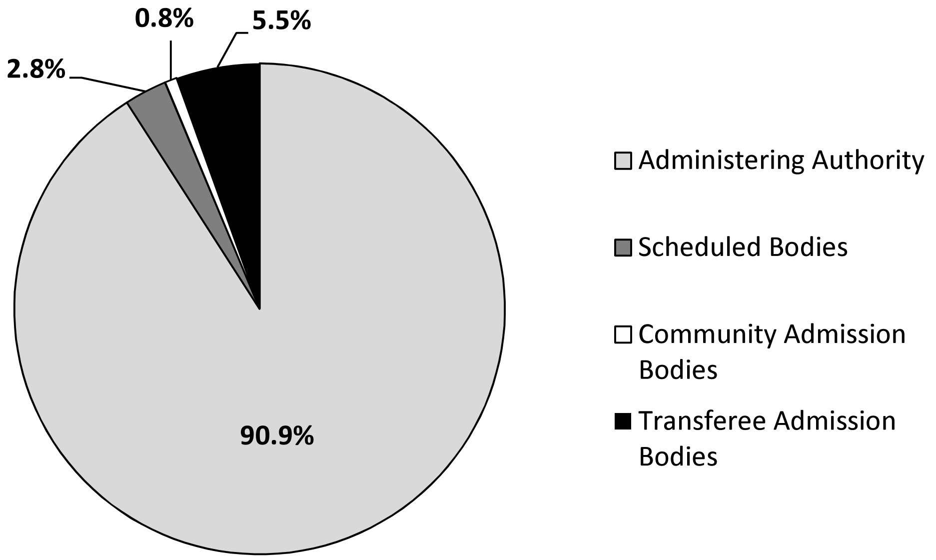

Table 1: Split of deficit

Type of employer	**Deficit/Surplus at 31st March 2013**
Administering Authority	£157.1m deficit
Scheduled Bodies	£2.1m deficit
Community Admission Bodies	£0.03m surplus
Transferee Admission Bodies	£9.5m surplus
Closed employers	£2.2m surplus
Whole Fund position	**£147.5m deficit**

4.5. The chart and table show that the Council is by far the most significant employer in the Pension Fund on either measure.

5. PROPOSAL AND ISSUES

5.1. The risk posed to the Fund by the employers participating in it varies according to the type of employer and so this section deals with each type in turn highlighting the key issues.

Administering Authority

5.2. Although the Council has the largest deficit in the Fund, there is a funding plan in place to recover the deficit over 22 years. Given that the Council is expected to continue to exist for the long term, then this period is considered to be appropriate.

Scheduled Bodies

5.3. Prior to the Academies Act 2010, scheduled bodies were generally statutory bodies not expected to fail and to have a successor body if they were to close. There are three organisations in the Hammersmith and Fulham Fund which date from that time and they are Mortlake Crematorium Board, London Oratory School and Burlington Danes Academy.

5.4. Since the introduction of the Academies Act 2010, ten new academies have become employers in the Fund. The Department for Education issued a guarantee to local authority pension funds in July 2013 that any pension deficits will be met by the department in the event of an academy failure; however the guarantee does state it can be withdrawn at any time.

5.5. The three original scheduled bodies are treated as separate employers and all have their own contribution rates - see Exempt Appendix 2. The ten newer academies, in line with central government guidance, all pay the same contribution rate as the Council. Although their liabilities and funding levels are measured individually, they are treated as a pool in order to protect the Fund from the failure of any one of them. The pool is in deficit and when applying the Council's contribution rate to each of them means they all have deficit recovery periods of less than the Council's varying between 2 and 15 years.

Community Admission Bodies

5.6. There are four community admission bodies with active members in the Fund. Details of these are provided in Exempt Appendix 3. These organisations will remain in the Fund until the last active scheme member they employ leaves. At that point, a cessation valuation will be carried out by the actuary to calculate whether there is a deficit. They are required to pay the deficit to the Fund, but if the Fund is unable to secure payment, then the default position in the LGPS regulations is that the deficit is spread across the remaining employers in the Fund.

5.7. The nature of these organisations is that the only protection option available to the Pension Fund is to seek a guarantor. All of them work closely with the Council and indeed two of them have councillors on their Boards. However it would be for the executive to determine if the Council were to consider guaranteeing them.

5.9. The admission of any new community bodies would be in exceptional circumstances only and any decision to admit such a body would have to be made by the Committee.

Transferee Admission Bodies

5.10. Providing transferee admission bodies meet the requirements of the LGPS regulations, the Pension Fund is required to admit them to the Fund. The body is an employer in the Fund until the end of their contract with the Council (or scheduled body), or until the last active member leaves, whichever is sooner. Like the community admission bodies, at exit, a cessation valuation is carried out to determine if a deficit remains in the Fund. This is payable by the employer, but in the event it is not possible to secure payment, the LGPS regulations state that the deficit falls back on to the organisation who let the contract.

5.11. The LGPS regulations require the risk of the failure of a transferee admission body to be assessed at the point of joining the scheme. The risk is quantified by the Fund Actuary and the organisation can be asked to put up a bond or to have in place a guarantor.

5.12. Exempt Appendix 4 sets out in detail all of the current active transferee bodies, their funding levels at the last valuation and what protection has been put in place. All of the current transferee admission bodies are in the Fund have a contract with the Council.

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

LIST OF APPENDICES:
Appendix 1: Summary of types of LGPS employer

EXEMPT APPENDICES:
Appendix 2: Scheduled Bodies
Appendix 3: Community Admission Bodies
Appendix 4: Transferee Admission Bodies

Appendix 1: Summary of types of employer

	Nature of organisation	Entry	Exit	Comments
Administering Authority	Council responsible for running of the Pension Fund	Automatic entry for all employees	Not applicable	
Scheduled Bodies	Statutory in nature and are listed in a schedule to the LGPS regulations.	Entry to the Fund is a legislative requirement and all employees are automatically entered into the Fund, in the same way as the Council employees are.	Due their nature the regulations do not envisage these organisations ceasing except following a restructuring when the liabilities pass to the successor body.	These are academies plus the Mortlake Crematorium Board
Community Admission Bodies	Not for profit organisations or charities who work in the local community	The Fund has a choice about whether to admit these organisations. The organisation chooses which employees can join.	When the last active member leaves or the organisation ceases to exist any unrecovered liabilities are spread across all remaining employers in the Fund.	Generally these organisations joined the Fund many years ago. Unlikely any new ones will apply for admitted.
Transferee Admission Bodies	Contractors who have taken on work on behalf of the Council (or a scheduled body) following outsourcing of staff under TUPE arrangements	The Fund is required to admit transferee admission bodies where a TUPE transfer has taken place but only staff who have transferred are entitled to be members of the pension fund.	When the contract ends or the when the last active member leaves, any unrecovered liabilities are passed back to the body who let the contract	Generally it is the Council who let contracts, but it could also be an academy.

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 16th September 2014
PENSION FUND CASHFLOW POSITION	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. Due to the balance of the membership of the Fund, more cash leaves the Fund in the form of benefit payments than there is cash coming in from contributions. Over the last twelve months, the shortfall was funded from monies withdrawn from Majedie, as agreed by the Committee in September 2013 and from private equity distributions. The actual cashflow position was £1.4m better than expected over the year.

1.2. Over the coming twelve months, a further shortfall of around £8m is expected unless monies come in from fund managers. Given the recent sale of the Barings fund (see item 15 on the agenda for further information about this), it is proposed to use £8m of this cash to maintain a positive cash balance in the Fund's bank account.

2. RECOMMENDATIONS

2.1. It is recommended that £8m of the proceeds from the sale of the Barings fund is used to maintain a positive cash balance in the Pension Fund bank account over the next twelve months.

3. REASONS FOR DECISION

3.1. There will be a cash shortfall in October 2014 unless cash is withdrawn from the investments held by the fund managers. It would be possible to fund the shortfall from the investments held by any of the fund managers, however given that cash has been generated from the sale of Barings units, it is appropriate to use this rather than incurring costs by selling other assets.

4. INTRODUCTION AND BACKGROUND

4.1. Until relatively recently, the Pension Fund has been able to fund pension benefit payments from contributions collected from employees and employers. However, the membership profile of the Fund has been changing over the last few years, as the number of pensioners has increased and the number of active contributing members has reduced. This change has led to pension payments increasing, contributions reducing and more cash going out every month than there is coming in.

4.2. An initial report on this issue was submitted to the Committee in September 2013 which included a forecast of the cashflow position up to September 2014. At the request of the Committee, this report has been prepared to provide an update on the situation.

5. PROPOSAL AND ISSUES

2013/14 position

5.1. The table below shows the cashflow movements over the year since the last report comparing the forecast position with the actual cashflows.

	Forecast £000	Actual £000	Difference £000
Contributions	29,700	29,278	-422
Benefits	-34,450	-31,993	2,457
Net transfers in/(out)	-2,080	569	2,649
Expenses	-3,250	-5,322	-2,072
Total movement	-10,080	-7,468	2,612
Fund Manager contributions	9,000	5,000	-4,000
Private Equity distributions	896	3,710	2,814
Total from investments	9,896	8,710	-1,186
Net movement	-184	1,242	1,426

5.2. The amount of pension benefits paid out was less than anticipated due to lower levels of lump sums, and the net of transfers in/out was positive in this period. These benefits to the cashflow position were partly offset by the expenses paid to the Fund which were higher than expected due to the performance fee paid to Majedie following their excellent performance.

5.3. It was anticipated that withdrawals of £9m from the monies held by fund managers would be required during the year in order to maintain a positive cash balance. In fact only £5m was withdrawn from Majedie in October following the decision by the committee in September. This was possible due to £3.7m of net distributions received from the private equity funds.

2014/15 forecast

5.4. Appendix 1 sets out the forecast cashflows for the year to 31st August 2015. This shows that on average the shortfall each month is expected to be approximately £800k and that withdrawals from cash held by fund managers totalling £8m will be required to ensure a positive cash balance is maintained over the next 12 months.

5.5. No further private equity distributions have been assumed in the forecast, as the exact amount and timing of them is uncertain.

5.6. Given the recent sale of the Barings fund (see item 15 on the agenda for information about this), it is proposed to set aside £8m from the proceeds to maintain a positive cash balance in the Pension Fund bank account.

5.7. It is also proposed to report to the committee on a quarterly basis on the cashflow position as part of the quarterly update report in future. This will enable the committee to monitor the position and make decisions about withdrawals from fund managers as required.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. It would be possible to fund shortfall from any of the funds held by the fund managers, however given that cash has been generated from the sale of Barings units, it is appropriate to use this rather than incurring costs selling other assets.

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: Cashflow forecast – September 2014 to September 2015

Appendix 1

Cashflow forecast for period September 2014 to August 2015

	Sep14 £000	Oct14 £000	Nov14 £000	Dec14 £000	Jan15 £000	Feb15 £000	Mar15 £000	Apr15 £000	May15 £000	Jun15 £000	Jul15 £000	Aug15 £000
Balance b/f	**2,056**	**9,071**	**8,086**	**5,421**	**4,436**	**3,451**	**1,786**	**301**	**5,766**	**4,051**	**3,016**	**1,981**
Contributions	1,800	1,800	1,800	1,800	1,800	1,800	1,800	8,300	1,800	1,800	1,800	1,800
Pensions	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,300	-2,350	-2,350	-2,350	-2,350	-2,350
Lump Sums	-390	-390	-390	-390	-390	-390	-390	-390	-390	-390	-390	-390
Net TVs in/(out)	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75
Expenses	-20	-20	-1,700	-20	-20	-700	-520	-20	-700	-20	-20	-700
Net cash in/(out) in month	-985	-985	-2,665	-985	-985	-1,665	-1,485	5,465	-1,715	-1,035	-1,035	-1,715
Withdrawals from Fund Managers	8,000											
Balance c/f	**9,071**	**8,086**	**5,421**	**4,436**	**3,451**	**1,786**	**301**	**5,766**	**4,051**	**3,016**	**1,981**	**266**

h&f hammersmith & fulham	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16th September 2014**
LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2013/14	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification - For Information **Key Decision: No**	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	**Contact Details:** Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

1. EXECUTIVE SUMMARY

1.1. This report presents the London Borough of Hammersmith and Fulham's Statement of Accounts, including the Pension Fund, for 2013/14 and the external auditor's (KPMG) opinion on the accounts.

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

2. RECOMMENDATIONS

2.1. To note the content of the auditor's 'Report to those Charged with Governance (ISA260)' stating that the accounts will receive an unqualified opinion, the Council has an adequate internal control environment and has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

2.2. To note the auditor's findings, recommendations and the Council's response to those recommendations as set-out in the Report to those Charged with Governance (ISA260).

2.3. To approve the management representation letter (as included at appendix 3).

2.4. To approve the Statement of Accounts for 2013/14 (as included at appendix 1).

3. REASONS FOR DECISION

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

4. INTRODUCTION AND BACKGROUND

4.1. INTRODUCTION

4.1.1. KPMG's Report to those Charged with Governance (ISA260) for Hammersmith and Fulham 2013/14 is attached to this report (Appendix 2). It sets out KPMG's findings from this year's audit relating to two main areas:

- Financial Statements
- Value for Money

4.1.2. This report gives a brief overview of the key points arising from the Statement of Accounts and summarises the issues included in the ISA260. Attached as Appendix 1 is the Statement of Accounts for approval by the Audit, Pensions and Standards Committee.

4.1.3. Included within the ISA260 is KPMG's commentary on the Pension Fund. This is discussed in section 4.4 of this report.

4.1.4. It should be noted that the accounts remain 'unaudited' until the audit opinion is formally signed and dated by KPMG and the audit remains open until final certification. The accounts are therefore subject to change until that point, however, at present, no further changes are expected.

4.2. STATEMENT OF ACCOUNTS 2013/14

4.2.1. The Explanatory Foreword, which starts on page 7 of the Statement of Accounts, gives an outline of the Council's financial activity during 2013/14. In summary the key points are:

- A General Fund revenue account under-spend of £8.6m after departmental carry forwards of budgets to 2014/15 of £5.4m.
- A General Fund balance of £19.0m.
- A Housing Revenue Account (HRA) surplus of £3.2m for the year, increasing its working balance to £7.5m.
- Earmarked reserves at 31 March 2014 of £92.6m.

- A stable balance sheet. Total net assets have increased, but this is due substantially to an increase in property values and the annually updated and volatile net pension liability, neither of which impact on the General Fund balance.
- Capital expenditure totalling £58.9m.

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

4.3. REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA260)

4.3.1. The ISA260 (Appendix 2) summarises the findings from KPMG's 2013/14 audit. KPMG, as the appointed auditors, state that:

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

4.3.2. The auditor has highlighted the headline information from the audit on page 3 of the report, with detailed findings commencing from page 6. The audit identified two audit adjustments to the draft accounts, both pertaining to the valuation of fixed assets, as follows:

- **Housing Dwellings** – These had previously been valued at 01 April 2013 but it was agreed that these valuations should be indexed to 31 March 2014 to reflect significant increases in the London property market in the year. Further to an assessment by the Council's external valuer, dwelling values were uplifted by 12%, resulting in an additional valuation gain of £115.9m.
- **Schools** – The Council had previously included nine schools for revaluation in this year's valuation programme, however, given a change in valuation method it was agreed that all school assets should be revalued to ensure a consistent approach. All Council-owned schools have now been revalued in the final accounts.

These accounting adjustments have had no impact on the Council's General Fund balance or other usable reserves.

4.3.3. The auditor has made a medium-priority recommendation in light of this adjustment. This, together with the Council's response, is set-out in Appendix 1 of the ISA260 report.

4.3.4. The auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end Members are asked to consider and approve the draft letter of representation included at Appendix 3.

4.4. **PENSION FUND**

4.4.1. KPMG's Report to those Charged with Governance (ISA260) includes commentary for their audit of the Pension Fund. KPMG state they intend to issue an unqualified opinion and no material adjustments were identified. The auditor's findings are detailed on page 5 of the ISA260. The Pension Fund accounts are included in the overall Statement of Accounts from page 76 onwards.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1.1. In accordance with the Accounts and Audit Regulations 2011, the Council's audited year end Statement of Accounts must be approved by the Audit, Pensions and Standards Committee and published before the end of September.

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

10. **FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. Not applicable.

11. **RISK MANAGEMENT**

11.1. Not applicable

12. **PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	LBHF Statement of Accounts 2013/14 Code of Practice on Local Authority Accounting 2014 KPMG Reports to those Charged with Governance (ISA260)	Christopher Harris, 020 8753 6440	Corporate Accountancy and Capital, 2nd Floor, Hammersmith Town Hall Extension

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2013/14 (including Pension Fund)
Appendix 2 – KPMG Report to those Charged with Governance (ISA260) (Main Financial Statements and LBHF Pension Fund
Appendix 3 – Draft Letter of Representation

STATEMENT OF ACCOUNTS

2013/14

Hammersmith & Fulham Council

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

We have audited the financial statements of London Borough of Hammersmith and Fulham for the year ended 31 March 2014 on pages 7 to 109. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

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

As explained more fully in the Statement of the Executive Director of Finance and Corporate Governance Responsibilities, the Executive Director of Finance and Corporate Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

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

- the annual governance statement set out on pages 94 to 101 the annual governance statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under section 11 of the Audit Commission Act 1998; or

- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the London Borough of Hammersmith and Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

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

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square
London E14 5GL

CERTIFICATION BY CHAIRMAN OF THE AUDIT PENSIONS AND STANDARDS COMMITTEE

I confirm that these accounts were approved by the Audit, Pensions and Standards Committee on 16 September 2014

Councillor Iain Cassidy
16 September 2014

STATEMENT OF ACCOUNTS CONTENTS

The Council's Statement of Accounts for the Year Ended 31 March 2014 is set out on the following pages.

FOREWORD

INTRODUCTION

1 The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2013-14 and its Balance Sheet at 31 March 2014. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund.

2 The Statement of Accounts comprises 'key' financial statements, explanatory notes and supplementary financial statements:

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

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

The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2014. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

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

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

The **Supplementary Financial Statements** include:

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

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

The **Pension Fund Account** sets out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31st March 2014 (Net Assets Statement).

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

4 The **outturn** for 2013-14 includes:
• A General Fund under-spend of £8.6 million after departmental carry forwards of £5.4 million
• General Fund and earmarked reserves at 31 March 2014 of £98 million and
• A stable balance sheet (total net assets have increased, but due substantially to the annually updated and volatile net pension liability and revaluation of fixed assets).

2013-14 BUDGET

5 Annually, the Council sets the budget. In brief, the 2013-14 budgets included:
• A Council Tax reduction of 3%;
• Savings in excess of £21million off-setting cost pressures and grant losses; which produced
• a net revenue budget requirement of £182 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £703 million.

REVENUE SPENDING

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

7 The net under-spend on the General Fund was £8.6m, reflecting a 1.5 per cent under-spending by departments after agreed carry forwards of budgets to 2014-15 of £5.4 million. The balance of the under-spend, after retaining £1m in general reserves, has been transferred to the Efficiency Reserve, the IT Enablers Fund, the Managed Services Reserve, the MTFS Delivery Risk Reserve, the VAT Reserve, and the Demand Pressures Reserve.

8 The summary outturn position is as set out below:

Department	**Budget**	**Actual**	**Over/ (Under) Spend**
	£'000	**£'000**	**£'000**
Children's Services	54,827	54,796	(31)
Unaccompanied Asylum Seeking Children	1,521	1,524	3
Adult Social Care	67,522	66,414	(1,108)
Housing & Regeneration	7,004	6,818	(186)
Transport and Technical Services	16,959	16,586	(373)
Controlled Parking Account	(21,253)	(22,652)	(1,399)
Environment, Leisure and Residents Services	31,682	31,680	(2)
Public Health	312	1	(311)
Libraries and Archives	4,932	4,932	-
Finance and Corporate Services	22,301	22,239	(62)
Centrally Managed Budgets	24,366	19,251	(5,115)
Net Operating Expenditure	**210,173**	**201,589**	**(8,584)**
Contingencies Not Drawn Down	3,000	**-**	(3,000)
	213,173	**201,589**	**(11,584)**
Grants and Capital Financing and Accounting Adjustments	(43,147)	(43,147)	-
Net Contribution to Earmarked Reserves	11,917	22,497	10,580
Net Contribution to General Reserves	-	1,004	1,004
Total Net Expenditure	**181,943**	**181,943**	**-**
Funded by:			
Formula Grant	81,224	81,224	-
Localised NDR	49,261	49,261	-
Council Tax	51,458	51,458	-
Total Funding	**181,943**	**181,943**	**-**
Final Position	**-**	**-**	**-**

Housing Revenue Account (HRA)

9 The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account showed a surplus of £3.2 million, increasing its working balance by the same amount. Full details are set out in the HRA Statement of Accounts.

31 MARCH 2014 BALANCE SHEET

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

	31 March 2014	31 March 2013
	£m	£m
Long Term Assets	1,651	1,428
Current Assets	404	301
Current Liabilities	(173)	(144)
Net Pension Liabilities	(427)	(503)
Other Long Term Liabilities	(276)	(281)
Net Assets	**1,179**	**801**
Represented by:		
Usable Reserves	(257)	(177)
Unusable reserves	(922)	(624)
Total Reserves	**(1,179)**	**(801)**

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

	2013/14 £m
General Fund Balance	(19)
General Fund Earmarked Reserves	(82)
HRA Balance and Earmarked Reserves	(18)
Schools Reserves	(17)
Capital Reserves (Receipts and Grants)	(121)
Total	**(257)**

CAPITAL SPENDING AND FUNDING

12 In 2013/14, the actual capital expenditure (outturn) totalled £58.921 million. The table below summarises capital expenditure by service area:

Department	**2013/14 £'000**
Adult Social Care	1,377
Children's Services	21,877
Environment, Leisure and Resident's Services	1,585
Finance and Corporate Services	22
Housing Revenue Account Programme	18,046
Housing and Regeneration (Decent Neighbourhoods Programme)	3,260
Libraries and Archives	681
Transport and Technical Services	12,073
Total	**58,921**

13 The financing of the capital expenditure incurred in 2013/14 is summarised in the table below:

Capital Financing	**2013/14 £'000**
Capital receipts	10,987
Capital Grants and Contributions	27,160
Major Repairs Reserve (MRR) / Major Repairs Allowance (MRA)	15,153
Council reserves	5,522
Housing Revenue Account	-
General Fund Revenue Account	99
Total	**58,921**

ACCOUNTING POLICIES

14 The 2013-14 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2013 (the Code) which is based on IFRS.

15 The accounting policies adopted by the Council comply with the Code and are set out on pages 18 to 30. These are substantially unchanged from 2012-13.

GROUP ACCOUNTS

16 As with the 2012/13 Statement of Accounts, Group Accounts have not been included in the 2013/14 Statement of Accounts on the grounds that they do not have a material effect on the overall statements and therefore their inclusion does not provide any more usefulness to readers. It should be noted that the Council considers the Hammersmith and Fulham Bridge Partnership (HFBP) as a Subsidiary. Details on the total 2013/14 net assets and profit and loss for HFBP (with 2012/13 comparators) can be found in Note 37 (Interest in Companies) to the key financial statements, along with contact details for the procurement of the full accounts.

FUTURE OUTLOOK

17 For 2014/15 the Council has reduced its Council Tax by 3%. Funding reductions and cost pressures were matched by £18 million in budget reductions - bringing total budget reductions to £40 million over two years.

18 The national economic outlook remains challenging. Government funding is expected to continue falling until at least 2017/18 as action is taken to tackle the national fiscal deficit. The Council has also been negatively impacted, due to rating appeals, by the introduction of the localised business rates retention scheme. Despite these challenges, the Council remains well positioned in a demanding environment.

19 The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. The MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3-year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks. The scale of the funding reductions requires the Council to deliver £58 million in savings over the period 2014/15 to 2016/17, including £24 million in savings for 2015/16. This continues to be very challenging. The route for delivering this scale of savings is both as an individual authority and through the Tri-borough Programme for combining services with the Royal Borough of Kensington and Chelsea and the City of Westminster.

20 The Council's 2014/15 Budget Strategy recognised the challenge in delivering this scale of budget reduction and recommended that the range for the optimal level of general balances be maintained at £14m - £20m. The actual balances carried forward at the close of 2013/14 are £19m.

Jane West

Executive Director of Finance and Corporate Governance
16 September 2014

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

Responsibilities of the Executive Director of Finance and Corporate Governance

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

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

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

The Executive Director of Finance and Corporate Governance has also:

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

CERTIFICATE OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

I certify that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2014 and income and expenditure for the year for the financial year 2013/14.

Jane West

Jane West
Executive Director of Finance and Corporate Governance
16 September 2014

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement
Comprehensive Income and Expenditure Statement
Balance Sheet
Cash Flow Statement
Notes to the Accounts

Movement in Reserves Statement

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

	Notes	General Fund (GF) Balance	Schools Balance	Earmarked Reserves	Capital Grants Unapplied	Housing Revenue Account (HRA)	Major Repairs Reserve	Capital Receipts Reserve	Capital Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012		**(17,438)**	**(12,483)**	**(52,423)**	**(3,783)**	**(5,030)**	**-**	**(5,161)**	**(880)**	**(97,198)**	**(743,000)**	**(840,198)**
Movement in Reserves during 2012/13												
(Surplus) or Deficit on Provision of Services		(13,647)	-	-	-	(26,364)	-	-	-	(40,011)	-	(40,011)
Other Comprehensive Income and Expenditure		-	4,360	-	-	-	-	-	-	4,360	75,028	79,388
Total Comprehensive Income and Expenditure		**(13,647)**	**4,360**	**-**	**-**	**(26,364)**	**-**	**-**	**-**	**(35,651)**	**75,028**	**39,377**
Adjustments between accounting basis & funding basis under regulations	7	(5,296)	844	-	(42,436)	23,567	(5,707)	(15,333)	-	(44,361)	44,361	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		**(18,943)**	**5,204**	**-**	**(42,436)**	**(2,797)**	**(5,707)**	**(15,333)**	**-**	**(80,012)**	**119,389**	**39,377**
Transfers to/(from) Earmarked Reserves	8	18,381	(11,527)	(10,418)	-	3,564	-	-	-	-	-	-
(Increase)/Decrease in 2012/13		**(562)**	**(6,323)**	**(10,418)**	**(42,436)**	**767**	**(5,707)**	**(15,333)**	**-**	**(80,012)**	**119,389**	**39,377**
Balance at 31 March 2013		**(18,000)**	**(18,806)**	**(62,841)**	**(46,219)**	**(4,263)**	**(5,707)**	**(20,494)**	**(880)**	**(177,210)**	**(623,611)**	**(800,821)**
Movement in Reserves during 2013/14												
(Surplus) or Deficit on Provision of Services		(5,398)	-	-	-	(251,042)	-	-	-	(256,440)	-	(256,440)
Other Comprehensive Income and Expenditure		-	667	-	-	-	-	-	-	667	(122,951)	(122,284)
Total Comprehensive Income and Expenditure		**(5,398)**	**667**	**-**	**-**	**(251,042)**	**-**	**-**	**-**	**(255,773)**	**(122,951)**	**(378,724)**
Adjustments between accounting basis & funding basis under regulations	7	(20,757)	4,049	-	3,525	240,558	(961)	(50,555)	2	175,861	(175,861)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		**(26,155)**	**4,716**	**-**	**3,525**	**(10,484)**	**(961)**	**(50,555)**	**2**	**(79,912)**	**(298,812)**	**(378,724)**
Transfers to/(from) Earmarked Reserves	8	25,151	(2,656)	(29,748)	-	7,253	-	-	-	-	-	-
(Increase)/Decrease in 2013/14		**(1,004)**	**2,060**	**(29,748)**	**3,525**	**(3,231)**	**(961)**	**(50,555)**	**2**	**(79,912)**	**(298,812)**	**(378,724)**
Balance at 31 March 2014 carried forward		**(19,004)**	**(16,746)**	**(92,589)**	**(42,694)**	**(7,494)**	**(6,668)**	**(71,049)**	**(878)**	**(257,122)**	**(922,423)**	**(1,179,545)**

Comprehensive Income and Expenditure Statement

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

		Year Ended 31 March 2014			Year Ended 31 March 2013		
	Notes	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
		£000	£000	£000	£000	£000	£000
Central services to the public		10,918	(4,982)	5,936	26,492	(21,061)	5,431
Cultural and Related Services		15,094	(3,646)	11,448	14,356	(4,647)	9,709
Environment and Regulatory Services		33,407	(7,866)	25,541	35,624	(7,400)	28,224
Planning Services		10,319	(6,665)	3,654	14,312	(8,335)	5,977
Education and children's services		192,589	(138,485)	54,104	216,830	(163,700)	53,130
Highways and transport services		41,410	(40,159)	1,251	39,467	(36,081)	3,386
Local authority housing (HRA)		58,651	(77,338)	(18,687)	66,932	(80,217)	(13,285)
Local authority housing (HRA) - Dwelling Revaluation	9	(188,313)	-	(188,313)	-	-	-
Other housing services		183,030	(172,734)	10,296	182,600	(171,881)	10,719
Adult social care		96,063	(30,387)	65,676	110,808	(28,986)	81,822
Public Health*		18,113	(18,111)	2	-	-	-
Corporate and democratic core		5,085	(235)	4,850	7,064	(203)	6,861
Non distributed costs - General		1,220	(521)	699	3,760	(1,894)	1,866
Cost of Services		**477,586**	**(501,129)**	**(23,543)**	**718,245**	**(524,405)**	**193,840**
Other Operating Expenditure	10	8,484	(53,886)	(45,402)	12,643	(1,903)	10,740
Financing and investment income and expenditure	11	37,252	(7,952)	29,300	63,422	(38,904)	24,518
Taxation and non-specific grant income and expenditure	12	2,827	(219,622)	(216,795)	-	(269,109)	(269,109)
(Surplus) or Deficit on Provision of Services				**(256,440)**			**(40,011)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets				(33,286)			(1,401)
Surplus or deficit on revaluation of available for sale financial assets				(40)			-
Remeasurements of the net defined benefit liability (asset)	32			(89,625)			76,429
Schools converted to Academy Status				667			4,360
Other Comprehensive Income and Expenditure				**(122,284)**			**79,388**
Total Comprehensive Income and Expenditure				**(378,724)**			**39,377**

* Public Health responsibilities were transferred to local government from the NHS on 1 April 2013.

Balance Sheet

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

	Notes	**31 March 2014**	**31 March 2013**	**31 March 2012**
		£000	£000	£000
Property, Plant and Equipment	13	1,564,782	1,346,657	1,393,132
Heritage Assets	15	8,023	8,023	8,023
Investment Property	14	76,200	70,227	77,520
Intangible Assets		965	931	1,194
Long Term Investments	25	100	100	100
Long Term Debtors	25	1,673	2,256	2,373
Long Term Assets		**1,651,743**	**1,428,194**	**1,482,342**
Assets Held for Sale	21	9,224	15,227	19,313
Short Term Investments	25	281,471	122,197	25,503
Short Term Debtors	19	58,367	67,038	65,371
Inventories		96	114	190
Cash and Cash Equivalents	20	54,411	96,552	100,167
Current Assets		**403,569**	**301,128**	**210,544**
Short Term Borrowing	25	(6,089)	(15,513)	(3,891)
Short Term Creditors	22	(140,857)	(118,543)	(107,803)
Provisions	24	(15,293)	(3,593)	(865)
Grants and Contributions Receipts in Advance	35	(10,978)	(6,602)	(2,020)
Current Liabilities		**(173,217)**	**(144,251)**	**(114,579)**
Long Term Borrowing	25	(247,842)	(250,751)	(262,303)
Long Term Creditors	25	(100)	(100)	(100)
Provisions	24	(2,441)	(1,757)	(3,038)
Other Long Term Liabilities	23	(435,715)	(513,594)	(431,460)
Grants and Contributions Receipts in Advance	35	(16,452)	(18,048)	(41,208)
Long Term Liabilities		**(702,550)**	**(784,250)**	**(738,109)**
NET ASSETS		**1,179,545**	**800,821**	**840,198**
Usable Reserves	7	(257,122)	(177,210)	(97,198)
Unusable Reserves	7	(922,423)	(623,611)	(743,000)
TOTAL RESERVES		**(1,179,545)**	**(800,821)**	**(840,198)**

Cash Flow Statement

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

	Notes	**2013/14 £000**	**2012/13 £000**
Net surplus or (deficit) on the provision of services		256,440	40,011
Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(134,904)	58,534
Adjust for items in the net deficit on the provision of services that are investing or financing activities		55,049	(54,970)
Net cash flows from Operating Activities		**176,585**	**43,575**
<u>Investing Activities</u>			
Purchase of Property, plant and equipment, investment property and intangible assets		(48,118)	(43,521)
Purchase of short-term and long-term investments		(159,274)	(96,694)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		(55,049)	54,970
Proceeds from short-term and long-term investments		-	-
Other receipts from investing activities		22,611	54,937
Net cash flows from Investing Activities		**(239,830)**	**(30,308)**
<u>Financing Activities</u>			
Cash receipts of short and long term borrowing		-	-
Other receipts from financing activities		745	256
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(1,048)	(1,947)
Repayments of short and long term borrowing		(12,210)	286
Other payments for financing activities		33,617	(15,477)
Net cash flows from Financing Activities		**21,104**	**(16,882)**
Net increase or (decrease) in cash and cash equivalents		**(42,141)**	**(3,615)**
Cash and cash equivalents at the beginning of the reporting period		96,552	100,167
Cash and cash equivalents at the end of the reporting period	20	**54,411**	**96,552**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

i. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the Service Reporting Code of Practice 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014.

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

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

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

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

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

iii. ACCRUALS OF INCOME AND EXPENDITURE

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used.

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

iv. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

1. Statement of Accounting Policies (cont'd)

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

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

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

vi. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

vii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

viii. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

1. Statement of Accounting Policies (cont'd)

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

1. Statement of Accounting Policies (cont'd)

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

The following depreciation treatment has been adopted for the various categories of assets; the useful lives stated below cover the majority of assets in each category:
• All Buildings (including Council dwellings) are depreciated over periods ranging from 5 to 60 years. Further enhancement expenditure is depreciated over a shorter period (from 4 to 10 years).
• Infrastructure is depreciated over periods ranging from 3 to 40 years.
• Vehicles, Plant and Equipment are depreciated over periods ranging from 2 to 25 years.
• Community Assets are generally depreciated over a 3 to 73 year period.
Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

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

ix. HERITAGE ASSETS

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

Valuation Policy

The Council has decided to disclose Heritage Assets on a market valuation basis on the balance sheet. Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment, except where it is not practical to obtain a valuation. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external Valuers, nor is there any prescribed minimum period between valuations.

1. Statement of Accounting Policies (cont'd)

Depreciation, amortisation and impairment policy

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

The Council has reported four categories of heritage assets:

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

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

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

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

x. INVESTMENT PROPERTY

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

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

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

xi. LEASES

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

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

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

The Council as Lessee

Finance Leases

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

1. Statement of Accounting Policies (cont'd)

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

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

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

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

Operating Leases

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

1. Statement of Accounting Policies (cont'd)

Sale and Leaseback Assets

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

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

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

xii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's existing PFI scheme (which provides services for vulnerable older people in the borough) the liability was written down by an initial capital contribution of £2.9m.

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

The amounts payable to the PFI operators each year are analysed into the following elements:
• fair value of the services received during the year - debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
• finance cost - an interest charge between 8-17% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
• contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
• payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xiii. INTANGIBLE ASSETS

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

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

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

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

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

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

xiv. INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'First-in, First-out' (FIFO) costing formula.

1. Statement of Accounting Policies (cont'd)

xv. CASH AND CASH EQUIVALENTS

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

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

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

xvi. FINANCIAL INSTRUMENTS

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

• **loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market; and

• **available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for that particular instrument. For most of the loans which the Council has made, the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement in the year is the amount which the loan agreement identified as receivable.

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

1. Statement of Accounting Policies (cont'd)

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

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

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

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles
- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – professional estimate.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Financial Instruments Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses)

xvii. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

1. Statement of Accounting Policies (cont'd)

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

Pension funds under the Local Government Scheme are accounted for as defined benefits schemes:
• The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
• Liabilities are discounted to their value at current prices, using a discount rate of 4.4% (4.4% in 2012/13). 2013/14 is based on the annualised yield at the 18 year point on the Merill Lynch AA rated corporate bond curve. This is updated from the previous year when the 20 year point was used, but remains consistent with IAS19 requirements.

• The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value
- quoted securities - current bid price
- unquoted securities - professional estimate
- unitised securities - current bid price
- property - market value.
• The change in the net pensions liability is analysed into the **following components**:

Service Cost comprising:
- **current service cost:** the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **past service cost:** the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year - debited to the Surplus or Deficit on the Provision of services line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **net interest on the net defined benefit liability (asset):** i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurement comprising:
- **Re-measurement of the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial gains and losses** (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve.

1. Statement of Accounting Policies (cont'd)

Contributions paid to the Funds - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

xviii. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

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

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

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

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

Contingent Liabilities

A contingent liability arises where:

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

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

Contingent Assets

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

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

xix. RESERVES

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

1. Statement of Accounting Policies (cont'd)

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

xx. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2013/14. Companies in which the Council has an interest are detailed in Note 37 to the Core Financial Statements. Group Accounts have not been prepared since 2008/09.

xxi. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

xxii. FOREIGN CURRENCY TRANSLATION

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

xxiii. VAT

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

xxiv. EXCEPTIONAL ITEMS

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom has introduced several changes in accounting policies which will be required from 1 April 2014, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. While the Council does have subsidiaries and associates it has not produced consolidated accounts for this financial year on the basis of materiality.

- IFRS 11 Joint Arrangements – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.

- IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted (cont'd)

• IAS 32 Financial Instruments Presentation – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

• IAS 1 Presentation of the Financial Statements – The change clarifies the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

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

The critical judgements made in the Statement of Accounts are:

Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Joint-Working Arrangements

The Council is entering into joint working arrangements with neighbouring local authorities, the City of Westminster and the Royal Borough of Kensington and Chelsea. These arrangements are currently referred to as "Tri-Borough working". Current proposals will not reduce the level of service provided by the Council and plans to align systems are not yet fully developed. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of Tri-Borough working.

Accounting for Schools - Balance Sheet Recognition of Schools

The Council has been required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools and Voluntary Controlled schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority.

Accounting for Schools - Transfer of Schools to Academy Status

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

Accounting for Schools - Transfer of Capital Grants

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

Capital Charges associated with HRA Non-Dwelling Assets

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

Investment Properties

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

Group Accounts

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

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

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

The items in the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets / Investment Properties	Asset valuations are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. However, the valuation of property will inevitably be an estimate and property values can be volatile. Should evidence emerge in 2014/15 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). For example, a 10 per cent reduction in the net book value of Council Dwellings (£109.5million) would result in a reduction of the Revaluation Reserve of £10.1 million and a £90.4 million charge to the CIES. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the CIES. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is £1.519 billion.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation charges would increase. For example it is estimated that the annual depreciation charge for Council dwellings would increase by £1.35m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions are considered in detail in Note 32.

5. Events after the Reporting Period

The audited Statement of Accounts have been prepared up to 31 March 2014. They were authorised for issue by the Executive Director of Finance & Corporate Governance on 16 September 2014. There are no material adjusting or non-adjusting events after the balance sheet date to report.

6. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the SeRCOP. However, decisions about resource allocation are taken by the Council's Cabinet Board on the basis of budget reports analysed across Departments.

These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular, expenditure on some support services is budgeted for centrally and not charged to Departments.

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

Department Income and Expenditure 2013/14	**Children's Services (Including Unaccompanied Asylum Seekers Children)**	**Adult Social Care**	**Housing and Regeneration**	**Finance and Corporate Services**	**Centrally Managed Budgets**	**Transport and Technical Services (Including Controlled Parking Services)**	**Public Health**	**Libraries**	**Environment, Leisure & Residents' Services**	**Housing Revenue Account**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Customer & Client Receipts	(4,707)	(905)	(13,051)	(3,387)	(2,269)	(46,231)	(30)	(143)	(7,555)	(74,535)	(152,813)
Government Grants	(112,758)	(59)	(3,005)	(1,002)	(146,729)	(5)	(17,751)	-	(46)	(803)	(282,158)
Internal Recharge Income	(660)	(1,737)	(155)	(5,205)	-	(7,387)	-	(27)	(2,993)	(185)	(18,349)
Other Reimbursements & Contributions	(15,327)	(25,545)	(991)	(1,445)	(12,848)	(4,086)	(330)	(528)	(3,309)	(1,592)	(66,001)
Total Income	**(133,452)**	**(28,246)**	**(17,202)**	**(11,039)**	**(161,846)**	**(57,709)**	**(18,111)**	**(698)**	**(13,903)**	**(77,115)**	**(519,321)**
Capital Charges	7,741	708	122	937	-	13,611	64	1,916	2,902	(174,156)	(146,155)
Employee Expenses	95,930	15,634	7,122	20,877	9,950	18,868	112	1,586	6,559	11,241	187,879
Other	-	1,270	-	104	4,666	16	-	-	1,425	198,450	205,931
Premises Related Expenditure	10,609	459	9,071	101	19	6,526	8	417	4,358	15,951	47,519
Supplies and Services	21,389	12,789	1,210	9,993	4,717	6,068	1,440	606	2,142	5,032	65,386
Support Services	8,168	7,533	1,958	(29,860)	5,355	(4,848)	74	663	4,476	6,370	(111)
Third Party Payments	37,557	46,692	1,412	21,366	262	11,095	16,414	428	21,991	3,362	160,579
Transfer Payments	4,437	8,691	3,112	9,727	156,127	-	-	-	-	262	182,356
Transport Related Expenditure	1,285	884	13	33	1	307	-	14	1,730	119	4,386
Use of Balances & Reserves	2,656	-	-	-	-	-	-	-	-	10,484	13,140
Total Expenditure	**189,772**	**94,660**	**24,020**	**33,278**	**181,097**	**51,643**	**18,112**	**5,630**	**45,583**	**77,115**	**720,910**
Net Expenditure	**56,320**	**66,414**	**6,818**	**22,239**	**19,251**	**(6,066)**	**1**	**4,932**	**31,680**	**-**	**201,589**

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

Department Income and Expenditure 2012/13	Children's Services (Including Unaccompanied Asylum Seekers Children) £000	Adult Social Care £000	Housing and Regeneration £000	Finance and Corporate Services £000	Centrally Managed Budgets £000	Transport and Technical Services (Including Controlled Parking Services) £000	Public Health £000	Libraries £000	Environment, Leisure & Residents' Services £000	Housing Revenue Account £000	Total £000
Customer & Client Receipts	(3,674)	(1,174)	(11,909)	(2,049)	(836)	(40,744)	-	-	(8,692)	(78,030)	(147,108)
Government Grants	(129,959)	(361)	(3,518)	(916)	(164,786)	-	-	-	-	(5,437)	(304,977)
Internal Recharge Income	(591)	(1,942)	(287)	(4,501)	-	(8,752)	-	-	(3,016)	(96)	(19,185)
Other Reimbursements & Contributions	(24,134)	(23,600)	(1,293)	(1,315)	(14,426)	(4,005)	-	-	(2,910)	(1,194)	(72,877)
Total Income	**(158,358)**	**(27,077)**	**(17,007)**	**(8,781)**	**(180,048)**	**(53,501)**	**-**	**-**	**(14,618)**	**(84,757)**	**(544,147)**
Capital Charges	15,880	801	1,317	608	-	12,186	-	-	2,457	16,209	49,458
Employee Expenses	107,069	15,619	7,574	20,724	10,208	19,177	-	-	8,796	16,016	205,183
Other	-	1,287	-	127	5,378	30	-	-	972	14,939	22,733
Premises Related Expenditure	14,213	972	7,687	3	18	7,062	-	-	5,594	21,767	57,316
Supplies and Services	28,813	22,246	2,091	4,903	6,791	7,613	-	-	2,668	5,641	80,766
Support Services	9,058	4,525	1,951	(29,329)	3,459	(920)	-	-	4,457	6,430	(369)
Third Party Payments	31,208	46,675	1,516	21,016	-	8,779	-	-	23,549	416	133,159
Transfer Payments	3,322	9,002	2,500	9,052	176,425	1	-	-	-	322	200,624
Transport Related Expenditure	1,403	924	18	31	1	366	-	-	2,149	221	5,113
Use of Balances & Reserves	11,549	-	-	-	-	-	-	-	-	2,796	14,345
Total Expenditure	**222,515**	**102,051**	**24,654**	**27,135**	**202,280**	**54,294**	**-**	**-**	**50,642**	**84,757**	**768,328**
Net Expenditure	**64,157**	**74,974**	**7,647**	**18,354**	**22,232**	**793**	**-**	**-**	**36,024**	**-**	**224,181**

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

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

	2013/14 £000	2012/13 £000
Net expenditure in the Department Analysis	201,589	224,181
Net expenditure of services and support services not included in the Analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(9,832)	(321)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(215,300)	(30,020)
Cost of Services in Comprehensive Income and Expenditure Statement	**(23,543)**	**193,840**

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

(c) Reconciliation to Subjective Analysis

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

2013/14	**Department Analysis** £000	**Services and Support Services not in Analysis** £000	**Amounts not reported to management for decision making** £000	**Amounts not included in CIES Net Cost of Services** £000	**Allocation of Recharges** £000	**Cost of Services** £000	**Corporate Amounts** £000	**Total** £000
Customer & Client Receipts	(152,813)	-	-	3,732	-	(149,081)	(3,140)	(152,221)
Government Grants	(282,158)	-	-	803	-	(281,355)	(113,852)	(395,207)
Internal Recharge Income	(18,349)	-	-	1,819	-	(16,530)	(1,819)	(18,349)
Other Reimbursements & Contributions	(66,001)	-	-	1,153	-	(64,848)	(876)	(65,724)
Interest and Investment Income	-	-	-	-	-	-	(1,326)	(1,326)
Other Operating Income	-	-	-	-	-	-	(22)	(22)
Income from Council Tax	-	-	-	-	-	-	(53,275)	(53,275)
Non-domestic rates income and expenditure	-	-	-	-	-	-	(49,669)	(49,669)
Total Income	**(519,321)**	**-**	**-**	**7,507**	**-**	**(511,814)**	**(223,979)**	**(735,793)**
Capital Charges	(146,155)	-	-	(368)	-	(146,523)	368	(146,155)
Employee Expenses	187,879	-	(9,832)	(1,221)	-	176,826	352	177,178
Other	205,931	-	-	(205,926)	-	5	-	5
Premises Related Expenditure	47,519	-	-	(45)	-	47,474	45	47,519
Supplies and Services	65,386	-	-	(569)	-	64,817	569	65,386
Support Services	(111)	-	-	(218)	-	(329)	218	(111)
Third Party Payments	160,579	-	-	(1,246)	-	159,333	1,247	160,580
Transfer Payments	182,356	-	-	-	-	182,356	-	182,356
Transport Related Expenditure	4,386	-	-	(74)	-	4,312	74	4,386
Use of Balances & Reserves	13,140	-	-	(13,140)	-	-	-	-
Interest Payments	-	-	-	-	-	-	15,922	15,922
Precepts and Levies	-	-	-	-	-	-	2,869	2,869
Net interest on the net defined benefit liability (asset)	-	-	-	-	-	-	21,330	21,330
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	5,616	5,616
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	(51,143)	(51,143)
Income and expenditure in relation to investment properties and changes in their fair value	-	-	-	-	-	-	(6,385)	(6,385)
Total Expenditure	**720,910**	**-**	**(9,832)**	**(222,807)**	**-**	**488,271**	**(8,918)**	**479,353**
Surplus or deficit on the provision of services	**201,589**	**-**	**(9,832)**	**(215,300)**	**-**	**(23,543)**	**(232,897)**	**(256,440)**

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

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

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Movement on Usable Reserves 2012/13

	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Balance at 1 April 2012	**(17,438)**	**(12,483)**	**(52,423)**	**(3,783)**	**(5,030)**	**-**	**(5,161)**	**(880)**	**(97,198)**
Surplus or (deficit) on the provision of services	(13,647)	-	-	-	(26,364)	-	-	-	**(40,011)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	-	-	-	-	-	-	-	-	-
Impairment losses on non-current assets charged to the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	-
Actuarial gains or losses on pensions assets and liabilities	-	-	-	-	-	-	-	-	-
Schools converted to Academy Status	-	4,360	-	-	-	-	-	-	**4,360**
Total Comprehensive Income and Expenditure	**(13,647)**	**4,360**	**-**	**-**	**(26,364)**	**-**	**-**	**-**	**(35,651)**
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(19,464)	-	-	-	(395)	-	-	-	**(19,859)**
Amortisation of Intangible Assets	(253)	-	-	-	(48)	-	-	-	**(301)**
Dwelling Depreciation	-	-	-	-	15,350	(15,350)	-	-	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(15,034)	(315)	-	-	**(15,349)**
Impairment and revaluation gains and losses (charged/credited to the CIES)	(5,908)	-	-	-	(356)	-	-	-	**(6,264)**
Revenue expenditure funded from capital under statute (REFCUS)	(12,460)	-	-	-	(60)	-	-	-	**(12,520)**
Movements in the market value of investment properties	1,103	-	-	-	(940)	-	-	-	**163**
Capital grants and contributions applied	9,946	-	-	217	5,212	-	-	-	**15,375**
Capital grants and contributions applied (REFCUS)	10,660	-	-	76	-	-	-	-	**10,736**
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	19,898	-	**19,898**
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	**-**
Capital expenditure charged against the General Fund and HRA balances	583	844	-	-	-	-	-	-	**1,427**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	9,958	-	-	**9,958**
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	42,729	-	-	(42,729)	-	-	-	-	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(43,879)	-	-	-	(18,570)	-	-	-	**(62,449)**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	16,755	-	-	-	40,166	-	(57,890)	-	**(969)**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(431)	-	-	-	(440)	-	871	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(81)	-	**(81)**
Deferred costs in respect of disposals transferred to the CAA	(472)	-	-	-	(1,526)	-	-	-	**(1,998)**
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	157	-	**157**
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(1,825)	-	-	-	-	-	1,825	-	**-**
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	2,260	-	-	-	-	-	-	-	**2,260**
Voluntary repayment of debt (above Minimum Revenue Provision)	141	-	-	-	-	-	-	-	**141**
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	**-**
Statutory provision for finance lease liabilities (including PFI)	1,216	-	-	-	-	-	-	-	**1,216**
Voluntary application of capital receipts	-	-	-	-	-	-	19,887	-	**19,887**
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	(25,266)	-	-	-	(1,838)	-	-	-	**(27,104)**
Employer's pensions contributions and direct payments to pensioners	18,365	-	-	-	1,943	-	-	-	**20,308**
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	208	-	-	-	5	-	-	-	**213**
Amount by which local tax income credited to the CIES is different from local tax income calculated for the year in accordance with statutory requirements	648	-	-	-	-	-	-	-	**648**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	48	-	-	-	98	-	-	-	**146**
Total Adjustments between accounting basis & funding basis under regulations	**(5,296)**	**844**	**-**	**(42,436)**	**23,567**	**(5,707)**	**(15,333)**	**-**	**(44,361)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(18,943)**	**5,204**	**-**	**(42,436)**	**(2,797)**	**(5,707)**	**(15,333)**	**-**	**(80,012)**
Transfers (to)/from Earmarked Reserves (Note 8)	18,381	(11,527)	(10,418)	-	3,564	-	-	-	0
(Increase)/Decrease in year	**(562)**	**(6,323)**	**(10,418)**	**(42,436)**	**767**	**(5,707)**	**(15,333)**	**-**	**(80,012)**
Balance at 31 March 2013 carried forward	**(18,000)**	**(18,806)**	**(62,841)**	**(46,219)**	**(4,263)**	**(5,707)**	**(20,494)**	**(880)**	**(177,210)**

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

Movement on Usable Reserves 2013/14	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Balance at 1 April 2013	**(18,000)**	**(18,806)**	**(62,841)**	**(46,219)**	**(4,263)**	**(5,707)**	**(20,494)**	**(880)**	**(177,210)**
	-	-	-	-	-	-	-	-	**-**
Surplus or (deficit) on the provision of services	(5,398)	-	-	-	(251,042)	-	-	-	**(256,440)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	-	-	-	-	-	-	-	-	**-**
Impairment losses on non-current assets charged to the Revaluation Reserve	-	-	-	-	-	-	-	-	**-**
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	**-**
Actuarial gains or losses on pensions assets and liabilities	-	-	-	-	-	-	-	-	**-**
Gains/losses on Available for Sale Financial Assets	-	-	-	-	-	-	-	-	**-**
Schools converted to Academy Status	-	667	-	-	-	-	-	-	**667**
Total Comprehensive Income and Expenditure	**(5,398)**	**667**	**-**	**-**	**(251,042)**	**-**	**-**	**-**	**(255,773)**
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(19,986)	-	-	-	(373)	-	-	-	**(20,359)**
Amortisation of Intangible Assets	(189)	-	-	-	(24)	-	-	-	**(213)**
Dwelling Depreciation	-	-	-	-	14,001	(14,001)	-	-	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(11,888)	(2,113)	-	-	**(14,001)**
Impairment and revaluation gains and losses (charged/credited to the CIES)	2,074	-	-	-	188,313	-	-	-	**190,387**
Revenue expenditure funded from capital under statute (REFCUS)	(10,274)	-	-	-	(1)	-	-	-	**(10,275)**
Movements in the market value of investment properties	1,898	-	-	-	-	-	-	-	**1,898**
Capital grants and contributions applied	15,461	-	-	2,706	803	-	-	-	**18,970**
Capital grants and contributions applied (REFCUS)	3,742	-	-	4,447	-	-	-	-	**8,189**
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	10,987	-	**10,987**
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	2	**2**
Capital expenditure charged against the General Fund and HRA balances	1,570	4,049	-	-	-	-	-	-	**5,619**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	15,153	-	-	**15,153**
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	3,628	-	-	(3,628)	-	-	-	-	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(7,639)	-	-	-	(18,003)	-	-	-	**(25,642)**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	8,446	-	-	-	70,899	-	(79,345)	-	**-**
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(201)	-	-	-	(463)	-	664	-	**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(2,272)	-	**(2,272)**
Deferred costs in respect of disposals transferred to the CAA	(632)	-	-	-	(1,263)	-	-	-	**(1,895)**
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	227	-	**227**
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(5,616)	-	-	-	-	-	5,616	-	**-**
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	1,425	-	-	-	-	-	-	-	**1,425**
Voluntary repayment of debt (above Minimum Revenue Provision)	63	-	-	-	-	-	-	-	**63**
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	**-**
Statutory provision for finance lease liabilities (including PFI)	1,084	-	-	-	-	-	-	-	**1,084**
Voluntary application of capital receipts	-	-	-	-	-	-	13,568	-	**13,568**
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	(28,733)	-	-	-	(3,419)	-	-	-	**(32,152)**
Employer's pensions contributions and direct payments to pensioners	17,277	-	-	-	2,081	-	-	-	**19,358**
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	209	-	-	-	(86)	-	-	-	**123**
Amount by which local tax income credited to the CIES is different from local tax income calculated for the year in accordance with statutory requirements	(4,204)	-	-	-	-	-	-	-	**(4,204)**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(160)	-	-	-	(19)	-	-	-	**(179)**
Total Adjustments between accounting basis & funding basis under regulations	**(20,757)**	**4,049**	**-**	**3,525**	**240,558**	**(961)**	**(50,555)**	**2**	**175,861**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(26,155)**	**4,716**	**-**	**3,525**	**(10,484)**	**(961)**	**(50,555)**	**2**	**(79,912)**
Transfers (to)/from Earmarked Reserves (Note 8)	25,151	(2,656)	(29,748)	-	7,253	-	-	-	(0)
(Increase)/Decrease in year	**(1,004)**	**2,060**	**(29,748)**	**3,525**	**(3,231)**	**(961)**	**(50,555)**	**2**	**(79,912)**
Balance at 31 March 2014 carried forward	**(19,004)**	**(16,746)**	**(92,589)**	**(42,694)**	**(7,494)**	**(6,668)**	**(71,049)**	**(878)**	**(257,122)**

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

Movement on Unusable Reserves 2012/13

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

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7. Adjustments between Accounting Basis and Funding Basis under Regulations

Movement on Unusable Reserves 2013/14

	Revaluation Reserve £000	Capital Adjustment Account £000	Deferred Capital Receipts Reserve £000	Pensions Reserve £000	Financial Instruments Adjustment Account £000	Available for Sale Financial Instruments Reserve £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable Reserves £000	Total Usable Reserves £000	Total Reserves £000
Balance at 1 April 2013	**(71,998)**	**(1,056,624)**	**(2,362)**	**503,469**	**1,176**	**-**	**(785)**	**3,513**	**(623,611)**	**(177,210)**	**(800,821)**
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	-	(256,440)	(256,440)
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(33,286)	-	-	-	-	-	-	-	(33,286)	-	(33,286)
Impairment losses on non-current assets charged to the Revaluation Reserve	-	-	-	-	-	-	-	-	-	-	-
Accumulated gains on assets sold or scrapped	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains/losses on pension assets / liabilities	-	-	-	(89,625)	-	-	-	-	(89,625)	-	(89,625)
Gains/losses on Available for Sale Financial Assets	-	-	-	-	-	(40)	-	-	(40)	-	(40)
Schools converted to Academy Status	-	-	-	-	-	-	-	-	-	667	667
Total Comprehensive Income and Expenditure	**(33,286)**	**-**	**-**	**(89,625)**	**-**	**(40)**	**-**	**-**	**(122,951)**	**(255,773)**	**(378,724)**
Adjustments between accounting basis & funding basis under regulations											
Depreciation of Property, Plant and Equipment	-	20,359	-	-	-	-	-	-	**20,359**	(20,359)	-
Amortisation of Intangible Assets	-	213	-	-	-	-	-	-	**213**	(213)	-
Dwelling Depreciation	-	-	-	-	-	-	-	-	**-**	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	14,001	-	-	-	-	-	-	**14,001**	(14,001)	-
Impairment and revaluation gains and losses (charged/credited to the CIES)	-	(190,387)	-	-	-	-	-	-	**(190,387)**	190,387	-
Revenue expenditure funded from capital under statute (REFCUS)	-	10,275	-	-	-	-	-	-	**10,275**	(10,275)	-
Movements in the market value of investment properties	-	(1,898)	-	-	-	-	-	-	**(1,898)**	1,898	-
Difference between fair value depreciation and historical cost depreciation	759	(759)	-	-	-	-	-	-	**-**	-	-
Capital grants and contributions applied	-	(18,970)	-	-	-	-	-	-	**(18,970)**	18,970	-
Capital grants and contributions applied (REFCUS)	-	(8,189)	-	-	-	-	-	-	**(8,189)**	8,189	-
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	(10,987)	-	-	-	-	-	-	**(10,987)**	10,987	-
Use of capital reserve to finance capital expenditure	-	(2)	-	-	-	-	-	-	**(2)**	2	-
Capital expenditure charged against the General Fund and HRA balances	-	(5,619)	-	-	-	-	-	-	**(5,619)**	5,619	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(15,153)	-	-	-	-	-	-	**(15,153)**	15,153	-
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	-	-	-	-	-	-	-	-	**-**	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	25,642	-	-	-	-	-	-	**25,642**	(25,642)	-
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	-	-	-	-	-	-	-	**-**	-	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	-	-	-	-	-	-	-	-	**-**	-	-
Removal of revaluation reserve balances for Property, Plant and Equipment	2,465	(2,465)	-	-	-	-	-	-	**-**	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	2,272	-	-	-	-	-	**2,272**	(2,272)	-
Deferred costs in respect of disposals transferred to the CAA	-	1,895	-	-	-	-	-	-	**1,895**	(1,895)	-
Release of Deferred costs from CAA to UCR upon receipt of cash	-	(227)	-	-	-	-	-	-	**(227)**	227	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	-	-	-	-	-	-	-	-	**-**	-	-
Statutory provision for the financing of capital investment (Minimum Revenue	-	(1,425)	-	-	-	-	-	-	**(1,425)**	1,425	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(63)	-	-	-	-	-	-	**(63)**	63	-
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	**-**	-	-
Statutory provision for finance lease liabilities (including PFI)	-	(1,084)	-	-	-	-	-	-	**(1,084)**	1,084	-
Voluntary application of capital receipts	-	(13,568)	-	-	-	-	-	-	**(13,568)**	13,568	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	-	-	-	32,152	-	-	-	-	**32,152**	(32,152)	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	(19,358)	-	-	-	-	**(19,358)**	19,358	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	(123)	-	-	-	**(123)**	123	-
Amount by which local tax income credited to the CIES is different from local tax income calculated for the year in accordance with statutory	-	-	-	-	-	-	4,204	-	**4,204**	(4,204)	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	179	**179**	(179)	-
Total Adjustments between accounting basis & funding basis under regulations	**3,224**	**(198,411)**	**2,272**	**12,794**	**(123)**	**-**	**4,204**	**179**	**(175,861)**	**175,861**	**-**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(30,062)**	**(198,411)**	**2,272**	**(76,831)**	**(123)**	**(40)**	**4,204**	**179**	**(298,812)**	**(79,912)**	**(378,724)**
Transfers (to)/from Earmarked Reserves (Note 8)	-	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	**(30,062)**	**(198,411)**	**2,272**	**(76,831)**	**(123)**	**(40)**	**4,204**	**179**	**(298,812)**	**(79,912)**	**(378,724)**
Balance at 31 March 2014 carried forward	**(102,060)**	**(1,255,035)**	**(90)**	**426,638**	**1,053**	**(40)**	**3,419**	**3,692**	**(922,423)**	**(257,122)**	**(1,179,545)**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14.

		Balance at 31 March 2012	Transfers Out 2012/13	Transfers In 2012/13	Movement Between Reserves 2012/13	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Movement Between Reserves 2013/14	Balance at 31 March 2014
		£000	£000	£000	£000	£000	£000	£000	£000	£000
	General Fund									
1.	Insurance Fund	(7,719)	2,728	(2)	-	**(4,993)**	175	(2)	-	**(4,820)**
2.	Controlled Parking Fund	(1,355)	1,647	(700)	-	**(408)**	2,161	(2,448)	-	**(695)**
3.	Computer Replacement Fund	(1,196)	56	-	298	**(842)**	-	(1,323)	-	**(2,165)**
4.	IT Infrastructure	(2,813)	-	-	-	**(2,813)**	-	-	-	**(2,813)**
5.	Efficiency Projects Reserve	(5,680)	1,249	(3,230)	-	**(7,661)**	3,015	(5,750)	-	**(10,396)**
6.	Price Pressures	(1,418)	-	-	418	**(1,000)**	-	-	1,000	**-**
7.	Corporate Demand Pressures	-	-	-	-	**-**	-	(2,459)	(1,057)	**(3,516)**
8.	Debtors/Creditors Review	(202)	103	(520)	-	**(619)**	-	-	-	**(619)**
9.	Dilapidations/Office Moves	(2,177)	107	(900)	-	**(2,970)**	-	(756)	-	**(3,726)**
10.	Housing Benefit	(1,229)	159	(1,000)	(521)	**(2,591)**	176	-	-	**(2,415)**
11.	Planning Inquiries	(40)	272	(45)	(460)	**(273)**	-	(85)	-	**(358)**
12.	LPFA Sub Fund	(1,069)	-	-	69	**(1,000)**	-	-	-	**(1,000)**
13.	Bishops Park	(845)	433	-	-	**(412)**	54	-	-	**(358)**
14.	Imperial Wharf	(800)	-	-	-	**(800)**	-	-	-	**(800)**
15.	King Street Regeneration	(805)	106	-	-	**(699)**	31	-	-	**(668)**
16.	Temporary Accommodation	(541)	-	(2,965)	-	**(3,506)**	-	-	-	**(3,506)**
17.	Pressures & Demands	(3,331)	969	(1,000)	969	**(2,393)**	646	(1,571)	221	**(3,097)**
18.	Community Safety Reserve	(22)	-	(145)	-	**(167)**	-	(25)	(190)	**(382)**
19.	Local Lead Flood Authority	(123)	-	(271)	-	**(394)**	-	(209)	-	**(603)**
20.	Contribution to Local Election	(75)	-	(75)	-	**(150)**	-	(175)	-	**(325)**
21.	Human Resources Reserve	(1,874)	300	-	574	**(1,000)**	-	-	-	**(1,000)**
22.	Capital Reserves	(400)	-	-	-	**(400)**	-	(1,134)	-	**(1,534)**
23.	Supporting People Programme	-	-	-	(1,989)	**(1,989)**	-	-	-	**(1,989)**
24.	CHS Pressures and Demands	-	-	(1,861)	-	**(1,861)**	708	(52)	450	**(755)**
25.	CHS Tri-Borough Integration	-	-	(280)	-	**(280)**	167	-	(250)	**(363)**
26.	MTFS Delivery Risk	-	-	(994)	(4,887)	**(5,881)**	-	(1,119)	-	**(7,000)**
27.	Legal Fees Reserve	-	-	(275)	-	**(275)**	-	(65)	-	**(340)**
28.	Managed Services	-	-	(1,800)	-	**(1,800)**	-	(2,950)	-	**(4,750)**
29.	VAT Reserve	-	-	(2,000)	-	**(2,000)**	-	(500)	-	**(2,500)**
30.	Business Board Reserve	(571)	-	-	-	**(571)**	-	(787)	-	**(1,358)**
31.	ELRS Fulham Palace Reserve	(68)	53	-	-	**(15)**	15	(459)	-	**(459)**
32.	TFM Reserve	-	-	-	-	**-**	-	(400)	(529)	**(929)**
33.	ASC Portfolio Management	-	-	-	-	**-**	30	(164)	(323)	**(457)**
34.	Troubled Families	-	-	-	-	**-**	-	(709)	-	**(709)**
35.	Focus on Practice	-	-	-	-	**-**	-	-	(350)	**(350)**
36.	PSL Incentive Payments	-	-	-	-	**-**	-	(400)	-	**(400)**
37.	NDR Deficit Support	-	-	-	-	**-**	-	(6,021)	-	**(6,021)**
38.	Redundancy Reserves	(2,256)	-	(651)	408	**(2,499)**	201	(1,112)	382	**(3,028)**
39.	Other Funds	(10,200)	5,857	(893)	2,159	**(3,077)**	814	(1,358)	400	**(3,221)**
	General Fund Sub-Total	**(46,809)**	**14,039**	**(19,607)**	**(2,962)**	**(55,339)**	**8,193**	**(32,033)**	**(246)**	**(79,425)**
	HRA									
40.	HRA - Regeneration Projects	(46)	46	**-**	**-**	**-**	-	-	-	**-**
41.	HRA IT Recharges Reserve	(115)	15	(62)	-	**(162)**	-	(43)	-	**(205)**
42.	HRA Past Service Pension Cost	-	-	(209)	-	**(209)**	209	-	-	**-**
43.	HRA Pay Increase	-	-	(161)	-	**(161)**	161	-	-	**-**
44.	HRA Efficiency Reserve	-	-	(320)	-	**(320)**	-	(700)	-	**(1,020)**
45.	HRA Human Resources Reserve	-	-	(83)	-	**(83)**	83	-	-	**-**
46.	HRA Non-dwellings Impairment Reserve	-	-	(1,244)	-	**(1,244)**	-	(5,102)	-	**(6,346)**
47.	HRA Strategic Regeneration and Housing Development	-	-	(1,246)	-	**(1,246)**	-	(500)	-	**(1,746)**
48.	HRA Utilities Reserve	-	-	(300)	-	**(300)**	39	(500)	-	**(761)**
49.	HRA Commercial Property leases	-	-	-	-	**-**	-	(200)	-	**(200)**
50.	HRA Legal Costs	-	-	-	-	**-**	-	(200)	-	**(200)**
51.	Improved Voids Specification	-	-	-	-	**-**	-	(500)	-	**(500)**
	HRA Sub-Total	**(161)**	**61**	**(3,625)**	**-**	**(3,725)**	**492**	**(7,745)**	**-**	**(10,978)**
	Revenue Grants									
52	TFL Street Management	(129)	-	-	-	**(129)**	-	-	-	**(129)**
53	S106 - Revenue Schemes	(1,451)	61	(1,365)	-	**(2,755)**	1,415	-	-	**(1,340)**
54	ALSS SFA 2011/12 Allocation	-	-	(235)	-	**(235)**	48	-	-	**(187)**
55	CHS Adoption Reform Reserve	-	-	-	-	**-**	-	(226)	-	**(226)**
56	Other Revenue Grants	(3,873)	297	(44)	2,962	**(658)**	198	(90)	246	**(304)**
	Revenue Grants Sub-Total	**(5,453)**	**358**	**(1,644)**	**2,962**	**(3,777)**	**1,661**	**(316)**	**246**	**(2,186)**
	Total	**(52,423)**	**14,458**	**(24,876)**	**-**	**(62,841)**	**10,346**	**(40,094)**	**-**	**(92,589)**

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

8. Earmarked Reserves Description

The main purpose of each earmarked reserve is explained below:

1.	Insurance Fund	-	this was established to underwrite a proportion of the Council's insurable risks.
2.	Controlled Parking Fund	-	the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities.
3.	Computer Replacement Fund	-	this is for the enhancement to the Council's IT systems required to meet existing commitments and future demands.
4.	IT Infrastructure	-	this reserve has been set up for future IT improvement programmes.
5.	Efficiency Projects Reserve	-	this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
6.	Price Pressures	-	this reserve is an underspend on revenue planned maintenance.
7.	Corporate Demand Pressures	-	To meet unbudgeted pay and price increases
8.	Debtors/Creditors Review	-	this reserve is set aside to meet the cost of a review of all balance sheet debtors and creditors held by the Council and to meet any costs of adjusting those balances.
9.	Dilapidations/Office Moves	-	this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
10.	Housing Benefit	-	the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve is used to meet the cost of any adjustments.
11.	Planning Inquiries	-	this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
12.	LPFA Sub Fund	-	this reserve has been set aside to cover a potential pensions liability to the LPFA.
13.	Bishops Park	-	this reserve has been set aside as part of the Bishops Park lottery funded development scheme.
14.	Imperial Wharf	-	this reserve has been set up to under write the construction of Imperial Wharf Overground station.
15.	King Street Regeneration	-	this reserve is to meet the preliminary costs that are emerging in connection with the King Street Regeneration.
16.	Temporary Accommodation	-	this reserve has been set up to deal with possible shortfalls arising out of the introduction of a cap on rental income received for temporary accommodation.
17.	Pressures & Demands	-	this reserve is to address non-recurring new financial pressures.
18.	Community Safety Reserve	-	this is for funding the Integrated Offender Management Support Programme.
19.	Local Lead Flood Authority	-	DEFRA grant monies given under the Flood & Water Management Act 2010.
20.	Contribution to Local Election	-	Funds set aside to fund the local election in 2014.
21.	Human Resources Reserve	-	this is a reserve to fund any requirements in relation to Human Resources.
22.	Capital Reserves	-	this is a revenue-backed reserve to support capital expenditure
23.	Supporting People Programme	-	this reserve has been set up to enable the Supporting People programme to be managed over a rolling 3 year cycle in line with the contracts let with service suppliers.
24.	CHS Pressures and Demands	-	this reserve is to address non-recurring new financial pressures.
25.	CHS Tri-Borough Integration	-	this reserve is to address one off costs arising from tri borough integration projects
26.	MTFS Delivery Risk	-	This reserve has been created to mitigate the risks associated with the implementation of new MTFS projects
27.	Legal Fees Reserve	-	this reserve has been created to cover future one off legal costs relating to planning and environmental health.
28.	Managed Services	-	this reserve has been set up to fund one off costs relating to the implementation of managed services
29.	VAT Reserve	-	this reserve is to cover costs incurred as a result of VAT related changes
30.	Business Board Reserve	-	this reserve is to fund projects approved by the HF Business Board
31.	ELRS Fulham Palace Reserve	-	this reserve is held to fund anticipated financial commitments in relation to Fulham Palace. This will fund 3 years of premises costs relating to the Head Lease (lease and insurance costs) as well as set aside funds for the continued investment in the Bishops Park and Fulham Palace open spaces as part of the funding agreement with the Heritage Lottery Fund (HLF).
32.	TFM Reserve	-	The reserve represents additional costs on the contract due to a refresh of the service matrix- detailing buildings and service provision- and the potential need to fund additional expenditure as a result of changes in the apportionment of actual costs incurred across the three boroughs. The reserve also represents elective variable works, removals costs and ad hoc security costs that are not included in the fixed contract price.
33.	ASC Portfolio Management	-	The reserve is to fund additional resources required to delivery the Tri-Borough Adult Social Care Transformation and Efficiency Savings Portfolio work programme which is anticipated to deliver savings over the Medium term
34.	Troubled Families	-	This reserve has been created to carry forward grant funding that has already been earnt, but not spent, into Year 3 of the project in order to fund the costs associated with running the programme.
35.	Focus on Practice	-	this reserve was for the blueprint development of more purposeful practice and effective interventions with families over a two to three year period. It is hoped to create a service which will establish effective practice, delivers sustained change and better outcomes through a move to intensive evidence based casework with smaller caseloads for front line staff.
36.	PSL Incentive Payments	-	this reserve is to mitigate against higher Direct Lettings costs
37.	NDR Deficit Support	-	this is a reserve to smooth the impact of statutory timing differences between the funding and impact of NDR deficits
38.	Redundancy Reserves	-	these reserves were set up to cover redundancy costs.
39.	Other Funds	-	this reserve is to fund projects approved by the HF Business Board
40.	HRA - Regeneration Projects	-	this is a reserve to fund any costs of disposals exceeding the national cap.
41.	HRA IT Recharges Reserve	-	this reserve is to fund any budgetary pressures with IT charges.
42.	HRA Past Service Pension Cost	-	this reserve is to provide for adjustments to the HRA past service cost liability
43.	HRA Pay Increase	-	this reserve has been established to cover the potential pay inflation
44.	HRA Efficiency Reserve	-	this reserve is to provide funding for the one off costs associated with implementing FTS savings
45.	HRA Human Resources Reserve	-	this is a reserve to fund any requirements in relation to HRA Human Resources.
46.	HRA Non-dwellings Impairment Reserve	-	this reserve is to smooth the future impact of non-dwellings impairments on the HRA following the introduction of HRA self-financing.
47.	HRA Strategic Regeneration and Housing Development	-	this reserve is to provide for the risk associated the council's strategy and regeneration and housing development initiatives.
48.	HRA Utilities Reserve	-	this reserve is to cover the potential impact of applying OFWAT "Water resale order" under which water charges to tenants must be set to equal expenditure incurred by LBHF on a property by property basis.
49.	HRA Commercial Property leases		this reserve is to fund the S106 costs for the termination of commercial property leases
50.	HRA Legal Costs		this reserve is for the likely legal costs arising from a procurement judgement
51.	Improved Voids Specification		this reserve is to fund a pilot to improve a limited number of void properties.
52.-56.	Revenue Grants	-	these are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).

9. Material Items of Income and Expense

Transactions in 2013/14

Council Dwellings have been revalued in-year and have shown a significant revaluation gain. The net gain posted to the CIES is £188.3m (after taking account of revaluation losses of £12.7m required to reduce in-year capital expenditure to EUV-SH valuation - see note 13iv for more detail). The gain - in part - reverses the significant loss posted to CIES (expenditure) in 2010/11 when the Council revised its social housing valuation adjustment factor. As such the credit for the financial year 2013/14 has been recorded against expenditure.

Transactions in 2012/13

Three local authority maintained schools converted to Academy status in year, resulting in the transfer of land and buildings with a net book value of £34.5m (Henry Compton Secondary 16.4m, Fulham Cross Secondary 16.04m and Bentworth School 2.1m). These transfers have been reflected as disposals in the Council's accounts.

10. Other Operating Expenditure

	2013/14 £000	2012/13 £000
Levies	2,868	2,361
Payments to the Government Housing Capital Receipts Pool	5,616	1,825
(Gains)/losses on the disposal of non-current assets	(51,143)	8,396
Trading Operations [See Below]	(2,741)	(1,903)
Other Operating Income	(2)	61
	(45,402)	**10,740**

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

	2013/14 Turnover	2013/14 Expenditure	2013/14 (Surplus)/ Deficit	2012/13 Turnover	2012/13 Expenditure	2012/13 (Surplus)/ Deficit
	£000	£000	£000	£000	£000	£000
Construction & Property Related Services	(156)	216	60	(487)	664	177
Highways Division	(888)	838	(50)	(725)	654	(71)
Industrial Estates and Misc Properties	(2,845)	8	(2,837)	(2,406)	276	(2,130)
Other	-	86	86	(34)	155	121
Net surplus on trading operations	**(3,889)**	**1,148**	**(2,741)**	**(3,652)**	**1,749**	**(1,903)**

11. Financing and Investment Income and Expenditure

	2013/14 £000	2012/13 £000
Interest payable and similar charges	15,922	16,301
Net interest on the net defined benefit liability (asset)*	21,330	-
Pensions interest cost*	-	47,121
Expected return on pensions assets*	-	(35,921)
Interest receivable and similar income	(1,325)	(1,575)
Income and expenditure in relation to investment properties and changes in their fair value	(6,627)	(1,408)
	29,300	**24,518**

* The changes to IAS19 which have impacted the pensions interest recognised are explained in note 32 (Defined Benefit Schemes).

12. Taxation and non-specific grant income and expenditure

	2013/14 £000	2012/13 £000
Council Tax Income*	(53,274)	(63,223)
Non-domestic rates income and expenditure**	(49,669)	(114,324)
Non-ringfenced government grants	(92,014)	(25,599)
Capital grants and contributions	(21,838)	(65,963)
	(216,795)	**(269,109)**

* Council Tax Income has reduced following the introduction of the Council Tax Benefit changes on 1 April 2013. The impact is explained further in the Collection Fund accounts.

** The new Business Rates Retention Scheme was introduced on 1 April 2013. The Council now retains a share of non-domestic rates income and expenditure rather than receiving formula grant. This has also impacted the value of non-ringfenced government grants received due to a parallel change in the local government funding formula. The new scheme is explained further in the Collection Fund accounts.

13. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2013/14

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2013	886,482	324,397	179,743	30,041	22,799	14,685	392	**1,458,539**	19,985
Additions	17,987	13,468	8,768	297	1,029	220	5,551	**47,320**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	28,857	(6,344)	-	-	-	(15)	-	**22,498**	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	175,615	(1,844)	-	-	-	(141)	-	**173,630**	-
Derecognition – disposals	(11,450)	(5,910)	-	-	-	-	-	**(17,360)**	-
Derecognition – other	-	(850)	-	-	-	-	-	**(850)**	-
Assets reclassified (to)/from Held for Sale	(1,399)	-	-	-	-	930	-	**(469)**	-
Assets reclassified (to)/from Investment Properties	-	448	-	-	-	(92)	-	**356**	-
Other reclassifications	-	(327)	-	-	-	(139)	4,304	**3,838**	-
Other movements in cost or valuation	-	-	-	-	-	-	-	**-**	-
At 31 March 2014	**1,096,092**	**323,038**	**188,511**	**30,338**	**23,828**	**15,448**	**10,247**	**1,687,502**	**19,985**
Accumulated Depreciation and Impairment									
At 1 April 2013	(142)	(11,117)	(72,647)	(24,076)	(3,901)	-	-	**(111,883)**	(316)
Depreciation charge	(14,001)	(6,350)	(10,348)	(1,917)	(1,744)	-	-	**(34,360)**	(316)
Revaluation	14,015	9,427	-	-	-	-	-	**23,442**	-
Derecognition – disposals	-	-	-	-	-	-	-	**-**	-
Derecognition – other	-	28	-	-	-	-	-	**28**	-
Other movements in depreciation and impairment	-	53	-	-	-	-	-	**53**	-
At 31 March 2014	**(128)**	**(7,959)**	**(82,995)**	**(25,993)**	**(5,645)**	**-**	**-**	**(122,720)**	**(632)**
Net Book Value									
at 31 March 2014	**1,095,964**	**315,079**	**105,516**	**4,345**	**18,183**	**15,448**	**10,247**	**1,564,782**	**19,353**

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

Movements in 2012/13

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2012	897,170	355,383	173,665	29,732	18,552	11,462	-	**1,485,964**	20,150
Additions	25,261	5,154	6,078	309	4,247	1,513	392	**42,954**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	408	362	-	-	-	-	-	**770**	(165)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(13,585)	(5)	-	-	-	(5,908)	-	**(19,498)**	-
Derecognition – disposals	(16,637)	(35,444)	-	-	-	(1,632)	-	**(53,713)**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Assets reclassified (to)/from Held for Sale	(2,097)	(1,053)	-	-	-	(322)	-	**(3,472)**	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	6,059	-	**6,059**	-
Other reclassifications	(3,513)	-	-	-	-	3,513	-	**-**	-
Other movements in cost or valuation	(525)	-	-	-	-	-	-	**(525)**	-
At 31 March 2013	**886,482**	**324,397**	**179,743**	**30,041**	**22,799**	**14,685**	**392**	**1,458,539**	**19,985**
Accumulated Depreciation and Impairment									
At 1 April 2012	-	(5,438)	(62,903)	(21,928)	(2,564)	-	-	**(92,833)**	-
Depreciation charge	(15,350)	(6,630)	(9,744)	(2,148)	(1,337)	-	-	**(35,209)**	(316)
Revaluation	13,838	27	-	-	-	-	-	**13,865**	-
Derecognition – disposals	845	924	-	-	-	-	-	**1,769**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	525	-	-	-	-	-	-	**525**	-
At 31 March 2013	**(142)**	**(11,117)**	**(72,647)**	**(24,076)**	**(3,901)**	**-**	**-**	**(111,883)**	**(316)**
Net Book Value									
at 31 March 2013	**886,340**	**313,280**	**107,096**	**5,965**	**18,898**	**14,685**	**392**	**1,346,656**	**19,669**

Depreciation and Useful life

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

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

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

(ii) Depreciation and Useful life

The amount charged to services in 2013/14 was:	£000
Central Services to the Public	390
Cultural & Related Services	2,861
Environmental & Regulatory Services	806
Planning Services	887
Education and Children's Services	4,770
Highways and Transport Services	9,127
HRA	14,374
Other Housing Services	98
Adult Social Care	982
Non-Distributed Costs	-
Corporate & Democratic Core	-
Trading Operations	65
	34,360

(iii) Effect of Changes in Estimates

In 2013/14 the Authority made no material changes to its accounting estimates for Property, Plant and Equipment.

(iv) Revaluation and Impairments

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued through full inspection at least every three years. The Authority has used the external valuation contractor Wilks Head & Eve to carry out the valuations under instruction from the authority's internal Valuation and Property Services. Rolling program values are reviewed internally to ensure they are not materially misstated at the balance sheet date. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations have an effective date of 31 March 2014.

The significant assumptions applied in estimating the fair values are:

• Valuations of owner occupied properties reflect special adaptations or particular suitability of the premises for the existing use, but specifically exclude, so far as possible value attributable to goodwill and alternative uses.

• No allowance has been made for any national or local tax whether existing or which may arise in the future.

• For non-Council Dwellings, the properties have been valued on an individual basis, thus envisaging that they will be marketed individually or in groups over an appropriate period of time.

• Except where specific information is available, properties have been properly maintained and are in good repair and condition.

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	87,138	312,066	105,516	4,345	18,183	16,946	10,247	**554,441**
Carried at Historical Cost	-	-	105,516	4,345	18,183	-	10,247	**138,291**
Valued at fair value as at:								
31 March 2014	1,095,964	75,934	-	-	-	1,149	-	**1,173,047**
31 March 2013	-	1,572	-	-	-	9,494	-	**11,066**
31 March 2012	-	177,007	-	-	-	4,140	-	**181,147**
31 March 2011	-	60,566	-	-	-	665	-	**61,231**
31 March 2010	-	-	-	-	-	-	-	**-**
31 March 2009	-	-	-	-	-	-	-	**-**
	1,095,964	**315,079**	**105,516**	**4,345**	**18,183**	**15,448**	**10,247**	**1,564,782**

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

(iv) Revaluation and Impairments continued.

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *"Stock Valuation for Resource Accounting: Guidance for Valuers - 2010"* . Under the requirements of the "beacon system" of valuation and 75 per cent discount applied to the open market valuation of the dwellings using the "Existing Use Valuation - Social Housing" methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 25 per cent of the capital expenditure incurred upon it.

The Council conducted a full revaluation of its dwelling stock as at 1 April 2010 in line with the proper practice set out in the Government guidance *"Stock Valuation for Resource Accounting: Guidance for Valuers - 2010."* Subsequently, on an annual basis, a desk-top revaluation on dwellings as at 1 April 2013 was commissioned by the Council, and completed by the external Valuer Wilks, Head and Eve. This assessment was indexed by a further 12% to 31st March 2014 to reflect significant increases in the London property market. This indexation, which has resulted in additional valuation gains of £115.9m, represents a change to the draft accounts.

All schools have been re-valued by full inspection to ensure consistency across this class of assets. This has resulted in net additional revaluations gains posted to Other Land and Buildings of £22m since the preparation of the draft accounts.

Where assets are revalued downwards and revaluation losses are in excess of the available Revaluation Reserve, balances are debited to the Surplus or Deficit on the Provision of Services. A review of fixed assets was carried out for 2013/14 and there were no cases of impairment of assets to report.

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

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

(v) Capital Commitments

Service Department	**2013/14 £000**	**2012/13 £000**
Children's Services	11,418	13,871
Environment, Leisure & Resident Services	-	-
Housing Revenue Account	15,879	-
Housing and Regeneration	-	1,608
	27,297	**15,479**

Capital commitments on major schemes at 31 March 2014 total £27.3m across the Council. The Housing Revenue Account contractual commitment is £15.9m. Within Children's Services, the Lyric Theatre and Queensmill School have combined contractual commitments of £11.4m.

14. Investment Properties

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

	2013/14 £000	**2012/13 £000**
Rental income from investment property	(6,211)	(5,427)
Direct operating expenses (including repairs and maintenance) arising from investment properties	87	129
Net (gain)/loss	**(6,124)**	**(5,298)**

(i) Revaluation
In 2013/14 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31st March 2014. The work was undertaken by our independent external valuers - Wilks, Head & Eve, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The valuation bases are in accordance with the Statement of Asset Valuation Practices and Guidance Notes of RICS.

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

14. Investment Properties (cont'd)

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

	31 March 2014 £000	31 March 2013 £000
Balance at start of the year	70,227	77,520
Additions:		
• Purchases	-	-
• Construction	-	-
• Subsequent expenditure	103	291
Disposals	(450)	(2,027)
Net gains/losses from fair value adjustments	6,758	2,348
Transfers:		
• to/from Inventories	-	-
• to/from Property, Plant and Equipment	(438)	(6,059)
• to/from Assets Held for Sale	-	(1,846)
Other changes	-	-
Balance at end of the year	**76,200**	**70,227**

15. Heritage Assets

(i) Movements on Balances

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2013	7,688	131	118	86	8,023
Movement on balances	-	-	-	-	-
At 31 March 2014	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2013/14. Further information concerning heritage assets and their valuation can be found in previous Statement of Accounts as published on the Council's website:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

16. Capital Expenditure and Capital Financing

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

	2013/14 £000	2012/13 £000
Opening Capital Financing Requirement	311,803	333,236
Capital Investment		
Property, Plant and Equipment	47,321	42,968
Investment Properties	104	292
Intangible Assets	246	38
Revenue Expenditure Funded from Capital under Statute	10,275	12,520
Capital Funding of third-party capital loans	975	1,575
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(10,987)	(19,898)
Government grants and other contributions	(42,314)	(36,078)
Sums set aside from revenue:		
Direct revenue contributions	(5,619)	(1,416)
MRP/loans fund principal	(2,572)	(3,386)
Voluntary Application of Capital Receipts	(13,568)	(19,887)
Deferred costs of capital disposals	1,668	1,840
Closing Capital Financing Requirement	**297,332**	**311,804**
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(2,509)	(3,245)
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(63)	(141)
Voluntary application of Capital Receipts to repay debt	(13,568)	(19,887)
Deferred costs of capital disposals	1,668	1,840
Assets acquired under finance leases	-	-
Assets acquired under PFI/PPP contracts	-	-
Increase/(decrease) in Capital Financing Requirement	**(14,472)**	**(21,433)**

17. Leases (Finance and Operating)

Council as Lessee

Finance Leases

The Council is not engaged in any material Finance Leases as a Lessee.

Operating Leases

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

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

	31 March 2014 £000	31 March 2013 £000
Not later than one year	981	1,521
Later than one year and not later than five years	2,742	2,683
Later than five years	4,652	5,226
	8,375	**9,430**

The Council has sub-let some of the accommodation and equipment held under these leases. At 31st March 2014 the minimum income expected to be received under non-cancellable sub-leases was £243,515 (£333,000 at 31st March 2013).

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

	31 March 2014 £000	31 March 2013 £000
Minimum lease payments	1,521	1,742
Contingent rents	739	749
Sublease payments receivable	(115)	(100)
	2,145	**2,391**

Council as Lessor

Finance Leases

The Council is not engaged in any material Finance Leases as a Lessor.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:
- for the provision of community services, such as sports facilities, day centres and community centres
- for economic development purposes providing suitable affordable accommodation for local businesses.
- as an investment to make the use of the Council's assets

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

	31 March 2014 £000	31 March 2013 £000
Not later than one year	1,156	1,511
Later than one year and not later than five years	3,789	5,185
Later than five years	9,011	10,240
	13,956	**16,936**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 £75,000 contingent rents were receivable by the Council (2012/13 £75,000).

18. Private Finance Initiative

2013/14 was the ninth year of a 25-year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created three new nursing homes (one of which was completed one year later than the other two). Hammersmith & Fulham Clinical Commissioning Group also share the services provided at these sites through a back-to-back agreement with the Council.

At the end of the contract ownership of the homes reverts to the Council. There have been no variations made to the contract in 2013/14. Payments are adjusted annually for RPI.

18. Private Finance Initiative (cont'd)

Property Plant and Equipment

The assets used to provide services at the residential care and nursing homes and sheltered accommodation are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 13.

Payments

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

Payments remaining to be made under the PFI contract at 31 March 2014 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment for Services £000	Liability £000	Interest £000	Total £000
Payable in 2014/15	5,367	165	1,251	**6,783**
Payable within two to five years	22,004	909	4,755	**27,668**
Payable within six to ten years	30,308	2,034	5,047	**37,389**
Payable within eleven to fifteen years	33,537	3,934	3,147	**40,618**
Payable within sixteen to twenty years	9,897	1,693	349	**11,939**
	101,113	8,735	14,549	**124,397**

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

	2013/14 £000	2012/13 £000
Balance outstanding at start of year	8,880	9,009
Payments during the year	(145)	(129)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	8,735	8,880

19. Debtors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	12,748	15,689
Other local authorities	13,264	12,441
NHS bodies	3,733	1,932
Public corporations and trading funds	8	20
Other entities and individuals	28,614	36,956
Total	58,367	67,038

20. Cash and Cash Equivalents

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

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000
Cash held by the Council	13	50	534
Bank current accounts	942	1,723	2,560
School bank accounts	16,502	18,655	13,622
Short-term deposits	39,200	84,518	84,300
Total	**56,657**	**104,946**	**101,016**
Bank overdraft*	(2,246)	(8,394)	(849)
	(2,246)	**(8,394)**	**(849)**
Net Cash and Cash Equivalents	**54,411**	**96,552**	**100,167**

*The year-end bank overdraft reflects the bank position including all outstanding and unpresented items.
LBHF does not operate a physical bank overdraft as part of its cash management policy. This presentation is a technical requirement under IFRS. The Council has netted this technical overdraft against the Cash and Cash Equivalents line in the 31 March 2014 Balance Sheet in accordance with CIPFA guidance. This represents a revised approach from previous years and prior year comparatives have been adjusted accordingly. This does not represent a material restatement.

21. Assets Held For Sale

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

	Current Assets	
	31 March 2014 £000	31 March 2013 £000
Balance outstanding at start of year	15,227	19,313
Additions:	3	-
Assets newly classified as held for sale:		
• Property, Plant and Equipment	1,005	3,486
• Investment Properties	-	1,846
Assets sold	(7,011)	(9,418)
Balance outstanding at year-end	**9,224**	**15,227**

22. Creditors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	(28,991)	(17,558)
Other local authorities	(18,869)	(7,407)
NHS bodies	(11,236)	(8,511)
Public corporations and trading funds	-	-
Other entities and individuals	(81,761)	(85,067)
Total	**(140,857)**	**(118,543)**

23. Other Long Term Liabilities

	31 March 2014 £000	31 March 2013 £000
Net Pensions Liability	(426,639)	(503,470)
Long Term Lease Liability	(9,076)	(10,124)
TOTAL	**(435,715)**	**(513,594)**

24. Provisions

	Insurance £000s	NDR - Losses on Appeals £000s	Other Provisions £000s	Total £000s
Balance at 1 April 2012	**(865)**	-	**(3,038)**	**(3,903)**
Additional provisions	(2,728)	-	(1,049)	**(3,777)**
Amounts used	-	-	370	**370**
Unused amounts reversed	-	-	1,960	**1,960**
Unwinding of discounting	-	-	-	**-**
Balance at 31 March 2013	**(3,593)**	**-**	**(1,757)**	**(5,350)**
Additional provisions	(180)	(11,725)	(2,127)	**(14,032)**
Amounts used	426	-	1,220	**1,646**
Unused amounts reversed	-	-	2	**2**
Unwinding of discounting	-	-	-	**-**
Balance at 31 March 2014	**(3,347)**	**(11,725)**	**(2,662)**	**(17,734)**
Of which:				
Next twelve months	(3,347)	(11,725)	(221)	(15,293)
Over twelve months	-	-	(2,441)	(2,441)
Balance at 31 March 2014	**(3,347)**	**(11,725)**	**(2,662)**	**(17,734)**

24. Provisions (cont'd)

Following the introduction of the new Business Rates Retention Scheme by Central Government on 1 April 2013, the Council must account for its share of Non-Domestic Rates assets and liabilities. As a result of this, the Council has been exposed to a significant number of outstanding ratings appeals, the estimated liability for this has been recognised here.

The Council's insurance provision (held for known future insurance claims resulting from the Authority's self-insurance of liability risks and fire damage) received a full actuarial assessment of the Insurance Fund position as at 31 March 2013. The provision is based upon updated professional estimates of continuing open claims identified in last year's assessment. It also reflects claims they have currently received for which they expect payment in the next 12 months.

During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2012-13 with the Council required to pay a levy of £426K in 2013 -14, for which a provision was made in 2012 – 2013 accounts; representing 15% of claims payments made to date. MMI in setting this 15% levy chose a mid-point based upon on actuarial analysis of potential future losses with the aim of ensuring a solvent run off of current losses and those yet to emerge. Whilst a further levy cannot be ruled out in the future, it is anticipated that a further levy is unlikely in the short term. This means the Council will be required to fund 15% of all payments for any newly reported losses during the period of MMI policy coverage prior to 1993. The Council has sufficient funds in its Insurance reserve to cover this exposure.

Other Provisions comprise:

- £1.964m is held in respect of the PFI inflation rate which the Council is negotiating with the contractor.
- £0.335m to cover various HRA tenant related liabilities
- £0.175m to cover potential shortfalls in funding for Specific Childcare
- £0.187m for legal fees and disbursements regarding disrepair cases

25. Financial Instruments

(i) Financial Instruments - Balances

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

	Long Term		Current	
	31 March 2014 £000	**31 March 2013 £000**	**31 March 2014 £000**	**31 March 2013 £000**
Financial Assets:				
Investments - Loans and Receivables	100	100	91,838	122,197
Investments - Available for sale financial assets	-	-	189,633	-
Cash & cash equivalents	-	-	54,411	96,552
Long Term Debtors	1,673	2,256	-	-
Trade Debtors	-	-	51,495	59,055
Total	**1,773**	**2,356**	**387,377**	**277,804**
Financial Liabilities : Measured at amortised cost				
Borrowings	(247,842)	(250,751)	(6,089)	(15,513)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(16,310)	(18,594)
Total	**(247,942)**	**(250,851)**	**(22,399)**	**(34,107)**
Other Liabilities				
PFI & Finance Lease liabilities	**(9,076)**	**(10,124)**	**(1,048)**	**(1,084)**

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

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

The amounts for trade debtors and creditors are the values identified in Notes 19 and 22 to the accounts gross of any allowance for bad debts, see paragraph on Credit Risk in Note 26 below, but excluding outstanding balances to/from Government Departments, debts arising from taxation demands and monies received or paid in advance. Further analysis of PFI and Finance Lease liabilities is given in Notes 17 and 18.

25. Financial Instruments (cont'd)

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2013/14 or previous years. A new class of instrument - Available for Sale Assets - has been introduced however the Council had no holdings of such instruments in the previous year.

(iii) Income, Expense, Gains and Losses

	2013/14				2012/13			
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale Assets £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale Assets £000	Total £000
Interest expense	15,922	-	-	15,922	16,301	-	-	16,301
Losses on derecognition	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**15,922**	**-**	**-**	**15,922**	**16,301**	**-**	**-**	**16,301**
Interest income	-	(1,049)	(277)	(1,326)	-	(1,576)	-	(1,576)
Increases in fair value	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	**-**	**(1,049)**	**(277)**	**(1,326)**	**-**	**(1,576)**	**-**	**(1,576)**
Net gain/(loss) for the year	**15,922**	**(1,049)**	**(277)**	**14,596**	**16,301**	**(1,576)**	**-**	**14,725**

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25. Financial Instruments (cont'd)

(iv) Fair Values of Assets and Liabilities

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

- Public Works Loan Board (PWLB) loans have been valued using the standard new loan rates published by the Debt Management Office (DMO) on 31st March 2014.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.

- The fair value of trade debtors and creditors are taken to be the invoiced amounts.
- The fair value of cash, overdrafts and other cash equivalents is taken to be the carrying value.

The amount for long term debtors at 31/3/2014 includes outstanding mortgages of £90k (£144k 31/3/2013). As the interest rate charged to mortgagees is linked to the market rate and given the relatively small amount outstanding fair value is taken to be the carrying value. Therefore any difference between carrying and fair value on long term debtors would be insignificant.

£100k of the Long Term investment at 31/3/2014 (£100k at 31/3/2013) shown above relates to the Council's investment in the GLE Group matched by the long term creditor of the same amount. Again as any difference in values would be insignificant the fair value is taken to be the carrying value for both the investment and the liability.

The fair values calculated for the remaining instruments which consist of the Council's borrowings and investments (excluding any Cash or Cash Equivalents) are as follows:

	31 March 2014		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities				
Borrowings				
PWLB Debt	(250,510)	(272,798)	(262,067)	(296,564)
Total	**(250,510)**	**(272,798)**	**(262,067)**	**(296,564)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	91,838	91,838	122,197	122,197
Money market loans greater than one year	-	-	-	-
Available for Sale less than one year	189,633	189,633	-	-
Available for Sale greater than one year	-	-	-	-
Total	**281,471**	**281,471**	**122,197**	**122,197**

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB certainty rate as the discount factor, if the premature repayment rate were to be used the fair value would be £306,276k as at 31 March 2014 (£341,759k at 31 March 2013.)

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

25. Financial Instruments (cont'd)

At 31st March 2014, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to be approximate fair value; the figure for both years includes accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

26. Nature and Extent of Risks Arising from Financial Instruments

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

• **credit risk** - the possibility that other parties might fail to pay amounts due to the Council

• **liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments

• **Re-financing risk -** the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

• **market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA's Prudential Code and Code of Practice on Treasury Management in the Public Services together with investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

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

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

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

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

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

Credit Risk

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

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be able to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

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

Liquidity Risk

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

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

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in Note 19. The sums shown are net of a prudent provision for their impairment amounting to £40.84 million at 31/3/2014 (£32.89 million at 31/3/2013). The council does not normally allow credit for its customers.

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

	31 March 2014 £000	31 March 2013 £000
Less than three months	34,616	37,263
Three to six months	2,986	2,381
Six months to one year	2,911	3,642
More than one year	10,982	15,769
	51,495	**59,055**

Refinancing and Maturity Risk

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

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

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

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

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

	31 March 2014 £000	31 March 2013 £000
Less than one year	(6,089)	(15,513)
Between one and two years	(15,702)	(2,912)
Between two and five years	(19,055)	(30,193)
Between five and ten years	(25,388)	(25,673)
More than ten years	(187,453)	(191,833)
Total	**(253,687)**	**(266,124)**

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

	31 March 2014 £000	31 March 2013 £000
Less than one year	281,471	122,197
Between one and two years	-	-
Between two and three years	-	-
More than three years	1,773	2,356
Total	**283,244**	**124,553**

The above tables exclude trade payables and receivables and cash and cash equivalents all of which are due to be paid/received within one year.

Market risk

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

- *Borrowing at variable rates* : the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- *Borrowing at fixed rates:* the fair value of the borrowing liability will fall (no impact on revenue balances).
- *Investments at variable rates:* the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- *Investments at fixed rates:* the fair value of the assets will fall (no impact on revenue balances).

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

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

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

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

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

27a. Cash Flow Statement - Net Cash Flow from Operating Activities

	2013/14 £000	2012/13 £000
Adjustment for items included elsewhere in the Cash Flow Statement		
Capital Grants	(22,611)	(54,937)
Adjustment for 'non-cash' items included in the Comprehensive Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	34,572	35,514
Impairments and revaluations	(197,345)	3,916
Value of non-current assets derecognised on disposal	18,632	53,971
Assets transferred to 'Assets Held for Sale'	977	5,318
(Increase)/decrease in Capital Debtors	(410)	180
Increase/(decrease) in Capital Creditors	846	54
(Increase)/decrease in Long-term Debtors	583	117
Net adjustment made in respect of IAS 19 (Pensions)	12,794	6,796
Transfer of assets on the conversion of schools to Academy status	(667)	(4,360)
Revaluations of Available for Sale Financial Assets	40	-
Amortisation of Premia and Discounts	(123)	(216)
Impairment of Financial Instruments	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors	(6,806)	8,734
Increase/(decrease) in short-term Creditors	3,430	16,416
(Increase)/decrease in 'Assets Held for Sale'	6,003	4,086
(Increase)/decrease in Inventories	17	76
Increase/(decrease) in Provisions	12,384	1,447
Increase/(decrease) in Grants and Contributions Receipts in Advance	2,780	(18,578)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(134,904)**	**58,534**

27b. Cash Flow Statement - Operating Activities

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

	2013/14 £000	2012/13 £000
Interest Received	1,442	1,531
Interest Paid	(15,189)	(14,524)

28. Agency Services

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

The expenditure and income relating to agency services is not included in the Comprehensive Income and Expenditure Statement, since it is not incurred as part of the authority’s normal responsibilities. However, a surplus of £221,000 has been made in relation to Thames Water, for whom collection from tenants is carried out. The surplus is included in the Housing Revenue Account Net Cost of Service.

	2013/14 £000	2012/13 £000
Capital Ambition - Revenue	1,010	2,786
Capital Ambition - Capital	28	1,706
London Social Care Programme (formerly JIP)	1,034	961
Thames Water - Collection from Tenants	4,740	4,921
External Schools - Payroll	17,535	5,933
Voluntary Housing Bodies - Payroll	869	0
Mayor's CIL	2,156	0
Other	104	0
Total	**27,476**	**16,307**

29. Members' Allowances

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

	2013/14 £000	2012/13 £000
Members' Allowances	**819**	**809**

30. Officers' Remuneration

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

	Notes		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	**Total £**
Jane West - Executive Director of Finance & Corporate Governance		2013/14	158,620	16,655	0	0	0	**175,275**
		2012/13	158,620	18,811	0	0	0	**177,431**
Nigel Pallace - Bi-borough Executive Director Transportation & Technical Services	3	2013/14	158,620	16,655	0	0	23,662	**198,937**
		2012/13	154,098	12,429	0	0	22,616	**189,143**
Lyn Carpenter - Bi-borough Executive Director Environment, Leisure & Residents Services	4	2013/14	154,132	12,331	0	0	22,473	**188,936**
		2012/13	149,643	11,223	0	0	21,742	**182,608**
Melbourne Barrett - Executive Director of Housing & Regeneration		2013/14	132,300	11,907	0	0	19,468	**163,675**
		2012/13	126,000	8,820	0	0	18,382	**153,202**
Tasnim Shawkat - Bi-Borough Director of Law	5	2013/14	104,803	10,480	0	0	15,563	**130,846**
		2012/13	52,402	4,192	29	0	8,110	**64,733**
Elizabeth Bruce - Tri-Borough Executive Director of Adult Social Care	6	2013/14	60,457	3,023	0	0	8,570	**72,050**
		2012/13	0	0	0	0	0	**0**
Sue Redmond - Interim Tri-Borough Executive Director of Adult Social Care	6	2013/14	129,591	0	0	0	0	**129,591**
		2012/13	0	0	0	0	0	**0**
Andrew Webster - Tri-Borough Executive Director of Adult Social Care	6	2013/14	7,851	0	0	0	263	**8,114**
		2012/13	140,000	5,600	131	0	20,283	**166,014**
Philip Cross - Executive Headteacher, Hurlingham and Chelsea School	7	2013/14	112,836	0	37,165	0	21,150	**171,151**
		2012/13	112,181	0	39,491	0	21,386	**173,058**

Note 1 - The following Senior Officers are employed by the Royal Borough of Kensington and Chelsea (RBKC), but are shared on a Bi-Borough or Tri-Borough basis. Information regarding their remuneration can be found on RBKC's website www.rbkc.gov.uk:

- The Chief Executive role is a Bi-Borough job share with the costs shared on the following basis: 50% (LBHF): 50% (RBKC). Until November 2013, Derek Myers was in post. From November 2013 Nicholas Holgate has performed this role on an interim basis. As Nicholas Holgate has retained s151 responsibilities for RBKC his salary is shared on the following basis 42% (LBHF): 58% RBKC.
- The Tri-Borough Executive Director of Children's Services (Andrew Christie) is shared equally between LBHF, RBKC and WCC.

Note 2 - Following the introduction of the new Public Health responsibilities for local government on 1 April 2013, a statutory Director of Public Health role was established on a Tri-Borough basis. Meradin Peachey is the current post holder and is employed by Westminster City Council (WCC). Information regarding her remuneration can be found on WCC's website www.westminster.gov.uk. This role is shared on the following basis 29% (LBHF): 31% (RBKC): 40% (WCC)

Note 3 - This is a Bi-Borough role and is shared on the following basis 75% (LBHF): 25% (RBKC)

Note 4 - This is a Bi-Borough role and is shared on the following basis 50% (LBHF): 50% (RBKC)

Note 5 - Tasnim Shawkat was appointed Bi-Borough Director of Law on 1 October 2012. The role is shared on the following basis 50% (LBHF): 50% (RBKC)

Note 6 - This is a Tri-Borough role and is shared on the following basis 46% (LBHF): 33% (WCC): 21% (RBKC). Andrew Webster was in post from 1 December 2011 to 5 April 2013. Sue Redmond held the role on an interim basis from 6 April 2013 until 14 October 2013 when Elizabeth Bruce was appointed to the permanent role.

Note 7 - Pay decisions for the head teachers disclosed above rest with the School Governing Body and not the Council.

Note 8 - The above remuneration disclosure does not include payments for returning officer duties.

30. Officers' Remuneration (cont'd)

Including Redundancies

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

(These numbers do not include senior employees shown above)

Excluding Redundancies

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

(These numbers do not include senior employees shown above)

Remuneration Band	Including Redundancies 2013/14 Number of Employees	Including Redundancies 2012/13 Number of Employees	Excluding Redundancies 2013/14 Number of Employees	Excluding Redundancies 2012/13 Number of Employees
£145,000 - £149,999	0	0	0	0
£140,000 - £144,999	0	0	0	0
£135,000 - £139,999	0	0	0	0
£130,000 - £134,999	0	0	0	0
£125,000 - £129,999	1	3	1	3
£120,000 - £124,999	0	0	0	0
£115,000 - £119,999	0	1	0	1
£110,000 - £114,999	3	4	3	4
£105,000 - £109,999	7	6	7	6
£100,000 - £104,999	6	6	6	6
£95,000 - £99,999	8	7	8	7
£90,000 - £94,999	2	5	2	5
£85,000 - £89,999	4	8	4	8
£80,000 - £84,999	12	10	11	9
£75,000 - £79,999	22	15	22	15
£70,000 - £74,999	20	24	20	24
£65,000 - £69,999	27	32	27	31
£60,000 - £64,999	16	26	14	24
£55,000 - £59,999	45	46	41	45
£50,000 - £54,999	99	110	98	106
Total	**272**	**303**	**264**	**294**

Of the 272 employees listed above in 2013/14, 121 (44%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2012/13 was 143 (47%).

Of the 264 employees listed above in 2013/14, 119 (45%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2012/13 was 141 (48%).

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

Exit Packages

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of packages by cost band		Total cost of exit packages in each band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
£0 - £20,000	32	69	36	48	68	117	590,566	1,069,326
£20,001 - £40,000	6	7	12	19	18	26	527,168	689,592
£40,001 - £60,000	3	-	5	2	8	2	436,554	99,955
£60,001 - £80,000	-	-	5	1	5	1	342,250	66,200
£80,001 - £100,000	1	-	2	-	3	-	274,294	-
Over £100,001	-	-	2	-	2	-	237,726	-
Total	**42**	**76**	**62**	**70**	**104**	**146**	**2,408,558**	**1,925,073**

This includes exit packages agreed by School Governing Bodies. Exit packages include the accrued cost of added years (the pension strain). These costs are not paid to individuals but reflect the cost to the council of the employee retiring early, without actuarial reduction of their pension.

31. Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2013/14, the Council paid £4.33 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £5.11 million and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2013/14 the costs arising from additional benefits amounted to £343.6k (2012/13: £348.2k).

32. Defined Benefit Schemes

The accounting policy in this area changed on 1 April 2013 as a result of the Code's adoption of the 2011 amendments to IAS19 and IAS1. The change requires the recognition within the financial statements of a number of new classes of components of defined benefit costs - net interest on the net defined benefit liability (asset) and remeasurement of the net defined benefit liability (asset). The change did not impact the Council's balance sheet. There is also no net impact on Total Comprehensive Income and Expenditure and the gross impact on individual line items for 2012/13 is not material. Therefore, a prior period adjustment has not been made to the accounts. The disclosures have been enhanced to meet the new standard requirements and reflect the impact of the changes.

Participation in Pension Schemes

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

The Council participates in the following post employment schemes:

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

Following the 2013/14 triennial actuarial valuation, the element of LBHF LGPS relating to the former Hammersmith & Fulham Homes Local Government Pension Scheme (HFH LGPS) will no longer be reported separately to the overall fund. The 2012/13 comparators have been updated to reflect this.

The schemes are funded defined benefit salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme to 31 March 2014 provided benefits based on final salary and length of service on retirement. Changes to the LGPS came into effect on 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the scheme before the changes take effect.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Pension Fund, there is an orphan risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also have a beneficial impact e.g. higher than expected investment returns. These risks - both upside and downside - are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no scheme assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments when they eventually fall due.

32. Defined Benefit Schemes (cont'd)

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

	LBHF Local Government Pension Scheme			**LPFA Local Government Pension Scheme**		
	2013/14 £000	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**	**2013/14 £000**	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• current service costs	21,348	20,236	20,236	300	300	300
• past service costs including curtailments	1,191	1,167	1,167	-	6	6
• (gain)/ loss from settlements	(10,120)	(3,560)	(3,560)	-	-	-
• administration expenses	560	578	-	57	57	-
Financing and Investment Income and Expenditure						
• net interest expense	21,024	19,308	-	306	181	-
• interest cost	-	-	45,263	-	-	1,858
• expected return on scheme assets	-	-	(34,370)	-	-	(1,551)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**34,003**	**37,729**	**28,736**	**663**	**544**	**613**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
• Return on scheme assets (excluding the amount included in the net interest expense)	(16,080)	(46,282)	-	(30)	(1,335)	-
• Actuarial gains and losses arising on changes in demographic assumptions	47,751	-	-	743	-	-
• Actuarial gains and losses arising on changes in financial assumptions	22,175	108,030	-	(2,541)	6,087	-
• Experience loss/ (gain) on defined benefit obligation	(118,434)	923	-	(107)	82	-
• Other actuarial gains/ (losses)	(18,710)	-	71,664	(4,392)	-	4,765
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(49,295)**	**100,400**	**100,400**	**(5,664)**	**5,378**	**5,378**
Movement in Reserves Statement						
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(12,576)	(15,707)	(6,714)	(218)	(13)	(82)
Actual amount charged against the General Fund Balance for pensions in the year:						
• employers' contributions payable to scheme	18,947	19,816	19,816	411	492	492
• retirement benefits payable to pensioners (unfunded pension payments)	2,480	2,206	2,206	34	39	39

32. Defined Benefit Schemes (cont'd)

Assets and Liabilities in Relation to Post-employment Benefits

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

	LBHF Local Government Pension Scheme			**LPFA Local Government Pension Scheme**		
	2013/14 £000	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**	**2013/14 £000**	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**
Opening balance 1 April	**1,118,199**	**980,043**	**980,043**	**46,765**	**40,619**	**40,619**
Current service cost	21,348	20,236	20,236	300	300	300
Interest cost	48,042	45,263	45,263	1,595	1,858	1,858
Remeasurement (gains) and losses:						
- Change in financial assumptions	22,175	108,030	combined below	(2,541)	6,087	combined below
- Change in demographic assumptions	47,751	-	combined below	743	-	combined below
- Experience loss/(gain) on defined benefit obligation	(118,434)	923	combined below	(107)	82	combined below
Total actuarial (gains) and losses	separated above	separated above	108,953	separated above	separated above	6,169
Losses (gains) on curtailments	combined below	combined below	1,167	combined below	combined below	6
Liabilities assumed/ (extinguished) on settlements	(22,121)	(4,204)	(4,204)	-	-	-
Estimated benefits paid net of transfers in	(30,316)	(36,598)	(36,598)	(2,435)	(2,219)	(2,219)
Past service cost	combined below	combined below	-	combined below	combined below	-
Past service costs, including curtailments	1,191	1,167	separated above	-	6	separated above
Contributions by Scheme participants	5,075	5,545	5,545	57	71	71
Unfunded pension payments	(2,480)	(2,206)	(2,206)	(34)	(39)	(39)
Closing balance at 31 March	**1,090,430**	**1,118,199**	**1,118,199**	**44,343**	**46,765**	**46,765**

Reconciliation of fair value of the scheme assets:

	LBHF Local Government Pension Scheme			**LPFA Local Government Pension Scheme**		
	2013/14 £000	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**	**2013/14 £000**	**2012/13 £000 (revised IAS19 standard applied)**	**2012/13 £000 as disclosed**
Opening balance 1 April	**623,691**	**563,914**	**563,914**	**37,802**	**36,503**	**36,503**
Expected return on scheme assets	n/a	n/a	34,370	n/a	n/a	1,551
Interest on assets	27,018	25,955	n/a	1,289	1,677	n/a
Remeasurement gain/ (loss)						
- Return on assets less interest	16,080	46,281	n/a	30	1,335	n/a
- Other actual gains/ (losses)	18,710	-	n/a	4,392	-	n/a
Total Actuarial gains/ (losses)	n/a	n/a	37,288	n/a	n/a	1,404
Administration expenses	(560)	(578)	n/a	(57)	(57)	n/a
Contributions by employer including unfunded	21,427	22,022	22,022	445	531	531
Contributions by scheme participants	5,075	5,545	5,545	57	71	71
Estimated benefits paid plus unfunded net of transfers in	(32,797)	(38,804)	(38,804)	(2,469)	(2,258)	(2,258)
Settlement prices received/ (paid)	(12,001)	(644)	(644)	-	-	-
Closing balance at 31 March	**666,643**	**623,691**	**623,691**	**41,489**	**37,802**	**37,802**

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

32. Defined Benefit Schemes (cont'd)

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000
Present Value of Liabilities			
LBHF Local Government Pension Scheme (Funded)	1,054,858	1,090,945	953,802
LBHF Local Government Pension Scheme (Unfunded)	35,571	27,253	26,241
LPFA Local Government Pension Scheme (Funded)	44,043	46,416	40,346
LPFA Local Government Pension Scheme (Unfunded)	300	349	273
Fair Value of Assets			
LBHF Local Government Pension Scheme	(666,644)	(623,691)	(563,914)
LPFA Local Government Pension Scheme	(41,489)	(37,802)	(36,503)
Net liability arising from defined benefit obligation			
LBHF Local Government Pension Scheme	423,785	494,507	416,129
LPFA Local Government Pension Scheme	2,854	8,963	4,116
Total	**426,639**	**503,470**	**420,245**

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total net liability of £426.639m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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

Local Government Pension Scheme assets

The return on the Funds (on a bid value of bid value basis) for the year 31 March 2014 are estimated to be 7% for LBHF Local Government Pension Scheme and 4% for LPFA Local Government Pension Scheme. The actual return on Fund assets over the year may be different. The asset allocations are set out below:

LBHF Local Government Pensions Scheme

	31 March 2014		31 March 2013	
	£000	%	£000	%
Index Linked Gilts - UK	11,355	1.7%	11,200	1.8%
Index Linked Gilts - Overseas	8,644	1.3%	7,510	1.2%
Listed Equities - UK	177,519	26.6%	149,089	23.9%
Listed Equities - Overseas - North America	94,214	14.1%	95,000	15.2%
Listed Equities - Overseas - Europe	62,648	9.4%	49,809	8.0%
Listed Equities - Overseas - Japan	14,766	2.2%	14,622	2.3%
Listed Equities - Overseas - Asia	8,677	1.3%	10,641	1.7%
Listed Equities - Overseas - Emerging Markets	9,690	1.5%	11,808	1.9%
Unlisted Equities - Overseas - North America	714	0.1%	676	0.1%
Private Equity	9,759	1.5%	11,386	1.8%
Absolute Return Funds - Listed	106,491	16.0%	108,642	17.4%
Absolute Return Funds - Unlisted	9,038	1.4%	9,859	1.6%
Absolute Return Bond Funds - Listed	50,863	7.6%	45,742	7.3%
Absolute Return Bond Funds - Unlisted	6,936	1.0%	9,369	1.5%
Listed Liability Driven Investment (LDI) Fund	73,331	11.0%	82,101	13.2%
Commodities	2,000	0.3%	-	0.0%
Forward Foreign Exchange Contracts	1,405	0.2%	1,882	0.3%
Cash	17,191	2.6%	4,355	0.7%
Net current Assets - Debtors	2,438	0.4%	-	0.0%
Net current Assets - Creditors	(1,035)	-0.2%	-	0.0%
Total	**666,644**	**100%**	**623,691**	**100%**

32. Defined Benefit Schemes (cont'd)

	LPFA Local Government Pensions Scheme			
	31 March 2014		31 March 2013	
	£000	%	£000	%
Equities - Segregated - Quoted	10,992	26.5%	9,671	25.6%
Equities - Investment Funds and Unit Trusts - Quoted	492	1.2%	646	1.7%
Equities - Investment Funds and Unit Trusts - Unquoted	8,300	20.0%	6,749	17.9%
Equities - Private Equity - Unquoted	2,819	6.8%	2,962	7.8%
LDI	2,557	6.2%	3,702	9.8%
Target Return - Equities	489	1.2%	491	1.3%
Target Return - Corporate Bonds	662	1.6%	728	1.9%
Target Return - Government	203	0.5%	8	0.0%
Target Return - Investment Funds and Unit Trusts - Quoted	5,574	13.4%	4,061	10.7%
Target Return - Investment Funds and Unit Trusts - Unquoted	5,317	12.8%	4,961	13.1%
Infrastructure - Quoted	123	0.3%	107	0.3%
Infrastructure - Unquoted	1,333	3.2%	1,249	3.3%
Property Fund - Unquoted	1,100	2.7%	1,405	3.7%
Commodity Funds - Quoted	331	0.8%	329	0.9%
Commodity Funds - Unquoted	122	0.3%	96	0.3%
Cash (at bank)	950	2.3%	737	1.9%
Derivatives - Futures	-	0.0%	14	0.0%
Derivatives - Forwards	125	0.3%	(114)	-0.3%
Total	**41,489**	**100%**	**37,802**	**100%**

Asset and Liability Matching Strategy

The LBHF Pension Fund has a target to invest 12.5% of the Fund’s assets in a Liability Driven Investment (LDI) bespoke pooled fund in order to match approximately 25% of the Fund’s liabilities to manage the risks of inflation and interest rates. The underlying investments in the pooled fund are UK index linked gilts with durations which match a portion of the Fund’s liabilities and Total Return Swaps which provide further hedging against the risks of inflation and interest rates.

This LDI portfolio sits alongside an absolute return bond fund, which although does not match specifically the liabilities, it does assist further in the management of inflation and interest rate risks. The remainder of the Fund is invested in growth assets, including 30% in absolute return funds to provide diversification from the Fund’s equity investments.

32. Defined Benefit Schemes (cont'd)

Basis for Estimating Assets and Liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The LBHF Local Government Pension Scheme and LPFA Local Government Pension Scheme have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2013/14	**2012/13**	**2013/14**	**2012/13**
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	22.7	20.1	21.2	20.0
Women	25.1	24.1	24.5	23.4
Life expectancy from age 65 - retiring in 20 years	0.0	0.0	0.0	0.0
Men	24.9	22.1	23.5	22.1
Women	27.4	26.0	26.8	25.3
Financial Assumptions				
Rate of Inflation - RPI	3.6%	3.4%	3.4%	3.1%
Rate of Inflation - CPI	2.8%	2.6%	2.6%	2.3%
Rate of Increase in Salaries	4.6%	4.8%	4.4%	4.0%
Rate of Increase in Pensions	2.8%	2.6%	2.6%	2.3%
Discount Rate	4.4%	4.4%	4.2%	3.5%

These assumptions are set with reference to market conditions at 31 March 2014.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

	Impact on the Defined Benefit Obligation in the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Adjustment to:				
Discount Rate (+/- 0.1%)	(18,181)	18,507	(596)	604
Long term salary increase (+/- 0.1%)	2,754	(2,729)	29	(29)
Pension increases and deferred revaluation* (+/- 0.1%)	16,025	(15,750)	584	(577)
Mortality age rating assumption (+/- 1 year)	(38,236)	38,582	(1,518)	1,518

*Pension increases are linked to CPI inflation, therefore the impact analysis is equivalent

Impact on the Council's Cash Flows

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by Regulations. The next actuarial valuation of the fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a level of funding of 100% using the actuarial valuation assumptions. LBHF have agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 22 years.

The total contributions expected to be made by the council in the year to 31 March 2014 is £18.643m to the LBHF Local Government Pension Scheme (including the HFH Local Government Pension Scheme) and £0.423m to the LPFA Local Government Pension Scheme.

The actuary's estimate of the duration of the Employer's liabilities is 18 years for LBHF Local Government Pension Scheme and 14 years for LPFA Local Government Pension Scheme.

33. External Audit Costs

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

	2013/14 £000	2012/13 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	216	216
Fees payable to External Audit for the certification of grant claims and returns for the year	40	86
Objection Fee Variation for 2012/13	7	-
Total	**263**	**302**

34. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped to by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central Expenditure £000	***ISB £000***	**Total £000**
Final DSG for 2013/14 before Academy recoupment			120,930
Academy figure recouped for 2013/14			(25,930)
Total DSG after Academy recoupment for 2013/14			95,000
Brought forward from 2012/13			3,775
Carry-forward to 2014/15 agreed in advance			-
Agreed initial budgeted distribution in 2013/14	*19,350*	*79,425*	98,775
In-year adjustments	-	-	-
Final budgeted distribution for 2013/14	*19,350*	*79,425*	98,775
Less actual central expenditure	*(13,165)*		(13,165)
Less actual ISB deployed to schools		*(79,425)*	(79,425)
Plus local authority contribution for 2013/14	-	-	-
Carry forward to 2014/15	***6,185***	**-**	**6,185**

35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2013/14	**2012/13**
	£000	**£000**
Credited to Taxation and Non Specific Grant Income		
Council Tax Income	(53,274)	(63,223)
Non-domestic rates income and expenditure	(49,669)	(114,324)
Non-ringfenced government grants	(92,014)	(25,599)
Capital grants and contributions*	(21,838)	(65,963)
Total	**(216,795)**	**(269,109)**
Credited to Services		
Housing & Council Tax Benefit Subsidy	(146,729)	(164,786)
Dedicated Schools Grant	(92,590)	(99,339)
Public Health Grant	(17,751)	-
DfE Capital Grants	(2,713)	(9,837)
Sixth Form Grant	(6,048)	(7,665)
Pupil Premium Grant	(5,211)	(4,214)
Adult Learning	(1,721)	(1,721)
Section 106	(1,316)	(1,189)
Troubled Families	(1,283)	-
Transport for London / Surface Transport	(1,283)	(1,073)
Further Education	(1,242)	(1,381)
Social Work Grants	(833)	(510)
Adoption Reform Grant	(617)	-
NNDR Cost of Collection Allowance	(600)	(613)
Other grants and contributions	(3,833)	(4,590)
Total	**(283,770)**	**(296,918)**

*£46.3m of DfE Basic Needs Capital Grant Income was recognised in 2012/13, the Council recognised £2.4m in 2013/14 as the majority of this specific funding was received in 2012/13.

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

35. Grant Income (cont'd)

	31 March 2014 £000	31 March 2013 £000
Grants and Contributions Receipts in Advance (Current)		
Dedicated Schools Grant	(6,185)	(3,775)
Public Health Grant	(2,536)	-
Social Work Grants	(1,092)	(980)
Learning & Skills Council - revenue	(786)	(814)
Social Care Reform - revenue	-	(238)
Pupil Premium Grant	(116)	-
Other grants - revenue	(263)	(795)
Total	**(10,978)**	**(6,602)**

	31 March 2014 £000	31 March 2013 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(12,527)	(12,703)
Lyric Theatre	(934)	(2,846)
Major Works Income	(2,572)	(1,260)
TfL	(86)	(276)
Other revenue grants	-	(35)
Other capital grants	(333)	(928)
Total	**(16,452)**	**(18,048)**

36. Related Parties

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

Central Government

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

Grants received from government departments are set out in Note 6 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2014 are shown in Note 35.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 29.

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

During 2013/14, the Council engaged in various transactions with related parties which is disclosed in the information provided by Councillors and Chief Officers to the value of £712k. The most significant transactions are to charitable organisations (£486k), Environmental Concern (10k)and Housing Association (£216k).

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

Other Public Bodies

The Council is the administering authority of the Pension Fund. The Council owed the Pension Fund £560k at the year end. The Pension Fund paid the Council £346 of interest on the cash deposited with the Council. The Council charged the Fund £506k for expenses incurred in administering the fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

36. Related Parties (cont'd)

Fulham Palace Trust

As at 31 March 2014 Fulham Palace Trust received a one off non repayable grant of £367k from the Council. This has been utilised by Fulham Palace Trust to repay in full the loan taken out with the Architectural Heritage Fund to fund the refurbishment of two lodges within the Fulham Palace grounds. The lodges will be rented out to generate new commercial income for the Trust.

The Council has additionally loaned Fulham Palace Trust £250k to provide a cash reserve for the Trust in the event of the trust having a shortfall in income over expenditure. This loan will be repaid to the Council once the Trust makes an annual surplus.

Pooled Budget

The Council has pooled budget arrangement with Central & North West NHS Mental Health Trust for the provision of mental health services and in conjunctions with Central London Clinical Commissioning Group(previously known as NHS Westminster). The provision of services are Adult Learning Disabilities , Older People & Physically Disabled Adults and Substance Misuse. The total budget of £1.2m is funded by CCG 60% and others 40%.

Tri-Borough

The Council has entered into joint working arrangements with neighbouring local authorities, the City of Westminster and the Royal Borough of Kensington and Chelsea. These arrangements are currently referred to as Tri-Borough or Bi-borough and the majority of these arrangements have been implemented since 1 April 2012. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

37. Interest in Companies

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

(i) Lyric Theatre Hammersmith Limited

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of lively arts and theatre management. The Council supplies funding under a funding agreement to enable the company to carry out its charitable objectives. The revenue contributions by the Council were £230k in 2013/14. The latest audited accounts available, those relating to 2012/13, show net assets of £5,118,139 (£ 4,408,122 in 2011/12) and a profit on its activities in that year of £710,017 (£373,658 in 2011/12). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

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

(ii) Hammersmith and Fulham Urban Studies Centre

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are the advancement of environmental education at all levels, particularly in the London Borough of Hammersmith and Fulham. The Council is the main source of grant funding for the charity. The contributions by the Council were £29,675 in 2013/14. The charity's latest audited accounts available, those relating to 2012/13 show net assets worth £68,585 (£68,270 in 2011/12). A net surplus of £315 has been reported for 2012/13 (£828 in 2011/12). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

37. Interest in Companies (cont'd)

(iii) Hammersmith & Fulham Bridge Partnership (HFBP)

HFBP is a joint venture between Agilisys (80.1%) and the council (19.9%). Although HFBP has been included in the Group Accounts of the Council as an Associate of the Council in previous years, the issue of materiality was considered and the conclusion was that inclusion would not make a material difference to the usefulness of the Statement of Accounts for readers. The contract between HFBP and the Council is for ten years and commenced on 1st November 2006. HFBP provides IT services to the Council and provides significant capital investment in a range of projects.

The management accounts for the year 2013/14 showed total net assets of £735k (£578k net assets in 2012/13 audited accounts) with a profit before tax of £158,531(£41k in 2012/13 audited accounts) of which 19.9% would apply to the Council’s Group accounts if these had been prepared. Copies of HFBP accounts may be obtained from HFBP, 2nd Floor, 26-28 Hammersmith Grove, Hammersmith, London, W6 7AW.

(iv) Joint Venture

HFS Developments LLP is a joint venture between the Council (50%) and Stanhope Plc (50%) was incorporated on 27 March 2014. The council has loaned £500k to the joint venture to enhance their working capital.

38. Contingent Assets and Contingent Liabilities

Contingent Assets

Discounted Market Sale Units

The Council has negotiated various Section 106 agreements that will deliver affordable housing. These agreements allow the Council to retain an equity share of 30% or more on properties that are being sold at a discount at various sites in the borough. The total number of such properties currently stands at 330 units with an estimated valuation of £140m. This represents a potential asset to the Council of £54m based on the its equity share, however, this is subject to market fluctuations. The owners of such properties can request to buy the retained equity share from the Council, such a purchase would realise additional capital resources for the Council which can be invested in affordable housing projects, but the level and timing of such resources is uncertain. The estimation methodology has been updated from previous years to take account of a significant increase in observed sales in 2013/14 (contingent assets crystallising). This represents an increased probability that further sales will occur and also provides a clearer indication in estimating the value of the overall contingent asset base.

Contingent Liabilities

Litigations and claims

The council has a number of litigations and claims that were ongoing as at the 31st March 2014 but their outcome is not yet determined.

	2013/14 £'000 (Est)
	6,750
Total Litigations and claims	**6,750**

The council is involved in a number of claims. These cases remain as Contingent Liabilities. If the council is unsuccessful in these claims, then the council may be liable to pay damages, interest and costs. All the above litigations are prudent estimates of the potential cost to the council. It is not possible, due to considerations of legal privilege to either provide further information or to give an assessment of the likelihood of success of any of the litigations.

39. Trust Funds

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

	2013/14 £000	**2012/13 £000**
Balance at 1st April	**(5,399)**	**(5,571)**
Income	(639)	(546)
Sub total	**(6,038)**	**(6,117)**
Less:		
Expenditure and Transfers	718	718
Balance at 31 March	**(5,320)**	**(5,399)**

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account
Housing Revenue Account
Pension Fund Account

Collection Fund Account

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

	2013/14			2012/13			
	Business Rates	**Council Tax**	**Total**	**Business Rates**	**Council Tax**	**Total**	
	£000	£000	£000	£000	£000	£000	Notes
Income							
Council Tax Collectable	-	(75,716)	(75,716)	-	(73,635)	(73,635)	1
Add: Council Tax Benefits	-	-	-	-	(15,481)	(15,481)	
Business Rates Collectable	(186,250)	-	(186,250)	(167,777)	-	(167,777)	2
Business Rate Supplement Collectable	(5,822)	-	(5,822)	(5,557)	-	(5,557)	
Transitional Protection Payment	(1,506)	-	(1,506)	-	-	-	
Total Income	**(193,578)**	**(75,716)**	**(269,294)**	**(173,334)**	**(89,116)**	**(262,450)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	82,101	-	82,101	-	-	-	
LB Hammersmith & Fulham	49,261	51,458	100,719	-	62,575	62,575	
Greater London Authority	32,840	20,572	53,412	-	24,564	24,564	
Payment to the national pool	-	-	-	167,139	-	167,139	2
Business Rate Supplement							
Payment to the Greater London Authority	5,796	-	5,796	5,586	-	5,586	2
Cost of collection	26	-	26	30	-	30	
Charges to Collection Fund							
Write-offs of uncollectable amounts	2,031	742	2,773	-	2,086	2,086	
Increase/ (Decrease) in Bad Debt Provision	1,935	382	2,317	-	(1,013)	(1,013)	
Increase/ (Decrease) in Provision for Appeals	39,083	-	39,083	-	-	-	
Cost of collection	574	-	574	579	-	579	
Total Expenditure	**213,647**	**73,154**	**286,801**	**173,334**	**88,212**	**261,546**	
Movement on Fund balance	**20,069**	**(2,562)**	**17,507**	**-**	**(904)**	**(904)**	
(Surplus)/Deficit as at 1 April	-	(1,094)	(1,094)	-	(190)	(190)	
(Surplus)/Deficit as at 31 March	**20,069**	**(3,656)**	**16,413**	**-**	**(1,094)**	**(1,094)**	3

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2013/14 it was calculated as follows:

Band	Number of Dwellings 2013/14	Total after Exemptions, Disregards and Disabled Relief	Ratio to Band D	Band D Equivalent Properties	Adjustments for Council Tax Support	Other Adjustments to the Valuation List	Total Band D equivalents 2013/14	Band D equivalents 2012/13
A	3,413	2,691.25	6/9	1,794	(981)	49	862	1,732
B	5,588	4,513.25	7/9	3,510	(1,853)	153	1,810	3,490
C	14,080	11,333.00	8/9	10,074	(3,657)	163	6,580	9,922
D	23,899	20,171.25	1	20,171	(4,331)	401	16,241	19,879
E	14,650	12,793.75	11/9	15,637	(2,235)	253	13,655	15,600
F	8,851	7,825.75	13/9	11,304	(900)	201	10,605	11,367
G	10,533	9,554.50	15/9	15,924	(417)	507	16,014	15,946
H	2,049	1,877.50	18/9	3,755	(10)	123	3,868	3,702
Total	**83,063**	**70,760.25**		**82,169**	**(14,384)**	**1,850**	**69,635**	**81,638**

The 2013/14 Council Tax Base after allowing for adjustments for non collection was 67,895.

The significant difference in Band D Equivalents (and thus Council Tax Base) between 2012/13 and 2013/14 is largely due to the impact of the calculation for the new Council Tax Support Scheme. Residents that used to receive council tax benefit will now receive a council tax discount. This reduces the taxbase.

The Council set a 2013/14 Band D charge of £757.90 (a reduction of 3% from 2012/13), the GLA's Band D charge for 2013/14 was £303.00 making a total Band D Council Tax charge for 2013/14 of £1,060.90.

2. Non-Domestic Rates (NDR)

NDR is organised and administered on a national basis. The council collects non-domestic rates for its area that are based on local rateable values multiplied by a uniform rate (set by the Government). The Non Domestic Rateable Value at 31 March 2014 was £450.372m (£447.156m as at 31 March 2013). The standard NDR multiplier for 2013/14 was 47.1 pence (45.8 pence in 2012/13). The Small Business Rate Relief multiplier for 2013/14 was 46.2 pence (45.0 pence in 2012/13).

The Council is responsible for collecting rates due from ratepayers in its area but until 31 March 2013 it paid the proceeds into an NDR pool administered by the Government. The Government redistributed the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of the population. On 1 April 2013 the Government introduced a new local government funding regime, the Business Rates Retention Scheme. This removed the national pool and instead allows councils to retain a set proportion of business rates collected (reflected as a precept) subject to set baselines and limits. The remainder of business rates collected are paid as precepts to the Government (CLG) and the Greater London Authority (GLA).
The council is also required to collect a Business Rate Supplement (BRS) from NNDR taxpayers. This BRS is then paid over to Greater London Authority (GLA) who have responsibility for applying it to the Crossrail project across London.

3. Collection Fund Balance

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

	2013/14			2012/13		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	6,021	(2,603)	3,418	-	(786)	(786)
Greater London Authority	4,014	(1,053)	2,961	-	(308)	(308)
Central Government (CLG)	10,034	-	10,034	-	-	-
	20,069	**(3,656)**	**16,413**	**-**	**(1,094)**	**(1,094)**

Housing Revenue Account (HRA)

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

HRA Income and Expenditure Statement

	Notes	2013/14 £000	2012/13 £000
Income			
Dwelling Rents		(64,514)	(60,629)
Non-dwelling rents		(2,314)	(2,585)
Charges for services and facilities		(9,788)	(15,843)
Contributions towards expenditure		(692)	(934)
Reimbursement of Costs		(30)	-
HRA Subsidy receivable		-	(226)
		(77,338)	**(80,217)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		12,841	12,881
Supervision and management		23,072	28,250
Special Services		6,781	8,501
Rents, rates, taxes and other charges		233	275
Depreciation and impairment of non-current assets	7	14,398	16,149
Depreciation and impairment of non-current assets - dwelling revaluation	7	(188,313)	-
Debt management costs		67	125
Movement in the allowance for bad debts		1,258	691
Revenue Expenditure Funded from Capital Under Statute		1	60
		(129,662)	**66,932**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**(207,000)**	**(13,285)**
HRA services' share of Corporate and Democratic Core		297	297
HRA services' share of Non Distributed Costs		(1,186)	462
Net (Income)/Cost for HRA Services		**(207,889)**	**(12,526)**
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
(Gain)/loss on sale of HRA non-current assets		(51,168)	(19,630)
Income and expenditure in relation to investment properties and changes in their fair value		(5,101)	(304)
Interest payable and similar charges		11,948	12,180
Amortisation of Premiums and Discounts		-	-
Interest and investment income		(286)	(292)
Pensions interest cost and expected return on pensions assets		-	(580)
Net interest on the net defined benefit liability (asset)		2,257	
Capital grants and contributions		(803)	(5,212)
Other Operating Income		-	-
(Surplus)/deficit for the year on HRA services		**(251,042)**	**(26,364)**

Movement on the HRA Statement

	Notes	2013/14 £000	2012/13 £000
Balance on the HRA at the end of the previous year		**(4,263)**	**(5,030)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(251,042)	(26,364)
Adjustments between accounting basis and funding basis under statute	1	240,558	23,567
Net (increase)/decrease before transfers to/(from) reserves		(10,484)	(2,797)
Transfers to/(from) reserves			
Major Repairs Reserve		-	-
Earmarked Reserves*		7,253	3,564
(Increase)/decrease in year on the HRA		**(3,231)**	**767**
Balance on the HRA at the end of the current year		**(7,494)**	**(4,263)**

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

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

	2013/14 £000	2012/13 £000
Charges for depreciation of non-dwellings	(397)	(443)
Charges for depreciation of dwellings	14,001	15,350
Reversal of Major Repairs Allowance credited to the HRA	(11,888)	(15,034)
Impairment/Revaluation gains & losses (charged to the I&E)	188,313	(356)
Revenue expenditure funded from capital under statute (REFCUS)	(1)	(60)
Movements in the market value of investment properties	-	(940)
Capital Funding	803	5,212
Gain or loss on sale of HRA non-current assets	51,170	19,630
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(86)	5
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(19)	98
HRA share of contributions (to)/from the Pensions Reserve	(1,338)	105
	240,558	**23,567**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2013/14 was 12,561. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents;

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2013	12,641	90	13	12,744
Adjustment to opening balance	-	-	-	-
Additions	3	-	-	3
Sales	(164)	-	-	(164)
Number at 31 March 2014	**12,480**	**90**	**13**	**12,583**

3. Stock Valuation

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

	31 March 2014 £000	31 March 2013 £000
Operational Assets		
Housing Dwellings	1,095,966	886,340
Other Land and Buildings	10,242	9,471
Vehicles, Plant, Equipment	1,778	325
Intangible Assets	582	132
Non Operational Assets		
Surplus Assets	4,430	3,954
Investment Properties	52,298	47,539
	1,165,296	**947,761**

The open market, vacant possession fair value of houses and flats within the HRA as at 1 April 2013 was £3.917 billion. One hostel was revalued in 2013/14. This compares to the balance sheet value of £980 million for the Council's dwelling stock and hostels as at 1 April 2013. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Major Repairs Reserve

This reserve is credited with the depreciation charged to the HRA each year plus an adjustment to ensure the net credit in the year equals the Major Repairs Allowance (which from 2012/13 is a notional calculation.) This then functions as an earmarked fund which is used to support capital spending on Council dwellings.

	2013/14 £000	2012/13 £000
Balance as at 1 April	(5,707)	-
Depreciation Charges to HRA	(14,001)	(15,350)
Adjusting transfer from HRA:		
Depreciation on Non-Dwellings	(397)	-
Excess/(Shortfall) of Depreciation on Dwellings over MRA	(1,716)	(315)
Funding of Capital Expenditure	15,153	9,958
Balance as at 31 March	**(6,668)**	**(5,707)**

5. Capital Expenditure Financing

	2013/14 £000	2012/13 £000
Borrowing	-	-
Major Repairs Reserve	15,153	9,958
Other Grants and Contributions	1,645	5,212
Capital Receipts	4,537	10,679
Total	**21,335**	**25,849**

6. Capital Receipts

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

	2013/14 £000	2012/13 £000
Dwelling & Hostels	(53,353)	(40,803)
Non-Dwellings	(17,114)	-
Total	**(70,467)**	**(40,803)**

7. Depreciation, Revaluation and Impairment

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

	2013/14 £000	2012/13 £000
Operational Assets		
Depreciation		
Dwellings	14,001	15,350
Other Land and Buildings	221	217
Vehicles, Plant, Equipment and Intangible Assets	176	226
Revaluation Gains and Losses	(188,313)	356
Impairment	-	-
Total	**(173,915)**	**16,149**

8. Rent Arrears and Bad Debt Provisions

Gross rent arrears were as follows:

	2013/14 £000	2012/13 £000
Main Council Stock	5,216	4,247
Hostels	488	457
Total	**5,704**	**4,704**

Bad debt provisions at 31 March were:

	2013/14 £000	2012/13 £000
Main Council Stock	(3,683)	(2,421)
Hostels	(467)	(438)
Total	**(4,150)**	**(2,859)**

PENSION FUND ACCOUNTS

Fund Account
Net Assets Statement
Notes to the Pension Fund

Fund Account

	Note	2013/14 £000	2013/14 £000	2012/13 £000	2012/13 £000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,692		23,136	
From Members	6	6,306	28,998	6,445	29,581
Individual Transfers In from other Pension Funds			3,324		1,575
Other Income			34		36
Benefits					
Pensions	7	(26,887)		(26,525)	
Lump Sum Retirement Benefits	7	(4,882)	(31,769)	(5,353)	(31,878)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,325)		(6,149)
Other Expenditure			-		(20)
Administrative Expenses	8		(643)		(632)
Net Additions (Withdrawals) from dealings with members			**(3,381)**		**(7,487)**
Returns on Investments					
Investment Income	9		9,680		9,930
Taxes on Income (Irrecoverable Withholding Tax)			(170)		(131)
Profit and losses on disposal of investments and changes in value of investments					
Realised	12		33,428		12,206
Unrealised	12		4,091		73,595
Investment Management Expenses	10		(4,905)		(2,667)
Net Returns on Investments			**42,124**		**92,933**
Net Increase (Decrease) in the Net Assets available for benefits during the year			**38,743**		**85,446**
Opening Net Assets of the Scheme			**724,086**		**638,640**
Closing Net Assets of the Scheme			**762,829**		**724,086**

Net Assets Statement

	Note	31 March 2014	31 March 2013
		£000	£000
Investment Assets			
Index Linked Securities	13	26,286	23,755
Equities	13	320,772	297,086
Pooled Investment Vehicles	13	399,886	387,107
Commodities	13	1,890	3,585
Derivative contracts - Forward Foreign Exchange	13	260	-
Cash Deposits	13	17,027	12,909
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13	542	1,223
Investment Income Due	13	752	760
Investment Liabilities			
Derivative contracts - Forward Foreign Exchange	13	(96)	-
Amounts Outstanding on Purchase of Investments	13	(2,425)	(750)
Net Investment Assets	13	**764,894**	**725,675**
Current Assets	20	278	199
Current Liabilities	21	(995)	(1,114)
Cash Balances		(1,348)	(674)
Net assets of the Fund available to fund benefits at the period end.		**762,829**	**724,086**

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

Notes to the Pension Fund Accounts

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

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

The Fund is governed by the Superannuation Act 1972 and during 2013/14 was administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

From 1st April 2014, the Local Government Pension Scheme Regulations 2013 are effective changing the scheme from a final salary scheme to a career average revalued earnings based scheme. All benefits payable on service from 1st April 2014 onwards will be based on the average of each year of salary revalued in line with the Consumer Price Index.

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

b) Audit, Pensions and Standards Committee

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

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

c) Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund.

The Committee approved a Statement of Investment Principles on 28th June 2012 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myner's principles of investment management.

http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%20June%202012_tcm21-174597.pdf

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

d) Membership

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

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table is a membership summary of the scheme:

	31 March 2014	31 March 2013
Contributing employees	3,963	3,782
Pensioners receiving benefit	4,463	4,379
Deferred Pensioners	5,785	5,546

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

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND (cont'd)

e) Tri-Borough Working

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that has joined together has been the Treasury and Pension teams of the three boroughs.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster's offices.

The Pension Funds and Treasury operations will continue to be managed separately in accordance with Government Regulations and the current strategies agreed by the home boroughs who will continue to have sovereignty over decision making.

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the fund's transactions for 2013/14 and its position at year-end as at 31st March 2014. The accounts have been prepared in accordance with IAS 26 and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. IAS 26 gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report, prepared for this purpose. The authority has opted to disclose this information in an accompanying report to the accounts which is discussed in Note 19.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

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

b) Transfers to and from other schemes

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

c) Investment Income

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

Fund Account - Expense Items

d) Benefits Payable

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

e) Taxation

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Administration Expenses

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

(g) Investment Management Expenses

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

Net Assets Statement

(h) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and Fixed Interest Securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by Northern Trust, the fund’s custodian and Pooled Investment Vehicles at the published bid prices or those quoted by their managers.

The values of the investment in Private Equity fund of funds are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

i) Derivatives

The only derivatives held by the Fund are Forward Foreign Exchange contracts. Forward Foreign Exchange contracts are valued by establishing the gain or loss that would arise on closing out the contract at the accounting date by entering into an equal and opposite contract on that date.

j) Foreign Currency Transactions

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into Sterling at the rates of exchange ruling at the reporting date.

k) Cash and Cash Equivalents

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

l) Financial Liabilities

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

m) Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice on Local Authority Accounting sets out that the actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post Employment Benefits and relevant actuarial standards. As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the financial statements include a report from the Actuary by way of disclosing the actuarial present value of retirement benefits. This report is published with these accounts and summarised in Note 19.

n) Additional Voluntary Contributions

Members of the Fund may choose to make additional voluntary contributions (AVCs) into a separate scheme run by Zurich Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included within the accounts in accordance with the relevant regulations. They are disclosed in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

o) Recharges from the General Fund

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

NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are on the basis of best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

a) Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary, with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 18. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

b) Unquoted Private Equity Investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

NOTE 5. EVENTS AFTER THE BALANCE SHEET

The market value of the investments varies over time depending on the performance of the markets, as discussed in Note 17. At 31st July 2014 the value of the investments had risen to £777m.

A further significant event took place at the end of August when the fund manager at the Barings Dynamic Asset Allocation Fund announced his resignation. Following the advice of the Fund's advisers, this holding was sold.

NOTE 6. CONTRIBUTIONS RECEIVABLE

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make balancing contributions determined by the Fund's actuary to maintain the solvency of the Fund.

The table below shows a breakdown of the total amount of employers' and employees' contributions made during the year by the Council and each scheduled and admitted body.

	Employers'		Employees'	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
LB Hammersmith and Fulham	18,854	19,923	5,008	5,507
LBHF Councillors	40	38	18	17
Sub-Totals Administering Authority	**18,894**	**19,961**	**5,026**	**5,524**
Mortlake Crematorium Board	59	53	16	14
London Oratory School	115	105	51	46
Burlington Danes Academy	119	113	55	52
Hammersmith Academy	118	64	32	30
Conway Academy	18	8	4	2
West London Free School	70	33	18	9
Bentworth Academy	39	22	10	6
Lady Margaret Academy	143	65	36	18
Sacred Heart High School	134	101	34	29
Fulham College Academy Trust	347	27	93	8
Bridge Academy	132	0	33	0
Swift Ark Academy	46	0	12	0
Lena Gardens Academy	3	0	1	0
Sub-Totals Scheduled Bodies	**1,343**	**591**	**395**	**214**
F M Conway Ltd	49	61	16	21
Urban Partnership Group	38	51	10	14
H&F Community Law Centre	0	6	0	2
Family Mosaic	67	86	22	27
Disabilities Trust	2	4	1	1
Thames Reach	6	6	2	2
Medequip Assistive Technology	7	9	2	2
Eden Food Service	240	256	79	79
Fulham Palace Trust	41	41	12	12
Family Mosaic Supporting People	11	15	5	6
Glencross Cleaning Ltd	3	3	1	1
Inspace Partnerships Ltd	35	59	11	19
H & F Bridge Partnership	297	938	121	134
Kier	81	138	25	43
Kier - Non HRA Contract	2	4	1	2
P H Jones Ltd	3	5	1	2
Irish Cultural Centre	(1)	6	0	1
E C Harris LLP	11	7	4	2
Crime Reduction Initiatives	2	5	1	2
Quadron	240	240	68	68
Serco	472	481	205	210
Tendis	7	21	2	6
Turners	53	120	17	43
ETDE Infrastructure	24	22	8	8
3BM	183	0	68	0
Pinnacle Housing Services	80	0	30	0
Pinnacle Estate Services	211	0	72	0
Mitie Property Services Ltd	118	0	44	0
Amey Community Limited	173	0	57	0
Sub-Totals Admitted Bodies	**2,455**	**2,584**	**885**	**707**
Grand Totals	**22,692**	**23,136**	**6,306**	**6,445**

NOTE 7. BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable.

	Pensions		Lump Sum Retirement Benefits		Lump Sum Death Benefits	
	2013/14 £000	**2012/13 £000**	**2013/14 £000**	**2012/13 £000**	**2013/14 £000**	**2012/13 £000**
LBHF	(26,100)	(25,809)	(3,984)	(4,753)	(443)	(331)
Councillors	(1)	(1)	0	0	0	(19)
Sub-Totals Administering Authority	**(26,101)**	**(25,810)**	**(3,984)**	**(4,753)**	**(443)**	**(350)**
Mortlake Crematorium Board	(47)	(45)	0	0	0	(17)
London Oratory School	(8)	(2)	(33)	(15)	0	0
Burlington Danes Academy	(28)	(19)	0	0	0	0
Sub-Totals Scheduled Bodies	**(83)**	**(66)**	**(33)**	**(15)**	0	**(17)**
H&F Community Law Centre	(44)	(45)	(1)	(33)	0	0
H&F Police Consultative Group	(7)	(7)	0	0	0	0
ROOM the National Council	(5)	(6)	0	0	0	0
Family Mosaic	(128)	(117)	(25)	(5)	0	0
Greenwich Leisure Ltd	(3)	(3)	0	0	0	0
Blythe Neighbourhood Council	(2)	(1)	0	0	0	0
Inspace Partnerships Ltd	(48)	(46)	(47)	0	0	0
Kier	(4)	(1)	(39)	(10)	0	0
Turners	(18)	(14)	(19)	(37)	(8)	0
Urban Partnership Group	(2)	(3)	0	0	0	0
Disabilities Trust	0	(9)	0	(2)	0	0
EC Harris LLP	(12)	(12)	0	0	0	0
Eden Food Service	(19)	(18)	0	(11)	0	(71)
F M Conway Ltd	(21)	(16)	(71)	0	0	0
H & F Bridge Partnership	(273)	(256)	(135)	0	0	0
Quadron	(32)	(31)	0	0	0	0
Serco	(85)	(64)	(66)	(49)	(11)	0
Sub-Totals Admitted Bodies	**(703)**	**(649)**	**(403)**	**(147)**	**(19)**	**(71)**
Grand Totals	**(26,887)**	**(26,525)**	**(4,420)**	**(4,915)**	**(462)**	**(438)**

NOTE 8. ADMINISTRATIVE EXPENSES

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

	2013/14 £000	**2012/13 £000**
Provision of Pension Administration	(315)	(407)
Support Services including IT	(258)	(179)
External audit fees	(21)	(21)
Actuarial fees	(39)	(22)
Other fees	(10)	(3)
	(643)	**(632)**

NOTE 9. INVESTMENT INCOME

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

	2013/14 £000	**2012/13 £000**
Dividends from Equities	9,393	8,774
Income from Index-Linked Securities	226	232
Interest on Cash Deposits	34	133
Private Equity/Other	27	449
Currency profit/loss	0	342
Total	**9,680**	**9,930**

NOTE 10. INVESTMENT MANAGEMENT EXPENSES

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

	2013/14 £000	2012/13 £000
Management fees	(4,698)	(2,518)
Custody and performance monitoring fees	(124)	(110)
Investment consultancy	(58)	(39)
Other	(25)	0
	(4,905)	**(2,667)**

Of the management fees in 2013/14, a total of £1,550k was in respect of performance fees (£218k in 2012/13).

NOTE 11. INVESTMENT STRATEGY

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

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

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

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

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

	31 March 2014		31 March 2013	
	Market Value £000	Total %	Market Value £000	Total %
Majedie Asset Management	207,054	27.1	173,322	23.8
MFS International (UK) Ltd	182,013	23.8	171,675	23.7
Baring Asset Management Ltd	125,250	16.4	123,116	17.0
Ruffer LLP	81,302	10.6	79,910	11.0
Goldman Sachs Asset Management	65,248	8.5	62,919	8.7
Legal and General Investment Management	92,585	12.1	101,397	14.0
Invesco Private Equity	6,221	0.8	7,265	1.0
Unigestion Private Equity	5,221	0.7	6,071	0.8
	764,894	**100.0**	**725,675**	**100.0**

The Committee has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. The bank account for the Pension Fund is also held with Northern Trust. Northern Trust has an issuer credit rating of AA- with both Fitch and S&P rating's agencies and A1 with Moody's.

NOTE 12. RECONCILIATION OF MOVEMENT IN INVESTMENTS

The table below shows a reconciliation of the movement in the total investment assets of the Fund by fund manager during 2013/14:

	Value at 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	**Value at 31 March 2014**
Fund Manager	£000	£000	£000	£000	£000
Majedie Asset Management	169,017	55,759	(55,301)	33,226	**202,701**
MFS International (UK) Ltd	169,995	55,855	(53,374)	7,608	**180,084**
Baring Asset Management Ltd	123,116	123	(560)	2,571	**125,250**
Ruffer LLP	72,406	29,464	(29,932)	27	**71,965**
Goldman Sachs Asset Management	62,916	-	(15)	2,329	**65,230**
Legal and General Investment Management	101,396	-	-	(8,812)	**92,584**
Invesco Private Equity	6,714	43	(1,084)	351	**6,024**
Unigestion Private Equity	5,973	325	(1,232)	94	**5,160**
Sub-total	**711,533**	**141,569**	**(141,498)**	**37,394**	**748,998**
Cash Deposits	12,909			(35)	**17,027**
<u>Other Investment Balances</u>					
Investment Income due	760			155	**752**
Pending trade purchases	(750)			7	**(2,425)**
Pending trade sales	1,223			(2)	**542**
Totals	**725,675**	**141,569**	**(141,498)**	**37,519**	**764,894**

The equivalent analysis for 2012/13 is provided below:

	Value at 1 April 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	**Value at 31 March 2013**
Fund Manager	£000	£000	£000	£000	£000
Majedie Asset Management	160,140	45,447	(61,369)	24,799	**169,017**
MFS International (UK) Ltd	165,100	54,424	(70,828)	21,299	**169,995**
Baring Asset Management Ltd	114,060	114	-	8,942	**123,116**
Ruffer LLP	36,746	60,588	(31,768)	6,839	**72,406**
Goldman Sachs Asset Management	59,637	-	(2)	3,281	**62,916**
Legal and General Investment Management	81,804	-	-	19,592	**101,396**
Invesco Private Equity	7,600	122	(1,853)	845	**6,714**
Unigestion Private Equity	5,530	570	(343)	216	**5,973**
Barings English Growth Fund	12	-	-	(12)	**0**
Sub-total	**630,629**	**161,265**	**(166,163)**	**85,801**	**711,533**
Cash Deposits	8,366				**12,909**
<u>Other Investment Balances</u>					
Investment Income due	1,470				**760**
Pending trade purchases	(127)				**(750)**
Pending trade sales	1,042				**1,223**
TOTAL	**641,380**	**161,265**	**(166,163)**	**85,801**	**725,675**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £486,770 (£499,743 in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

NOTE 13. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. All investments are quoted unless stated.

	31 March 2014		31 March 2013	
Designated at fair value through Profit and Loss	**£000**	**£000**	**£000**	**£000**
United Kingdom				
Index Linked Securities - Public Sector		13,889		14,398
Equities		97,204		88,668
Pooled Investment Vehicles				
Managed Fund - Majedie UK Equity Funds	95,598		76,981	
Managed Fund - L & G LDI Bespoke Fund	92,584		101,396	
Managed Fund - Goldman Sachs Libor Plus 1 Fund	65,230		62,916	
Managed Fund - Baring Dynamic Asset Allocation Fund	125,250		123,116	
Managed Fund - Ruffer Illiquid Strategies Fund of Funds	3,129		3,487	
Managed Fund - Ruffer Baker Steel Gold Fund	550		1,030	
Managed Fund - Ruffer Mid & Smaller Companies Fund	567		443	
Managed Fund - Ruffer Protection Strategies International Fund	757	383,665	463	369,832
Commodities - Gold Bullion Securities 0% Undated Notes		1,890		3,585
Total United Kingdom		**496,648**		**476,483**
Overseas				
Index Linked Securities - Public Sector		12,397		9,357
Equities				
North America	119,409		111,824	
Japan	11,672		14,695	
Europe (ex UK)	69,062		57,533	
Pacific Basin	11,258		11,260	
Other	12,167	223,568	13,106	208,418
Pooled Investment Vehicles				
Managed Fund - Dynamic Investment Fund	403		621	
Managed Fund - Ruffer Japanese Fund	3,096		2,672	
Managed Fund - Red Kite Compass Fund	1,058		865	
Managed Fund - Ruffer Global Smaller Companies Fund	480		430	
Managed Fund - Private Equity (Unquoted)				
Invesco - North America	6,024		6,714	
Unigestion - Europe	5,160	16,221	5,973	17,275
Derivative contracts - Forward Foreign Exchange		260		-
Total Overseas		**252,446**		**235,050**
Other Investment Balances				
Amounts outstanding on Sale of Investments *	542		1,223	
Investment Income Due *	752	1,294	760	1,983
Loans and Receivables				
Cash Deposits	17,027		12,909	
Contributions due from Employers	181		123	
Contributions due from Members	63		43	
Combined Benefits	34	17,305	33	13,108
Financial Liabilities designated as fair value through profit and loss				
Derivative contracts - Forward Foreign Exchange	(96)		-	
Amounts outstanding on Purchase of Investments **	(2,425)	(2,521)	(750)	(750)
Financial Liabilities at Amortised Cost				
Unpaid Benefits	(277)		(256)	
Investment Management Expenses	(710)		(855)	
Administration Expenses	(8)		(3)	
Cash Balances	(1,348)	(2,343)	(674)	(1,788)
Net assets of the scheme available to fund benefits at the period end		**762,829**		**724,086**

* The classification of these assets has been corrected from Loans and Receivables at 31st March 2013 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost at 31st March 2013 to Financial Liabilities designated through profit and loss.

NOTE 13. CLASSIFICATION OF FINANCIAL INSTRUMENTS (cont'd)

Investments exceeding 5% of net assets

The table below shows the Fund investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

	2013/14 £000	2013/14 %	2012/13 £000	2012/13 %
Baring Dynamic Asset Allocation Fund	125,250	16.4	123,116	17.0
Legal & General LDI Bespoke Fund	92,584	12.1	101,396	14.0
Majedie UK Focus Fund	68,030	8.9	54,616	7.5
Goldman Sachs Libor plus 1 Fund	65,230	8.6	62,916	8.7

Analysis of Derivatives

The Pension Fund investment managers use forward foreign exchange contracts to reduce currency risk when undertaking investment transactions in foreign currencies. This is in line with their investment management agreements with the Fund. The Fund held no other types of derivative at 31 March 2014 or 31 March 2013.

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	USD	261	EUR	(190)		(1)
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	6	GBP	(5)	0	
Up to one month	EUR	44	GBP	(36)	0	
Up to one month	EUR	28	GBP	(23)	0	
Up to one month	EUR	1	GBP	(1)	0	
Up to one month	EUR	14	GBP	(12)	0	
Up to one month	JPY	34,485	GBP	(203)		(2)
Up to one month	JPY	35,246	GBP	(208)		(2)
Up to one month	GBP	11,781	JPY	(2,002,000)	119	
Up to one month	JPY	186,600	GBP	(1,090)		(3)
Up to one month	JPY	109,800	GBP	(640)		(1)
Up to one month	JPY	543,607	GBP	(3,212)		(46)
Up to one month	GBP	698	JPY	(117,300)	15	
Up to one month	JPY	204,300	GBP	(1,199)		(8)
Up to one month	JPY	315,792	GBP	(1,867)		(28)
One to three months	GBP	5,967	USD	(9,800)	86	
One to three months	EUR	688	GBP	(575)		(5)
One to three months	GBP	4,275	EUR	(5,120)	40	
					260	(96)

Net forward foreign exchange contracts at 31 March 2014 **164**

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the Book Cost of the financial assets and financial liabilities by class of instrument compared with their Market Values (Fair Value).

	31 March 2014		31 March 2013	
	Market £000	Book Cost £000	Market £000	Book Cost £000
Financial Assets				
Designated at fair value through Profit and Loss				
Investment Assets	749,094	586,185	711,533	552,555
Amounts outstanding on Sale of Investments *	542	544	1,223	1,223
Investment Income Due *	752	752	760	760
Loans and Receivables				
Cash Deposits	17,027	17,027	12,909	12,909
Debtors	278	278	199	199
Financial Liabilities				
Designated at fair value through Profit and Loss				
Investment Liabilities	(96)	(96)	-	-
Amounts outstanding on Purchase of Investments **	(2,425)	(2,432)	(750)	(750)
Financial Liabilities at Amortised Cost				
Creditors	(995)	(995)	(1,114)	(1,114)
Cash Overdrawn	(1,348)	(1,348)	(674)	(674)
Total Value of Investments	**762,829**	**599,915**	**724,086**	**565,108**

* The classification of these assets has been corrected from Loans and Receivables in 2012/13 to Financial Assets designated through profit and loss.

** The classification of this asset type has been corrected from Financial Liabilities at amortised cost in 2012/13 to Financial Liabilities designated through profit and loss.

NOTE 15. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2014, the Fund had a commitment to invest a further £1.3million in two of the private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next two to three years.

NOTE 16. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

NOTE 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund’s liabilities are sensitive to inflation through pension and pay increases, interest rates and mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the relevant gilt yields.

For this reason, the benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" is calculated based on the movement of a selection of index-Linked gilts, which most closely match the Fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4% 2017, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

a) Market Risk

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

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

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

Price Risk

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

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

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non sterling transactions. This reduces the overall currency risk the Fund is exposed to.

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The fund has immediate access to its cash holdings.

The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments. As at 31 March 2014 the balance on this facility stood at £1.908m. These borrowings are of a limited short term nature.

NOTE 18. FUNDING ARRANGEMENTS

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the fund's actuary, as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 28 March 2014 and this is available on the Council's website. This valuation set the employer contribution rates from 1st April 2014. The employer contributions in these financial statements were set at the valuation as at 31st March 2010.

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

Introduction

The last full triennial valuation of the London Borough of Hammersmith and Fulham ("LBHF") Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2014.

The most recent full actuarial valuation of the Fund was at 31 March 2013 and the results were published in March 2014. This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows

- The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £148m which is lower than the deficit at the previous valuation in 2010.

- To cover the cost of new benefits and to also pay off the deficit over a period of 22 years, a total contribution rate of 21.9% of pensionable salaries would be needed.

- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

	31st March 2014	31st March 2013
Discount Rate	6.1%	6.0%
Pension Increases	2.8%	2.7%
Salary Increases	2.8% until 31 March 2015 then 4.6% p.a.	2.7% until 31 March 2015 then 4.5% p.a.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced.	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash.	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the assets used was £716m and this has increased over the year to an estimated £767m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 86% which is an improvement on the position at 31 March 2013.

The assets have given a return of 6% over the year, which was in line with expected at the 2013 valuation. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Mark Norquay FFA
Associate, Barnett Waddingham
23 May 2014

NOTE 19. ACTUARIAL PRESENT VALUE OF PROMISED BENEFITS

The table below shows the total net liability of the Fund as at 31st March 2014. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the required information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

	31st March 2014 £000	31st March 2013 £000
Present Value of Promised Retirement Benefits*	1,171,751	1,171,217
Fair Value of Scheme Assets (bid value)	(762,829)	(725,674)
Net Liability	**408,922**	**445,543**

*Present Value of Promised Retirement Benefits comprises of £1,124,662,000 (£984,337,000 in 2012/2013) and £47,089,000 (£186,880,000 in 2012/2013) in respect of vested benefits and non-vested benefits respectively as at 31 March 2014.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the above table is a summary of the actuary's report and the full report is published alongside the financial statements.

NOTE 20. CURRENT ASSETS

Debtors	31st March 2014 £000	31st March 2013 £000
Contributions due - employers	181	123
Contributions due - employees	63	43
Sundry debtors	34	33
	278	**199**

Analysis of debtors	31st March 2014 £000	31st March 2013 £000
Local authorities	34	-
Central government bodies	-	-
Other entities and individuals	244	199
	278	**199**

NOTE 21. CURRENT LIABILITIES

Creditors	31st March 2014 £000	31st March 2013 £000
Unpaid Benefits	(277)	(256)
Investment Management Expenses	(710)	(855)
Administration Expenses	(8)	(3)
	(995)	**(1,114)**

Analysis of creditors	31st March 2014 £000	31st March 2013 £000
Local authorities	-	-
Central government bodies	-	-
Other entities and individuals	(995)	(1,114)
	(995)	**(1,114)**

NOTE 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although only one employee contributed to the Equitable Life scheme during the year contributing £66.24 for death-in-service benefits.

The total market value of the separately invested AVCs with Equitable Life Assurance at the 5th April 2014 was £223,020. At the year end there were 63 members of the Zurich Assurance AVC scheme. The total value of the contributions paid to Zurich in 2013/2014 was £42,869 and the total market value of the separately invested AVC's with Zurich Assurance at 31 March 2014 was £1,033,490.

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

NOTE 23. RELATED PARTIES

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £506,238 in 2013/14 (£586,213 in 2012/13) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £18,894k in employer contributions to the Fund (2012/13 £19,961k).

During 2013/2014 as a result of the day to day administration of the fund the pension fund borrowed monies from the Council or invested some surplus monies with the Council. The pension fund paid £346 in interest to the Council during 2013/2014 (paid £4,127 in 2012/13). At 31st March 2014 the Council owed the Pension Fund £560,110.

Introduction and purpose of the Annual Governance Statement.

This statement summarises key governance mechanisms and records the significant governance issues that need to be addressed over the coming year.

The purpose of the statement is to enable the Council to meet the requirements of the Accounts & Audit (England) Regulations 2011 to prepare such a statement.

A governance framework has been in place for the year ended 31 March 2014 and remained up to the date of approval of the Statement of Accounts.

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

The Governance framework.

The governance framework enables the Council to monitor the achievement of its strategic objectives. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. In order to support good governance, reliance is placed on the Council's governance framework. Further information about transparency and openness in the Council can be found on the Council internet page "Council and democracy".

The annual revenue and capital budgets will be prepared by the Cabinet, consulted upon, reflected in the Forward Plan and then considered and approved by the full Council at the Budget Council meeting in February each year. This sets the level of Council Tax for the forthcoming Municipal Year (April - March).

The Constitution.

The conduct of the Council is defined by formal procedures and rules, which are set out in the Constitution. The Constitution explains the roles and responsibilities of the executive, non-executive, scrutiny and officer functions and the delegation arrangements that are in place. It also contains the Codes of Financial Management and Procurement and the Codes of Conduct for Members' and Employees'.

How do we know our arrangements are working?

To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the governance framework, the basis of which is shown in the diagram below;

Corporate Governance

- Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules)
- Audit Pensions and Standards Committee
- Internal & external audit
- Independent external sources
- Scrutiny function
- Council, Cabinet & Panels
- Medium Term Financial Strategy
- Complaints system
- HR policies & procedures
- Whistleblowing & other countering fraud arrangements
- Risk management framework
- Performance management system
- Codes of conduct

Management Team

- The role of Chief Officers
- Delivery of Council's aims and objectives
- Corporate Planning
- Business, Financial and Commissioning Plans
- Officer codes of conduct
- Performance appraisal
- The role of the Chief Financial Officer
- The role of the Head of Internal Audit
- Roles & responsibilities of Members & Officers
- Timely production of a Statement of accounts
- External and Internal audit reports recommedations
- Review of Corporate Governance

Services are delivered economically, efficiently & effectively

- Management of risk
- Effectiveness of internal controls
- Democratic engagement & public accountability
- Budget & financial management arrangements
- Standards of conduct & behaviour
- Compliance with laws & regulations, internal policies & procedures
- Action plans dealing with significant issues are approved, actioned & reported on
- Local Government Ombudsman report
- Electoral Commission report
- Scrutiny reviews
- Effectiveness reviews of Audit Pensions and Standards Committee & Scrutiny Committees, Internal Audit
- Employee performance
- Budgetary control
- Compliance with the Code of Procurement
- Stakeholder engagement
- Evaluation of benefits gained from investments and projects

The Council

The Council was composed of 46 elected councillors representing 16 wards. The composition of the Council in 2013/14 was:

Conservative 31 Labour 15

How it works

The 46 Councillors are elected every four years. All 46 Councillors meet to take the major budgetary and policy framework decisions. The Council is responsible for the administration of the election process at European, National and Local level. No issues were raised about the conduct of those elections by either a candidate or an elector. All Councillors meet together as the Council. Meetings are normally open to the public. The conduct of the Council's business is defined by formal procedures and rules, which are set out in the Constitution.

Full Council meetings are scheduled to take place normally five times a year. Members of the public are welcome to ask public questions about Council business and policy at Council meetings. Further information about public questions can be found on the Council internet page "Taking part in the democratic process".

The Constitution requires the Council to appoint a Monitoring Officer who, in addition to leading an annual review of the Constitution to ensure it remains fit for purpose, also advises on compliance with the Constitution and ensures that decision making is lawful and fair. The Bi-borough Director of Law has been appointed to this statutory post. The Bi-borough Director of Law has been involved in the production of this statement from its early stages and is satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted from this statement.

In November 2013, interim management arrangements were introduced following the retirement of the Joint Chief Executive. The Council Leader agreed to combine the post of Town Clerk and Executive Director of Finance at the Royal Borough of Kensington and Chelsea with the post of Joint Chief Executive on an interim basis. Nicholas Holgate took up this role in November 2013.

Audit, Pensions and Standards Committee

Seeking assurance

The Audit, Pensions and Standards Committee has responsibility for receiving many reports that deal with issues that are key to good governance. It acts as the Council's audit committee.

Improved arrangements for risk management were noted by the Committee including monitoring of Bi-borough Enterprise Wide risks and approval of a Tri-borough risk management strategy. The background to this has been the development of more formal Bi-borough working on risk, including sharing a Bi-borough Risk Manager with the Royal Borough of Kensington and Chelsea.

Centralised reporting from departments own business, programme and project risks feed into regular reports to the Committee and has helped provide transparency. Risks are also examined in the areas of Finance, Information Management and Technology, Procurement, Counter Fraud, Health and Safety, Insurance and Business Continuity.

Other significant reviews were conducted by the Committee and included;

- Noting continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans;
- Scrutiny of the Council's Annual Governance Statement;
- Review of compliance with the new Public Sector Internal Audit Standards;
- Approval of the 2012-2013 year annual accounts.

When considering governance issues, the Audit, Pensions and Standards Committee raised a number of concerns about shortcomings in control systems and processes.

The most significant of these were:

- Oversight of a number of key issues including the employment of consultants and interims;
- A fraud in relation to business rates;
- Allegations made in respect of a regeneration project.

Action has been taken:

- HM Revenue and Customs have complimented the Council on the effectiveness and efficiency with which it has managed its voluntary disclosure on the employment of consultants and interims and that has led to a £357k back tax payment and £6k penalty for most of the liability over a six year period from 2006 - 2012. An Internal Audit report published in March 2013 confirmed that all the recommendations made in its initial report have been implemented. A follow up audit has since found evidence of non-compliance with the new procedures and therefore a limited assurance has been given on their effectiveness.

- National Non-Domestic Rates are the way businesses and other occupiers of non-domestic property contribute towards the costs of local authority services. The tax is set by the government and collected by us. A serious and material fraud was committed in this area and investigated during the year. The perpetrators have been convicted and robust efforts are being made to recover the monies fraudulently obtained. An audit has since been undertaken confirming that effective controls have now been put in place to manage the risks. The net losses incurred are currently estimated at £2.5 million, subject to further recoveries. Because the losses occurred before the new system of rates retention was put in place, they happen to be borne by central Government – but are no less serious for that. Two people were successfully prosecuted following an investigation into the crime and found guilty on all charges .

- Following allegations made by members of the public in relation to the Earls Court Regeneration Scheme the Committee commissioned an independent investigation into the claims. The report was presented to the Committee in May 2013 and advised that there was no evidence to support the claims made.

Managing finances

The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. The MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3- year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks. The scale of the funding reductions requires the Council to have delivered £61 million in savings over the period 2013/14 to 2015/16, including £23.6 million in savings for 2014/15. This continues to be more challenging than the savings plans the Council has faced in the recent past. The route for delivering this scale of savings is both as an individual authority and the Tri-borough Programme for combining services with the Royal Borough of Kensington and Chelsea and the City of Westminster.

The provisional net under-spend on the General Fund, subject to the final closure of accounts, was £11 million reflecting a 1.5 per cent underspending by departments after agreed carry forwards of budgets to 2014/15 of £8.2 million.

Audit, Pensions and Standards Committee: Key Audit Business

February - May 2013

- Approve the External Audit 2012-2013 Audit Opinion Plan
- Approve the External Audit Certification of Grants and returns 2011-2012
- Approve the 2011-2012 External Audit recommendations and Annual Governance Statement Action Plan progress report.
- Approve the NNDR report from the External Auditor.

June 2013

- Approve the 2012-2013 Annual Corporate Anti-Fraud Service report.
- Approve the 2012-2013 Head of Internal Audit report.
- Approve the quarterly risk management report and the 2013/2016 Tri-borough risk management strategy and Bi-borough risk management service report.
- Approve Approve the External Audit recommendations and Annual Governance Statement Action Plan progress report.
- Approve the 2013-2014 Internal Audit Charter and Strategy Statement.
- Approve the quarterly Internal Audit performance report.

September 2013

- Approve the 2012/2013 Statement of Accounts including the Pension Fund Accounts.
- Approve the External Audit (ISA 260) 2012/2013 Statement of Accounts report.
- Approve the External Audit (ISA 260) 2012/2013 Pension report.
- Approve the 2012- 2013 Annual Governance Statement report.
- Approve the annual review of the code of conduct and arrangements for dealing with complaints report.
- Approve the quarterly risk management report.
- Approve the Internal Audit Quarterly report for the period 1 April to 30 June 2013.
- Approve the Fraud response plan and parameters for prosecutions report.
- Approve the review of discretionery powers report.

December 2013

- Approve the Corporate Health and Safety Management Annual Review.
- Approve the Corporate Anti Fraud Service Report 1 April 2013 to 30 of September 2013
- Approve the Annual Governance Statement Action Plan, Outstanding Recommendations for External Audit and Fraud response Plan
- Approve the quarterly risk management report.
- Approve the Internal Audit Quarterly report for the period 1 July to 30 September 2013.

February 2014

- Approval of the certification of the 2012/2013 Statement of Accounts and Annual Audit Letter report.
- Approval of the certification grants and returns 2012/2013 report.
- Approval of the 2013/2014 Audit Opinion Plan
- Approve the Annual Governance Statement Action Plan, Outstanding Recommendations for External Audit
- Approve the quarterly risk management report.
- Approve the 2014/2015 Internal Audit Plan.
- Approve the Internal Audit Quarterly report for the period 1 October to 31 December 2013.

Effectiveness review of Overview & Scrutiny Panels

An effectiveness review of the Overview & Scrutiny Committees has been undertaken. It is important that Overview & Scrutiny Committees acted effectively as one of their key tasks was to review and challenge the policy decisions taken by Cabinet.

At Hammersmith & Fulham, there were four main scrutiny committees:

- The Overview and Scrutiny Board
- The Education and Children's Services Select Committee
- The Housing, Health and Adult Social Care Select Committee and
- The Transport, Environment and Residents Services Select Committee

The Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised nine elected non-executive Members. Committees may also co-opt members who bring a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees are usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services Select Committee were entitled to vote on education matters. The Overview and Scrutiny Board, which was responsible for coordinating the scrutiny function, included the Chairman of each select committee.

Each Committee receives the list of Key Decisions (a rolling list of key decisions which the Cabinet is planning to take in the coming months) at every meeting, which assists in the development of work programmes and the identification of forthcoming key executive decisions deserving closer scrutiny and input.

Scrutiny Committees also have a wider role in policy development, originating topics of interest and feeding views back to the Cabinet and individual Cabinet Members, Officers, external partners and service providers.

There is more information about scrutiny in Hammersmith & Fulham at www.lbhf.gov.uk/scrutiny

Managing key risks

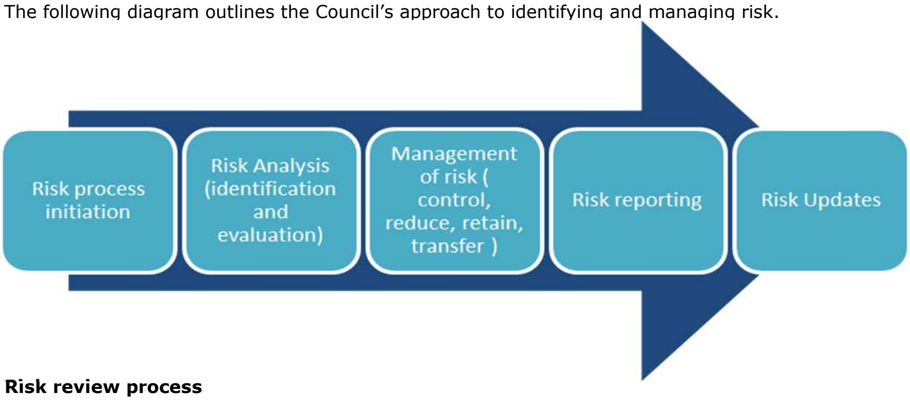
All Councillors and Managers are responsible for ensuring that risk implications are considered in the decisions they take.

Risk Management Strategy

The Council has adopted the Tri-borough risk management strategy. It was reviewed by the Audit, Pensions and Standards Committee in December 2012 to ensure it remains appropriate and reflects the approach the Council wishes to take to the management of risk.

Risk analysis and management must follow a uniform process to ensure consistency and high quality.

The following diagram outlines the Council's approach to identifying and managing risk.



Risk review process

It is recognised by the London Borough of Hammersmith & Fulham, Westminster City Council and the Royal Borough of Kensington and Chelsea, that risk management is an integral part of good governance. Services undergoing substantial changes will continue into 2015 resulting in a variety of business models being used across the three Councils.

The Tri-borough Risk Management Strategy Statement sets out the intended approach to risk management to be used for Tri-borough, Bi-borough and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives.

The aim of each Council is to ensure that:

- risk management becomes a natural component of its management and change processes;
- risks are identified, understood and managed to an acceptable level; and
- opportunities are seized.

This Strategy Statement supports a Tri-Borough Risk Management Policy and its commitment to:

- raise awareness of the benefits of effective risk management;
- adopt and embed a risk aware culture; and
- Establish and maintain a consistent and integrated framework that anticipates and meets the changing needs of the Councils over time and in doing so ensures that risk management arrangements are in accordance with established best practice.

Corporate Anti-Fraud Service

The Council has a Corporate Anti-Fraud Service (CAFS), which is a specialist investigative unit established to investigate allegations of fraud and irregularities, including:

- housing and council tax benefit fraud
- council tax discount fraud
- housing tenancy fraud
- procurement fraud
- payroll and pension fraud
- other kinds of internal fraud, bribery, corruption or money laundering activity.

CAFS's role is to assist the council in protecting the public purse through the facilitation of sound strategies, procedures and controls in the prevention, detection, investigation and deterrence of fraud, corruption and bribery.

The staff in CAFS are either qualified Fraud Investigators and/or Financial Investigators or hold other professional qualifications.

The Council has a range of controls in place to prevent, detect and investigate all types of fraud. We also rely on the vigilance of the local community to help us detect the fraudsters.

Anyone wanting to report a suspected benefit fraud can contact us. All information you give us will be in confidence

- Use the online form to report the fraud
- Call the anti-fraud hotline 020 8753 1273. You do not have to leave your name and all information will be treated confidentially
- Or write to the Corporate Anti-Fraud Service at Hammersmith Town Hall, King Street, Hammersmith W6

2013/14: 14 cases of Fraud were identified of which 7 cases were not proven, 2 staff were disciplined and 5 staff resigned.

Managing the risk of fraud

A 'Whistleblowing' policy is in place. The policy is reviewed annually and updated as and when required to bring it in line with best practice. The Council is committed to the highest standards of quality, probity, openness and accountability.

As part of that commitment it encourages employees and others with serious concerns about any aspects of the Council's work to come forward and make those concerns known. Full details of how concerns are dealt with can be found on the Council's web pages.

Contact by telephone:

Staff can report concerns to management or to a more senior manager or to the Council's Corporate Anti-Fraud Service on 020 8753 2551. However, if staff feel unable to do that, they can also phone the whistleblowing independent helpline, Public Concern at Work, on 020 7404 6609 or by completing an e-form.

All information received is treated in confidence.

In 2013/14, there were 12 housing benefit prosecutions, four benefits administration penalties, two housing benefits cautions issued and 26 housing properties were recovered.

Bribery

Gifts and hospitality need to be dealt with in the appropriate way so that the Council and its staff are and are seen to be honest, fair and open at all times. All members of staff have a responsibility to declare any offer of a gift, hospitality, benefit or service, even if the offer is not accepted. Each Council department has a Nominated Representative who is responsible for recording all of the department's offers, both accepted and rejected. This process must take no longer than 28 days from the date the offer was received. When an offer is received, employees need to record this on a Declaration of Gifts and Hospitality form and submit this to their Line Manager. The manager and Department Executive Director need to authorise the declaration before you can accept it. It will then go to a Nominated representative for recording.

For more information about these revised procedures, please see the **Anti-Bribery Policy** and the **Codes of Conduct.**

Chief Financial Officer

The Council has appointed a Chief Financial Officer. This is a statutory post, responsible for delivering and overseeing the financial management arrangements of the Council. The Executive Director of Finance and Corporate Governance is the Chief Financial Officer and is a member of the Chief Officers' Management Team.

The Executive Director has line management responsibility for the Accountancy team. The role conforms with the good practice requirements within the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Chief Financial Officer has been involved in reviewing our Corporate Governance arrangements and preparation of this Statement from its early stages. The Executive Director is satisfied with the arrangements that are in place for managing finances.

Internal and External Audit assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service (Tri-borough Internal Audit working in partnership with Mazars and Baker Tilley) and External Auditors – **KPMG.**

Internal Audit

The Audit Pensions and Standards Committee oversaw the introduction of the Public Sector Internal Audit Standards (PSIAS) in April 2013. These have been developed specifically for public sector organisations and should be followed.

The Committee also approved an Internal Audit Charter – this sets out the internal audit role and its responsibilities and clarifies its independence. Internal audit are required by regulation to review how they work each year. The Committee considered that review in June 2013 and decided that there were no issues of 'non-conformance' with the PSIAS that needed to be included in this statement.

Good practice suggests that internal audit should also be reviewed against the governance arrangements set out in the CIPFA Statement on the Role of the Head of Internal Audit. This has not been done. The PSIAS are considered sufficiently challenging. An independent review of the internal service is to be undertaken during 2014/15. This will identify any opportunities for further improving the service.

One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit Manager.

From the Internal Audit work undertaken in 2013-14, it is the opinion of Internal Audit that reasonable assurance can be provided 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. The assurance can be further broken down between financial and non-financial systems.

A limited assurance conclusion was provided for:

- Non-compliance of controls on the selection and Use of Consultants and Interim staff. This followed a nil assurance in 2010/2011. Procedures were improved and implemented however following a follow up audit there remain low levels of compliance;
- Weaknesses identified in the Council's supply chain resilience arrangements. These were identified following the liquidation of a major software supplier. Improvements were made to the credit monitoring arrangements of the Council and its Information Technology contractor. A Tri-borough programme is underway to categorise contracts by criticality using the new CapitaleSourcing procurement software;
- Two schools, St. Pauls CE Primary School and St. Thomas of Canterbury Catholic Primary School where recommendations have been made to improve the governance their of procurement and purchasing processes;
- Weaknesses were identified in the Commissioning and Procurement arrangements within Adult Social Care who have adopted a framework for purchasing including development of Tri-borough guidance and use of the Tri-borough eprocurement system ; and
- Maintenance of the contracts register which was found to be incomplete. A new system, CapitaleSourcing has been implemented and is envisaged that this will provide improvement to the process.

External Audit

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

They issued an unqualified value for money (VFM) conclusion for 2012-13 on 30 September 2013. This means the External Auditor was satisfied that the Council has proper arrangements for securing financial resilience. To arrive at their conclusion KPMG looked at financial governance, financial planning and financial control processes, as well as how the Council are prioritising resources and improving efficiency and productivity.

Audit opinion

An unqualified opinion was issued on the Council's financial statements on 30 September 2013. The Auditor therefore believes the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.

Financial statements audit

KPMG's audit of the financial statements did not identify any material adjustments. The Authority made three non-trivial adjustments in addition to the removal of the prior year adjustment originally shown in the draft accounts. KPMG raised two recommendations their ISA 260 report. These relate to the management of non-current assets and the arrangements for accounting for these and an opportunity to generate efficiencies in the investment approval process.

Annual Governance Statement

KPMG reviewed the 2012-2013 Annual Governance Statement and concluded that it was consistent with their understanding.

Significant Governance Issues

The progress made on dealing with governance issues previously identified is shown below;

2012-13

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.

2013-14

While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the following issues, as highlighted in the statement, have been identified for improvement.

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.

Signed:

Joint Chief Executive ………...................…………………

Leader of the Council …..…………………………………………

On behalf of the London Borough of Hammersmith and Fulham.

"Good corporate governance is about 'intellectual honesty' and not just sticking to rules and regulations."

GLOSSARY OF TERMS

ACCOUNTING PERIOD
The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1st April to 31st March.

ACCOUNTING POLICIES
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting polices define the process whereby transactions and other events are reflected in financial statements.

ACCOUNTING STANDARDS
A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Act of Parliament and in professional codes and statements of recommended practice.

ACCRUALS
An accounting principle where income and expenditure are taken into account in the year in which they are earned or incurred, rather than when monies are received and/or invoices are actually paid.

ACQUISITIONS
The Council spends funds from the capital programme to buy assets such as land and buildings.

ACTUARIAL VALUATION
The Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates every three years.

AGENCY SERVICES
Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

AMORTISATION
The equivalent of depreciation for intangible assets.

APPROPRIATION
The transfer of ownership of an asset, from one Service Area to another at an agreed (usually market or outstanding debt) value.

ASSET REGISTER
A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

AUDIT COMMISSION
The body responsible for the appointment of external auditors to local authorities, coordinating audits throughout the country, setting standards and monitoring performance.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE
The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

BALANCES
The amount of money left over at the end of the financial year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. They comprise of the General Fund balance, the Collection Fund balance, the Housing Revenue Account balance and the Education Establishment Account balance.

BUDGET
A forecast of the Council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT
An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CAPITAL EXPENDITURE
Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

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

CAPITAL FINANCING REQUIREMENT (CFR)
The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION
Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CAPITAL RECEIPTS
Monies received from the sale of the Council's assets such as land and buildings. These receipts are used to pay for additional capital expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

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

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

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

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

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

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

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

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

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

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

EARMARKED RESERVES
These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

FAIR VALUE
The fair value of a fixed asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE & OPERATING LEASES
A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

FINANCIAL INSTRUMENT
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FIXED ASSETS
These are tangible and intangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

GENERAL FUND

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

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

HISTORIC COST

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

HOUSING REVENUE ACCOUNT

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

IAS19 (FORMERLY FRS17)
This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

IMPAIRMENT
A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS
Fixed assets that are inalienable, expenditure on which is recoverable only by a continued use of the asset created. Examples of infrastructure assets include highways and footpaths.

INTANGIBLE ASSET
Fixed assets that do not have physical substance but are identified and controlled by the Council, for example, purchased software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS from 2010/11.

INVESTMENT PROPERTIES
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES
Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

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

NON-DOMESTIC RATES (NDR)
The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and shared between central and local government. The rates collected within Hammersmith and Fulham are shared as follows: Department for Communities and Local Government (50%), The London Borough of Hammersmith and Fulham (30%) and the Greater London Authority (20%).

NET BOOK VALUE
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET REALISABLE VALUE
The open market value of the asset less the expenses to be incurred in realising the asset.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility of for the service or strategic objectives of the authority.

OUTTURN
Actual income and expenditure in a financial year.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

PRIVATE FINANCE INITIATIVE (PFI)

A contract between a public body, in our case the Council, and a private company. The private sector makes a capital investment in the assets required to deliver improved services.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 1st April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects. Changes introduced in 2013 mean an authority can retain an RTB receipt in its entirety when it can be demonstrated that it will be reinvested in a replacement home (known as the 1-4-1 scheme)

POST BALANCE SHEET EVENTS

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

PROVISIONS

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified. IAS37 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC WORKS LOAN BOARD (PWLB)

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

RELATED PARTIES

Related Parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.

RESERVES

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

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

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

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, Revenue Support Grant, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Expenditure that is treated by the regulations as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice.

REVENUE SUPPORT GRANT (RSG)
The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from retained Business Rates and Council Tax. Revenue Support Grant is distributed as part of Formula Grant.

RIGHT TO BUY
The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

SERVICE REPORTING CODE OF PRACTICE (SERCOP)
SERCOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the Statement of Recommended Practice (SORP)), by establishing practice for consistent reporting. It provides guidance in three key areas:
• The definition of total cost
• Good Practice Guidance
• Service expenditure analysis

STOCKS
The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE
This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS
A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE
The period over which the Council will derive benefits from the use of a fixed asset.

WRITE-OFFS
Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

Summary of Reserves

Usable Reserves

The Council's usable reserves are explained below:

1. **General Fund Balances** - The General Fund includes any surplus after meeting net expenditure on Council Services.

2. **School Balances** - This balance is comprised of unspent balances of schools and other educational establishments at the year end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.

3. **Earmarked Reserves** - Note 8 describes each Earmarked Reserve in detail.

4. **Capital Grants Unapplied** - These are capital grants with no payback conditions and have had no associated expenditure in 2012/13.

5. **Housing Revenue Account** - This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.

6. **Major Repairs Reserve** - The Major Repairs Reserve is available for financing major repairs to the Council's housing stock.

7. **Capital Receipts Reserve** - This reserve relates to the capital receipts from the sale of assets, such as Right-To-Buy properties and other general receipts.

8. **Capital Reserves** - This is to hold retained capital receipts from the sale of assets.

Unusable Reserves

The Council's unusable reserves are explained below:

1. **Revaluation Reserve** - The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:
• revalued downwards or impaired and the gains are lost
• used in the provision of services and the gains are consumed through depreciation, or
• disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2. **Capital Adjustment Account** - The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

3. **Deferred Capital Receipts Reserve** - The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

4. **Pensions Reserve** - The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

5. **Financial Instruments Adjustment Account** - The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

6. **Available for Sale Financial Instruments Reserves** - The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

7. **Collection Fund Adjustment Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

8. **Accumulated Absences Account** - The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

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London Borough of Hammersmith and Fulham

16 September 2014

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Authority and its pension fund; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at London Borough of Hammersmith and Fulham ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme ('the Fund'); and
- our work to support our 2013/14 value for money (VFM) conclusion.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

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

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2014.
Audit adjustments	Our audit has identified a total of two audit adjustments with a total value of £137.9m. The impact of these adjustments is to: ■ Increase the net worth of the Authority as at 31 March 2014 by £137.9 million, there is no impact on the general fund. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have raised one recommendation in relation to the matters highlighted above in the relation to the valuation methodology and approach to PPE. This is set out in Appendix 1.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed all issues appropriately.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and high quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund. We will also need to complete our post balance sheet review procedures, covering the period up until the financial statements are signed. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

Our audit of the Authority's financial statements has identified a total of two audit adjustments.

The impact of these adjustments is to:

- **Increase the net worth of the Authority as at 31 March 2014 by £137.9 million.**

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Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit, Pensions and Standards CommitteeCommittee on 16 September 2014.

Audit differences

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

The final materiality level for this year's audit of the Authority's financial statements was set at £14 million. Audit differences below £550k are not considered significant. In our *External Audit Plan 2013/14*, presented to you in February 2014 we reported our materiality for planning purposes as £22 million equating to approximately 3 percent of gross revenue. In the period leading up to the final accounts audit we reassessed our approach to materiality nationally due to higher risk in the sector as a whole and a number of accounting changes related to pensions and NDR. As a result we reduced materiality for the Authority to £14 million. This equates to around 2 percent of gross revenue.

Our audit identified a total of two significant audit differences, which we set out in Appendix 3. We have reviewed the final version of the financial statements and confirmed that the adjustments identified have been put through appropriately.

The table below illustrate the total impact of audit differences on the Authority's movements on the balance sheet as at 31 March 2014. Due to the revaluation adjustments and transfers to the capital adjustment account, there is no net impact on the general fund balance or usable reserves

Balance Sheet as at 31 March 2014

£m	Pre-audit (£000)	Post-audit (£000)	*Ref (App.3)*
Property, plant and equipment			
-Council Dwellings	980,065	1,095,964	*1 a*
-Other Land and Buildings	293,083	315,079	*2 a*
Net worth	**1,273,148**	**1,411,043**	
Unusable reserves	784,529	922,423	*1b, 2b*

Proposed opinion and audit differences (continued)

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

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We have reviewed the final version of the financial statements and confirmed that these presentational adjustments have been put through appropriately.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £11.4 million. Audit differences below £570k are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit, Pensions and Standards Committee on 16 September 2014.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Pension Fund Annual Report

We have reviewed the "London Borough of Hammersmith and Fulham Pension Fund Annual Report 2013/14" and confirmed that:

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

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Key financial statements areas of audit focus and audit risks

We have worked with officers throughout the year to discuss specific risks and areas of audit focus.

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In our External Audit Plan 2013/14, presented to you in February, we identified the key risks affecting the Authority's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

Since our External Audit Plan we have identified, and added, National Non-Domestic Rates (NNDR) as a significant risk to the Authority as a result of the implementation of the Business Rates Retention Scheme in 2013/14.

The table below sets out our detailed findings for each of the areas of focus and risks that are relevant to the Authority and Pension Fund.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Area of Focus	Issue	Findings
Cash	Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements. This area of focus affects the Authority.	We have sought external bank confirmations and reviewed the controls over bank reconciliations. We are satisfied that these controls have operated throughout the year and that the cash figure in the financial statements is materially accurate.
Pension Costs and Liabilities	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement. This area of focus affects the Authority.	We have confirmed that the pensions costs and liabilities recognised in the accounts were accurately drawn from the report from the actuary. We have reviewed the accounting treatment for associated balances and transactions in order to confirm that it was in line with the requirements of the CIPFA code. We have not identified any issues to report.

Key financial statements areas of audit focus and audit risks (continued)

We have worked with officers throughout the year to discuss specific risks and areas of audit focus.

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Area of focus	Issue	Findings
Property, Plant and Equipment	The Authority has a significant asset base primarily relating to Council dwellings and Investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. This area of focus affects only the Authority.	To seek assurance that property, plant and equipment is reasonably stated we have performed the following audit procedures: • Reviewed management's assessment of property valuations and impairment calculations to gain assurance they are reasonably stated; • Considered the valuer's report and tested to confirm the valuation and accounting entries of the assets valued are correctly stated; • Compared the assumptions made by the valuer to benchmarks for consistency; and • Substantively tested capital additions and disposals for accuracy and completeness. Our work has highlighted three areas to bring to your attention: 1) *Not valuing all assets in the same class on the same basis:* We noted that following a change in valuer the valuation methodology was amended compared to the prior year. The nine schools revalued as part of the Authority revaluation programme incurred significant revaluation losses. The potential impact of revaluing the remaining schools on the amended basis had not been considered. The Authority has since revalued the whole schools portfolio using the new methodology resulting in a revaluation gain of £2.7m. 2) *Valuing PPE at the beginning not the end of the accounting period:* We noted that external valuation reports for dwellings were effective as at 1 April 2013 therefore, given the valuation movements over the year might not reflecting the true market value of dwellings at 31 March 2014. In order to reflect year end property market conditions the Authority has since applied an indexation factor of 12% to dwellings stock. 3) *Excluding capital additions within the revaluation programme:* As per the Authority's policies over revaluations, capital additions are not incorporated within formal revaluations in order to ensure that formal valuations can be completed in time for the production of the financial statements. This presents an inherent assumption that all additions enhance the capital value of the asset whereas this may not be the case. Additions should be incorporated within formal revaluations, however the total level of additions for schools and council dwellings accounts for less than 2% of its year end value which is deemed to be not material. We have raised a recommendation that the revaluation methodology be revisited.

Key financial statements areas of audit focus and audit risks (continued)

We have worked with officers throughout the year to discuss specific risks and areas of audit focus.

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Area of focus	Issue	Findings
LGPS Triennial Valuation	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 has been based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. This area of focus also impacts the Pension Fund.	We reviewed the data provided to the actuary and confirmed that it was consistent with underlying records. We did not identify any issues to report.

Key financial statements areas of audit focus and audit risks (continued)

Since the audit plan we have identified one specific audit risk for the Authority.

Key audit risk	Issue	Findings
NNDR	Due to the introduction of Business Rate Localisation, with effect from 1st April 2013, there were significant changes in the requirements for the disclosure of NDR balances and transactions, as per the CIPFA Code. Furthermore, there were significant variances in the balance sheet and the CIES as a result of the change of accounting treatment. These factors meant that non-domestic rates were reassessed as a significant risk area for the audit and therefore have been included as a key financial statement audit risk.	No issues were identified from testing performed

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Accounts production and audit process

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

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

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The Authority has implemented all but one of the recommendations in our *2012/13 ISA 260 Report*.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements in place. In particular it is noted officers have identified technical or subjective areas throughout the year and liaised with us to consider the implications for financial reporting. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 3 March 2014 and discussed with Chris Harris (Head of Corporate Accountancy) and Maria Campagna (Finance Manager – Closing & Accountancy) set out our working paper requirements for the audit. The quality of working papers provided was high and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a reasonable time

Element	Commentary
Pension fund audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all but one of the recommendations in our *ISA 260 Report 2012/13*. As a result of the postponement of implementing Tri-Borough managed services to April 2015, the Authority has not yet included a fixed asset register module within their finance system.

Appendix 2 provides further details.

Control environment

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

During February 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we outline our key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

We consider that your organisational controls are effective overall.

Controls over key financial systems

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

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

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

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

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

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Executive Director of Finance and Corporate Governance for presentation to the Audit, Pensions and Standards Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other Matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

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

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

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Background

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

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

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion, but we considered the delivery of savings plans as an area of audit focus.

Key findings

Overleaf we set out the findings in respect of those areas where we have identified as an area of audit focus for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, other inspectorates and review agencies in relation to these risk areas.

Significant Matters

We did not identify any specific VfM risks but we considered the delivery of savings plans as an area of audit focus.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

VfM Audit focus	Risk description and link to VFM conclusion	Assessment
Savings plans	Based on the current plan, which covers the period 2013/14 to 2015/16, there is a significant savings requirement over the three year period in the region of £65m. The savings required for 2013/14 of £21.4m have been identified and early indications – including the 2012/13 achievements and under-spends are positive. The pressure mounts considerably in 2014/15 when there is a further £18m saving requirement and 2015/16 when an additional £24.5m needs to be found. Many of these savings requirements are due to be delivered via the Tri borough working arrangements. However, finding additional savings year after year will be a challenge. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2013/14 financial statements as appropriate.	Our main accounts work has confirmed that the Authority has met its £21.4m savings targets for 2013/14. As part of our Value for Money work we have reviewed the Authority's processes for delivery of its savings plans and consider that robust, achievable plans are in place. The Authority has a current medium term financial plan in place which gives due consideration to potential funding reductions. Based on its assumptions there will be further funding reductions of £18m in 2014/15, £25m in 2015/16 and £10m in 2016/17. Service level savings plans have been identified and are being monitored for 2014/15. The Authority is refreshing its medium term financial plan. Detailed proposals are to be presented to Cabinet in the autumn with the objective of agreeing a three year budget – for 2015/16 to 2017/18 .

Conclusion

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

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

Appendix 1: Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Valuation Methodology** As noted on page 7 three issues were identified in relation to the Authority's approach to the year end valuation of PPE. There is a risk that the Council's current revaluation methodology does not comply with *the Code*. There are three points of improvement to be considered: 1. The date at which the valuation is performed and need to ensure any subsequent movements are considered. 2. The consistency of the valuation of a class of asset where the valuation methodology is updated. 3. The inclusion of current year capital additions as part of the valuation programme. **Recommendation** We recommend that the methodology in the above areas is revisited and changes adopted ahead of the next reporting period.	The recommendation is agreed. The methodology for valuing PPE will be reviewed and changes adopted, as appropriate, ahead of the next reporting period. Any change to the methodology will be developed in concert with the Council's internal and external valuers. The Council will also consult with External Audit concerning any change. Bi-Borough Director of Finance, December 2014

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all but one of the recommendations in our *ISA 260 Report 2012/13.*

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This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	1
Remain outstanding	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2014
1	2	**Non-Current Asset Management** The Authority has over 14,000 assets with a value of approx £1.35bn which are controlled and utilised by departments and divisions across the Council. An asset base of this scale and diversity poses a number of challenges, both from a technical perspective with differences in valuation treatments and in terms of maintaining up to date records. The Authority currently uses a number of spreadsheets as its asset database and to perform the required accounting calculations. This relies on a number of manual calculations and is both time consuming throughout the year and places significant time pressures of the Capital team during the year end closedown process. The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.	Bi-Borough Director of Finance, April 2014	**Not Implemented** An asset management system is due to be implemented as part of the transition towards Tri-Borough managed services, which was originally planned for September 2014 but is now scheduled for April 2015.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all but one of the recommendations in our *ISA 260 Report 2012/13.*

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No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2014
2	3	**Investments** The Authority has an active treasury management function placing a number of investments throughout the year for significant sums. Our review of the control environment found it to be operating effectively and as designed with segregation of duties and a defined authorisation process for each investment placed. For individual investments over £10m the Council has an additional layer of approval, which requires review/authorisation by a third officer. Of the 12 investments greater than £10m tested within our sample we identified two that did not have the additional level of authorisation. Although the control had not been performed, we noted no issues indicating the investments were otherwise outside the Authority's policy. Whilst this represents a strong control environment, there is an opportunity to remove this additional layer of approval, to make the process more efficient and reducing the time officers spend processing each investment. A preparer and reviewer is sufficient to segregate duties and mitigate the risk of error and fraud.	Director of Corporate Finance & Investment, September 2013	**Implemented** Investments over £10m now requires review/authorisation by only two finance officers. We observed this segregation of duties through conducting walkthroughs of the investment approval process.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

For the Authority audit we are reporting all significant audit differences over £550k.

We have confirmed that the final revised set of accounts includes these adjustments.

There are no unadjusted audit differences.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit, Pensions and Standards Committee). There are no uncorrected audit differences to report. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences – Authority

The following table sets out the significant audit differences identified by our audit of London Borough of Hammersmith and Fulham financial statements for the year ended 31 March 2014.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1a	Cr HRA expenditure £99,668k		Dr Council Dwellings £115,899k		Cr Surplus on revaluation of Property Plant and Equipment Assets £16,231k	In the first draft of the financial statements, revaluation gains for HRA dwellings were effective as at 1 April 2013 as per valuation reports. In order to bring valuations in line with the balance sheet date an indexation factor of 12% has been applied on the net book value to reflect movements in the property market during 13/14. We benchmarked this indexation factor against third party research and consider this factor to be reasonable. This has resulted in a revaluation gain of £116m. The movement between the revaluation reserve and the CIES is in order to reverse previous years impairments within HRA dwellings assets.
1b		Dr HRA £99,668k			Cr Capital Adjustment Account £99,668k	The transfer is required to move HRA gains into the capital adjustment account in order to neutralise the effects on the CIES.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

For the Authority audit we are reporting all significant audit differences over £550k.

We have confirmed that the final revised set of accounts includes these adjustments.

There are no unadjusted audit differences.

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	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
2a	Cr Childrens Services Expenditure £20,418k		Dr Other Land and Buildings £21,996k		Cr Surplus on revaluation of Property Plant and Equipment Assets £1,578k	In the first draft of the financial statements the revalued schools had been valued on a different basis to the prior year. The adjustments reflects the revaluation of the remaining schools on the same basis following formal revaluation of all schools. We have confirmed the revised revaluations and gain back to valuers reports.
2b		Dr General Fund £20,418k			Cr Capital Adjustment Account £20,418k	This is the transfer from the general fund to the capital adjustment account in order to neutralise the effect of revised schools revaluations on the CIES.
	Cr £120,086	**Dr £120,086**	**Dr £137,894k**	**-**	**Cr 137,894k**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

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

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Requirements

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

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

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

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

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

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

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

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund or the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

cutting through complexity™

Town Hall
King Street
London W6 9JU

KPMG LLP
15 Canada Square
London E14 5GL

16 September 2014

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Hammersmith and Fulham ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements of the give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority's Movement in Reserves Statement, the Authority's Comprehensive Income and Expenditure Statement, the Authority's Balance Sheet, the Authority's Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;

   ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year;

   iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

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

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

   - additional information that you have requested from the Authority for the purpose of the audit; and

   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

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

6. The Authority confirms the following:

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

   ii) The Authority has disclosed to you all information in relation to:

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

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

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

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

8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

10. The Authority confirms that:

    The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,
        - have been identified and properly accounted for; and

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

    This letter was tabled and agreed at the meeting of the Audit, Pensions and Standards Committee on 16 September 2014.

    Yours faithfully

    Jane West
    Executive Director of Finance and Corporate Governance

    Councillor Ian Cassidy
    Chair of the Audit, Pensions and Standards Committee

Appendix to the Representation Letter of the London Borough of Hammersmith and Fulham: Definitions

Financial Statements

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> “Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Agenda Item 10

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 16 September 2014
OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN
Open Report
For Information **Key Decision: No**
Wards Affected: All
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 with 1 recommendation 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. As this issue will be reviewed again as part of the external audit of the year end accounts, this entry will now be closed. 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 recommendation.

5.2.2. One recommendation remains extant as it 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:

Appendix A External Audit Recommendations
Appendix B Fraud Response Plan Recommendations

Appendix A

External Audit Recommendations Update

Report	Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
Report to those charged with governance (ISA 260) 2012/13				
	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.	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.	Bi-Borough Deputy Director of Finance	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. As this will be reviewed again as part of the year end external audit of the annual accounts, this entry will now be closed.

Appendix B

Fraud Response Plan Recommendation

No.	Recommendation	Responsible Officer	Proposed action	target date	Progress to September 2013	Progress to November 2013
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.

hammersmith & fulham	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **16 September 2014**
INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2014	
Open Report	
For Information **Key Decision: No**	
Wards Affected: All	
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 April to 30 June 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 April to 30 June 2014 as well as reporting on the performance of the Internal Audit service for the 2014/15 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 19 audit reports were finalised in the first quarter of 2014/2015 from 1 April to 30 June. In addition 6 management letters were issued.

5.1.3. Three audit reports issued in this period received limited assurance: Adult Social Care Risk Management, North End Road Market and St Thomas of Canterbury School.

5.1.3.1. Adult Social Care Risk Management made 7 recommendations of which 6 have been reported as implemented and 1 is not yet due.

5.1.3.2. North End Road Market made 8 recommendations, all of which have been reported as implemented.

5.1.3.3. St Thomas of Canterbury School made 19 recommendations of which 12 have been reported as implemented and 7 are not yet due at the time of writing.

5.1.4. In addition to the above, for our audit of Use of Consultants and Interims we 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. 8 recommendations have been reported as implemented and 2 are not yet due.

5.1.5. A high level review of the Managed Services Programme was undertaken in the period with the final report being issued in July 2014. In order to provide timely information to Committee members we have included information in this report.

5.1.6. A Limited assurance opinion report was issued with three high priority and four low priority recommendations being raised. While a total of seven recommendations for potential improvement were identified and agreed with management in the course of this audit, the Limited Assurance status of the control environment reflects the normal condition of a complex business transformation change programme and system implementation at this stage of its development and delivery cycle. Four of the recommendations raised have been reported as implemented and one is not yet due.

5.1.7. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.

5.1.8. 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 is currently one report outstanding that was due to be signed off on or before 30 June 2014. This is detailed in Appendix B.

5.1.9. There are now 5 audit recommendations made since 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 4 outstanding as reported at the end of the previous quarter and represents no significant change in position. We continue to work with departments and HFBP to reduce the number of outstanding issues.

5.1.10. The breakdown of the 5 outstanding recommendations between departments are as follows:

- Adult Social Care - 1
- Children's Services (Non Schools) - 3
- Housing and Regeneration - 1

5.1.11. 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.

5.1.12. Management have confirmed that one of the recommendations raised in the Parking Pay and Display Follow up will not be fully implemented. The risk of not implementing this recommendation is accepted by management. The recommendation can be found in appendix D.

5.1.13. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below. For all years prior to 2011/12 100% of all the audit recommendations made have been implemented.

Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.	98.4%	247 recommendations implemented out of a total of 251 **4 recommendations outstanding**

Percentage of 2013/14 year audit recommendations past their implementation date that have been implemented.	99.5%	186 recommendations implemented out of a total of 187 **1 recommendation outstanding**

5.2. Internal Audit Service

5.2.1. Part of the CIA's function is to monitor the quality of Mazars' work. Formal monthly meetings are held with the Mazars 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 2014/15 financial year.

Performance Indicators 2014/15

Ref	Performance Indicator	Target	Pro rata target	At 30 June 2014	Variance	Comments
1	% of deliverables completed	95%	24%	19%	-5%	15 deliverables issued out of a total plan of 79
2	% of planned audit days delivered	95%	24%	23%	-1%	223 days delivered out of a total plan of 957 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	+5%	4 out of 4 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%	100%	+5%	8 out of 8 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%	100%	+5%	1 out of 1 final reports issued within 5 working days.

5.3. Audit Planning

5.3.1. Amendments to the 2014/15 year Internal Audit plan agreed by the Committee are shown at Appendix C.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A Audit reports issued 1 April to 30 June 2014
Appendix B Internal Audit reports in issue more than two weeks
Appendix C Amendments to 2014/15 Internal Audit Plan
Appendix D Recommendations Not Implemented By Management

APPENDIX A

Audit reports Issued 1 April to 30 June 2014

We have finalised a total of 19 audit reports for the period to 1 April to 31 June 2014. In addition, we have issued a further 6 management letters. No follow ups were completed in the period.

In order to provide timely information for the Committee our high level review of the Managed Services programme issued in July 2014 has also been included in this quarterly report (No. 20).

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	iWorld Application	Mel Barrett	Satisfactory
2	2013/14	M.A.S.H. Project Management	Liz Bruce	Satisfactory
3	2013/14	Adult Social Care Departmental Risk Management	Liz Bruce	Limited
4	2013/14	Home Care	Liz Bruce	Satisfactory
5	2013/14	ASC Programme Management	Liz Bruce	Satisfactory
6	2013/14	North End Road Market	Lyn Carpenter	Limited
7	2013/14	William Morris Sixth Form	Andrew Christie	Satisfactory
8	2013/14	St Thomas of Canterbury School	Andrew Christie	Limited
9	2013/14	Frameworki Application	Andrew Christie	Substantial
10	2013/14	Early Help Project Management	Andrew Christie	Substantial
11	2013/14	TTS Programme Management	Nigel Pallace	Satisfactory
12	2013/14	Pensions Administration	Jane West	Substantial
13	2013/14	Financial Risk Management	Jane West	Substantial
14	2013/14	NNDR	Jane West	Satisfactory
15	2013/14	Debtors	Jane West	Satisfactory
16	2013/14	IT Project Management Standards	Jane West	Satisfactory
17	2013/14	Use of Consultants	Jane West	Limited / Satisfactory
18	2013/14	Timebase Project Management	Jane West	Satisfactory
19	2014/15	Capitalesourcing Application	Jane West	Satisfactory
20	2014/15	Managed Services High Level Review	Jane West	Limited

Substantial Assurance There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

Satisfactory Assurance While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No 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
20	2014/15	2013/14 Year End Report - Schools	Andrew Christie
21	2014/15	Head of Internal 2013/14 Audit Year End Assurance Report	Jane West
22	2014/15	2013/14 ICT Year End Report	Jane West
23	2014/15	2013/14 Finance Year End Report	Jane West
24	2014/15	2013/14 Project Management Year End Report	Jane West
25	2014/15	201314 Procurement Year End Report	Jane West

Follow ups

No Follow ups were completed in the period.

APPENDIX B

Internal Audit reports in issue more than two weeks as at 28 August 2014

No.	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2014/15	Children's Services	Andrew Christie	Normand Croft Community School	Satisfactory	04/06/2014	Head Teacher / Governing Body	18/06/2014	Auditee*

*Partial response received before the end of Summer Term

APPENDIX C

Amendments to 2014/15 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Children's Services	Sullivan Primary School	Removed	Removed due to uncertainty over future of school. To monitor and add back into plan if required.
2	Children's Services	Adoption Reform Grant	Added	Added into plan at request of department.

APPENDIX D

Recommendations Not Implemented By Management

Management have advised that they will not be fully implementing the recommendation listed below and that they accept the risk of not doing so.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Responsible Officer	Reason for non-implementation
1	2013/14	Transport & Technical Services	Parking Pay and Display Follow Up	N/A	Parking Services should request updated route information. The foreign coins spread sheet should be amended to automatically calculate the difference between cash amount expected and cash amount received. Consideration should be given to identifying other ways to establish the level of foreign coins, rather than the difference between amount of income expected and the amount collected. Discussions regarding foreign coins and monitoring should be documented in minutes from Metric contract meetings.	2	Bi Borough Head of Parking Services	It is not possible to upgrade the 1100 plus very old P&D machines in the borough so as not to accept foreign coins especially as these are often coins produced by the Royal Mint with similar characteristics to UK coins. Parking Services already receive daily route information from the cash collection which highlights foreign coins There are no resources available to develop the foreign coin monitoring process further.

hammersmith & fulham	**London Borough of Hammersmith & Fulham** **AUDIT PENSIONS AND STANDARDS COMMITTEE** **(September 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 Tri and Bi-borough Departmental Strategic, Change and Operational risks as outlined in the report and note the Councils arrangements to mitigate these.

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. Regulation 4 of the Accounts and Audit Regulations 2011 sets out the Council's responsibility for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

4.3. **Appendix 3** illustrates the key steps to risk management.

4.4. **Risk management challenges.**

4.5. 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.

4.6. 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. The council has a number of significant corporate and strategic risks that it is managing. Should any of these risks materialise there would be an associated financial burden for the council, therefore there is an onus for all council staff and members to ensure that risk management becomes a proactive tool and that mitigating actions are identified, managed, monitored and delivered to ensure that risks do not impact on services.

5.2. Improved management of council risks could result in financial savings across the council by reducing the number of incidents that occur through unmanaged risks and help us to achieve objectives through managed (opportunity) risks.

5.3. **StrategicTri-borough risk register**

5.4. A strategic risk register records risks that are considered significant for the council and includes risks that are likely to affect more than one department. It is a key part of the business and financial planning process and can include, for example:

• Major safety risks that could result in fatalities to customers or staff
• Major financial risks for the council
• Risks that could prevent the council from meeting its strategic objectives
• Major risks to the council's reputation e.g. adverse media coverage
• Risks relating to overriding issues of corporate concern.

5.5. The councils highest level risk register, the Strategic Tri-borough risk register holds a variety of business risks focussing on the strategic objectives set for the organisation. The risk register also includes significant operational risks affecting teams but excludes low level operational activities.

5.6. The Strategic Tri-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.

5.7. Risk management is not just about anticipating problems. The risks need to be recorded, evaluated, managed and monitored. 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.**

5.8. **Managing risks at a team or project level**

5.9. The framework for managing risk is dependent on individual teams identifying the risks being faced in delivering services and implementing projects. These risks should be identified as part of the team and project planning process and are not covered in detail in the report. It remains important that risks are systematically identified and that the assessment covers all of the team's principal activities and projects it is responsible for.

5.10. **Department specific risk register**

5.11. 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. Additionally the latest iteration of the h&f Housing and Regeneration Department risk registers were made available and those significant risks present in the registers have been replicated here for Members information**, Appendix 2**. There were a number of high risks relating to Information Technology (IT) and progress has been made to manage and mitigate these risks.

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	Tri-borough Internal Audit, Town Hall, Kensington
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall, Kensington
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall, Kensington
4.	Tri-borough Programme report updates	Michael Sloniowski 2587	TriBnet
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall, Kensington

LIST OF APPENDICES:

Appendix 1
Strategic Tri-borough risk and assurance register

Appendix 2
Tri-borough departmental specific risk and assurance register

Appendix 3
Key steps to risk management

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
1	**Managing budgets, finance risks.** Managing significant future reductions in local, regional and national (capital and revenue) income streams; in particular to specific grants effecting residents and stakeholders, and loss of capacity as a result of restructures. h&f change of political administration and re-evaluation of priorities including in-flight projects.	• 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. • Move to Managed Services for financial transactional services. • The h&f political administration has commissioned a review of Tri-borough services.	3	4	Medium 12	• Nicholas Holgate, Bi-borough Interim Chief Executive • Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham)	August 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.	• A Tri-borough procurement code has been established. • A Tri-borough contracts approval board has been established. • A Tri-borough forward plan of procurement has been produced. • Tri-borough Adult Social Care and Childrens Services departments have established contract and commissioning boards.	4	3	Medium 12	All Executive Directors Bi-borough Procurement Strategy Board	August 2014

Appendix 1 Strategic, Tri-borough Risk Register							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
	Contracts records management Social value in procurement	• A review of the three boroughs Procurement service provision has been conducted 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. • h&f have established a member led procurement and social value taskforce. The aim is to develop a strategic, "social value" policy for how the Council spends its money to ensure that, while keeping down costs and working within EU rules, greater value is derived for local residents and more of the economic benefits remain within the local economy. • A Tri-borough Procurement Risk Advisory Group, PRAG, has been established to identify and improve risks in the procurement process.					

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
3	**Failure to manage Public Health Service risks and NHS Provision**	• Tri-borough Public Health strategic business plan and associated aims, deliverables and risks. • The Public Health Outcomes framework (The three boroughs will be measured against public health outcomes. • Strategic direction is derived from a number of sources including: • h&f 2012/15 Corporate Plan, Community Strategy, Improving Health and Wellbeing Strategy • RBKC 2014/15 Budget proposals, six ambitions for the Council, Live life Locally. • Tri-borough Joint Strategic Needs Assessments • The Public Health grant is ring-fenced and must be spent in line with clear grant conditions. Grant conditions set out 6 prescribed functions; Sexual Health STI and treatment, contraception, NHS health check programme, health protection, public health advice, national child measurement programme	3	4	Medium 12	Nicholas Holgate, Bi-borough Interim Chief Executive Meradin Peachey, Director of Public Health	August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
4	**Business Resilience** **Sub-risks** Systems that are not joined up and connected in the event of a H&F, Royal Borough or Tri-Bi Borough event. Failure of Information Governance during the development of major programmes. Supply chain resilience	• 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	Medium 12	Lyn Carpenter (Corporate Business Continuity) Bi-borough Director for Environment, Leisure and Resident Services with the Royal Borough of Kensington and Chelsea. Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) for HFBP.	August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
5	**Managing statutory duty** Non-compliance with laws and regulations. Breach of duty of care. Equalities (public sector equality duty or 'PSED') and Human Rights.	• The Royal Borough Stock Conditions Surveys. • Capital Programme. • A Bi-borough Health and Safety Service commenced in January 2014 and Bi-borough Officers appointed to posts commencing September 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	Medium 12	Nicholas Holgate, Bi-borough Interim Chief Executive Nigel Pallace Bi-borough Executive Director, Transport and Technical Services All Executive Directors	August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
6	**Standards and delivery of care** • Breach in standard and delivery of care – caring and care homes. • A breach of information security protocols in relation to an individual. • Corporate Parenting. .	• 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	Medium 12	Liz Bruce Tri-borough Executive Director of Adult Social Care	Review August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
7	**Failure of successful partnerships and Major Contracts**	• 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: •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	August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
8	**Maintaining reputation and service standards** • 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.	• The Annual Residents Survey. • A review of the corporate governance arrangements has been conducted by Internal Audit. • Directors Assurance Statements are completed as part of the Annual Governance Statement process • 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 and Audit Pensions and Standards Committee at h&f. • Information governance forms part of the Tri-borough ICT Programme.	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	August 2014

Appendix 1

Strategic, Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
9	**Failure to identify and address internal and external fraud.** Introduction of a single fraud investigation service (SFIS) by the Department of Work and Pensions	• 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. • A review of the whistleblowing policy is being undertaken. • SFIS will operate to a single set of policies and procedures and will provide a nationally flexible service to tackle all welfare benefit fraud. It brings together welfare benefit fraud investigations currently undertaken by DWP, local authorities and HMRC.	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	August 2014

Appendix 2	DEPARTMENT SPECIFIC Tri-borough Adult Social Care						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
1	Reduction in funding available for Adult Social Care. There may be reduced Government grant or reduced allocation within a borough.	• Careful planning of Better Care Fund and Care Bill grants • Portfolio delivery Board are the review board.	4	4	High 16	Rachel Wigley	August 2014
2	Savings expectations attached to contract efficiencies are very high but the team is currently under-resourced to produce these savings.	• Requests are being made at the Adult Social Care Leadership Team – Tri-borough (ALTT) for more resources • Portfolio delivery Board are the review board.	4	4	High 16	Martin Waddington	August 2014
3	Resource requirements of appropriate capability are not recruited in time to ensure plans are delivered on schedule.	• Resource plan produced and reviewed. • Portfolio delivery Board are the review board.	4	5	High 20	Rachel Wigley	August 2014

DEPARTMENT SPECIFIC							
Appendix 2		**Tri-borough Adult Social Care**					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
4	Decreased income from client contributions when the Care Act comes into effect.	• Care Act Board, charging workstream set up	5	4	High 20	Rachel Wigley	August 2014
5	Ability and capacity to effectively manage the complexity and number of procurements in ASC	• Project to focus resources onto high value , high risk and low performing contracts. • Reducing the overall number of contracts • Commissioning review will better combine contract management with service development and commissioning enabling a more holistic approach.	4	4	High 16	Martin Waddington	August 2014

DEPARTMENT SPECIFIC							
Appendix 2		**Tri-borough Adult Social Care**					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
6	Poor quality case level, strategic and performance information due to dual IT systems, no interoperability, poor IT hardware, access and IT support the specific needs of mental health.	• Work with trust and call the IT helpdesk to understand how services work to ensure issues do not fall into gaps between services. • Develop and drive a forward business case to improve systems, enhance software and improve procedural notes. • Effective IT support services that are cost effective to utilise.	4	4	High 16	Stella Baillie	August 2014
7	Poor IT systems access and IT support. Internet access, limited and challenging IT usage for staffing group. Obtaining key information at appropriate times.	• Effective IT infrastructure from the offset. • Central investment in IT resources. • Effective IT resources that are cost effective to utilise. • Staff are properly trained and supported to utilise the equipment in place. • Provided services Board.	5	3	Medium 15	Stella Baillie	August 2014
8	Poor audit or inspections (Health and Safety, Care Quality Commission, Environmental Health)	• 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	5	Medium 15	Cath Atlee	August 2014

DEPARTMENT SPECIFIC Appendix 2 Tri-borough Adult Social Care							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
9	Failure of West London Mental Health Team Partnership to deliver services effectively.	• Effective monitoring of the partnership agreement through regular meetings. • Effective partners agreement from the outset with partners understanding their requirements, arrangements and responsibilities. • Effective forum for challenges and issues. Ensuring a whole system solution is in place that no fixes are undertaken in one area to detriment of another. • Strong communication and engagement, constant commitment of embedding a partnership ethos in work with mutual respect, problem solving together. • Mental Health management team meeting.	4	4	High 16	Stella Baillie	August 2014
10	Reducing customer satisfaction due to scale of change around frontline and provider services and greater emphasis to time limited interventions and reablement.	• Undertake ASC user and carer surveys regarding quality of life and satisfaction. • Developing user communications strategy to reinforce the role and purpose of ASC and community health services and shift towards independence, self-reliance and reablement.	4	3	Medium 12	Liz Bruce	August 2014

DEPARTMENT SPECIFIC

Appendix 2 **Tri-borough Adult Social Care**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
11	Low staff morale, staff survey shows low morale and concerns in key areas.	• Staff engagement plan in response to Your Voice survey results. • Promote the achievements of Tri-borough ASC. • Adult Social Care Leadership Team – Tri-borough (ALTT).	4	3	Medium 12	Liz Bruce	August 2014
12	Work programmes not properly defined and benefits quantified. This largely affects programmes that involve health partners, the Better Care Fund and Whole System Integrated Care.	• Financial modelling. • Clarification of minimum return on investment the Adult Social Care Leadership Team – Tri-borough (ALTT) would be happy with. • Produce Project Initiation Documents, PIDS for all. • Portfolio delivery Board	4	3	Medium 12	Rachel Wigley	August 2014
13	Savings in the Adult Social Care Portfolio could be double counted in Better Care Fund projects.	• Better Care Fund cost benefit workshops taking place. • Tracking arrangements will be developed. • Portfolio delivery Board	4	3	Medium 12	Cath Atlee	August 2014

DEPARTMENT SPECIFIC

Appendix 2 — Tri-borough Adult Social Care

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
14	Political change of administration (h&f)	• Leadership meeting with new Cabinet members individually. • Presenting cost necessities of continuing as planned. • Clearly defined business case endorsed by Cabinet. • Portfolio delivery Board.	4	3	Medium 12	Rachel Wigley	August 2014
15	Increasing demand for social care services. Out of hospital strategies, Impact of the Care Bill and assessment and review of self-funders, Impact of care costs.	• Modelling of future demand. • Preventative opportunities for Public Health funded schemes. • Alignment of Public Health with ASC health requirements. • Better Care Fund schemes re: enablement (new care at home model) • Care Bill Board.	4	3	Medium 12	Liz Bruce	August 2014
16	Delivery of Medium Term Financial Strategy savings. Scale of savings in particular h&f WCC. Complexity of schemes and projects to deliver these present a risk.	• Detailed business cases prepared for each savings proposal. • Clarity about how each proposal links to change projects and assumptions around each. • Portfolio Delivery Board.	3	4	Medium 12	Rachel Wigley	August 2014

DEPARTMENT SPECIFIC

Appendix 2 — Tri-borough Adult Social Care

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
17	Resources required to fully meet service demand following Care Act implementation. Clarity of available funding from Government to support additional demands for services from self-funders and carers.	• Manage resource planning through the Department of Health and Local Government Association linked to programme delivery. • Care Bill Board.	3	4	Medium 12	Rachel Wigley	August 2014
18	Delivery of an effective ASC service model to meet the requirements of the Care Act.	• Head of Transformation Portfolio Delivery and Programme Managers to map interdependencies between projects and programmes. • Follow national programme office tools and guidance across the Department of Health which supports local authority implementation. • Care Bill Board.	3	4	Medium 12	Liz Bruce	August 2014
19	Timescales too tight to deliver the requirement of the Care Act.	• Compile a detailed project plan and programme brief. • Introduce controls to effectively monitor delivery.	3	4	Medium 12	Liz Bruce	August 2014

DEPARTMENT SPECIFIC							
Appendix 2	**Tri-borough Adult Social Care**						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
20	Reputational damage and potential fine from the Information Commissioners Office as a result of being judged to have inadequate Information Governance arrangements in place following a data breach.	• Information Governance board and workstream established.	3	4	Medium 12	Cath Atlee	August 2014
21	Poor practice in use of IT systems leads to data quality and impaired management of service and planning.	• Data quality action plan in place and under review by the board. • Frameworki team established a change management process. • Frameworki team established self-service operational reports. • Operations Board.	4	3	Medium 12	James Cuthbert	August 2014
22	Inconsistent practices	• Customer Journey project. • CIS project.	4	3	Medium 12	James Cuthbert	August 2014

DEPARTMENT SPECIFIC

Appendix 2 — Tri-borough Adult Social Care

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
23	Not developing effective commissioning with CCGs	• Commissioning review. • Adult Social Care Leadership Team – Tri-borough (ALTT) restructure. • Better Care Fund Integrated commissioning projects. • ASC Commissioning and Contracts Board.	3	4	Medium 12	Martin Waddington	August 2014
24	Risk of limiting the ASC market to medium and large providers. Corporate financial thresholds are challenging for social care providers with the possible impact on the market management strategy.	• Work with colleagues in corporate finance to develop and implement checks and thresholds that are appropriate to the ASC market. • ASC Commissioning and Contracts Board.	4	3	Medium 12	Martin Waddington	August 2014
25	Inability to provide 'whole system' intelligence and analysis across health, public health and social care. Not being able to demonstrate clear shifts in demand or interventions from acute to community care.	• Information Governance and Information System Group established. • Data matching requirements being identified. • Developing a virtual business analysis team across Public Health, Health and ASC. • Information Governance Board	4	3	Medium 12	Martin Waddington	August 2014

DEPARTMENT SPECIFIC

Appendix 2 **Public Health**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
26	MEDIUM TERM PLANNING If the collaborative process to identify 'Investment to Save,' and it's evaluation, takes longer than the timeline to submit the MTP business case, then the accuracy of the MTP savings plan will be compromised and may not deliver the required targets.	• The Director and Senior Project Manager to develop a savings plan that details assumptions and amends with factual information as soon as it becomes available.	3	5	Medium 15 New	Meradin Peachey	August 2014
27	BUSINESS PLANS If there is insufficient consideration of risk in business plans/service delivery plans, then Members may not receive required information on matters that may impact the achievement of agreed objectives.	• Revised strategic business plan for 14/15 to be prepared for July and include full analysis of risk.	3	4	Medium 12 New	Meradin Peachey	August 2014

DEPARTMENT SPECIFIC

Appendix 2 **Public Health**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
28	SYSTEM CHANGES/ FINANCE If the implementation of the new finance system is not planned well within the department and significant delays in processing transactions occur, then funds may not be allocated correctly or in a timely manner to ensure the financial position is correctly stated	• Lead Finance Business Partner to be heavily involved in understanding changes to processes and share information and learning with key staff • Change Champion to work with key staff to ensure good uptake of training • Business Support Manager to be trained as Super User • Business Support Manager to update processes and ensure dissemination of new system instructions.	3	4	Medium 12 New	Anne Foster	August 2014
29	SYSTEM CHANGES/ HR If the implementation of the new HR system is not planned well and delays in processing HR forms occur, then resources may not be recruited in a timely manner and impact on the achievement of objectives.	• Lead HR Business Partner to be heavily involved in understanding changes to processes and share information and learning with key staff • Change Champion to work with key staff to ensure good uptake of training • Business Support Manager to be trained as Super User • Business Support Manager to update processes and ensure dissemination of new system instructions.	3	4	Medium 12 New	Trudy Thom	August 2014

Appendix 2	DEPARTMENT SPECIFIC Public Health						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
30	SYSTEM CHANGES/ WINDOWS 7 If the implementation of the Windows 7 is not planned well and access to applications and systems is affected, then our ability to achieve objectives will be compromised and service delivery impacted.	• Systems Ambassador to ensure all application information and assets are identified to Programme Team • Change Champion to work with key staff to test new systems and applications • Business Support Manager to ensure good uptake of training	3	4	Medium 12 New	Gayner Driscoll	August 2014

Appendix 2 **Tri-borough Children's Services**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
31	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.	• 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)	August 2014
32	Business as usual risk. If the Council is unaware of the full implications of changes within Health, then this may impact on delivering services.	• 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)	August 2014
33	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)	August 2014

Appendix 2 **Tri-borough Children's Services**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
34	Children's Projects list risk. Political drive to Implement the SEN Strategy Phase 2.	• 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)	August 2014
35	~~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.~~	• ~~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~~
36	Capital risk. If Academy conversions processes are not completed on time then timescales will not be met.	• 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)	August 2014
37	Business as usual risk. If staff morale is low then this may impact on service delivery and staff leave.	•	3	4	Medium 12	Tri-borough Childrens Services SLT (Management Team)	August 2014

Appendix 2 **Tri-borough Children's Services**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
					New		
38	Business as usual risk. If looked after children starts to rise there will be an increasing demand for placements, particularly for adolescents resulting in pressure on the placements budget.	• Looked After Children numbers are starting to rise in the rest of the country. Plans need to be put into place to monitor numbers and need.	3	4	Medium 12 New	Tri-borough Childrens Services SLT (Management Team)	August 2014
39	Business as usual risk. If change activities in the department are unsuccessful then this may impact on service delivery. IT systems and access is unresolved. Workforce anxiety about the changes to the way staff work.	• Staff survey to be carried out to measure workforce anxieties. • Devise an action plan following the staff survey to support the workforce through changes in work processes, roles, teams and location of work.	3	4	Medium 12 New	Tri-borough Childrens Services SLT (Management Team)	August 2014
40	Business as usual risk. If changes in operational processes within Early help, Single front door, MASH are not accepted or embraced then this may impact on service delivery.	• Managers to agree on best practice and set out clear systems of work. • On-going staff engagement and consultation should take place. • On-going training and support for staff. • Ensure to evidence reasons for change.	3	4	Medium 12 New	Tri-borough Childrens Services SLT (Management Team)	August 2014

Appendix 2	**Tri-borough Children's Services**						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
41	Schools finance. The changing relationship with schools. We require that effective financial standards and processes are in place in all schools.	• Review and develop the Scheme for Financing Schools across Tri-borough to incorporate the changing funding, procurement and legislative changes. • Review the findings of Audit reports to develop and target training at areas of concern and weaknesses in the operation of financial processes within schools.	3	4	Medium 12 New	Tri-borough Childrens Services SLT (Management Team)	August 2014

Appendix 2	Bi-borough, Environment, Leisure and Resident Services risks						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
42	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.	• 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	August 2014
43	There is a risk that contamination levels to the recycled waste stream continues to increase.	• 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	August 2014

Appendix 2	Bi-borough, Environment, Leisure and Resident Services risks						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
44	There is a risk that carnival operations may be compromised due to a new location base which has not been adequately assessed and not meet all the operational requirements	• An action plan is in place and close and monitoring of contamination levels is undertaken. • The team are liaising with Corporate Services on all possible base locations.	5	4	High 20	Kathy May	August 2014
45	There is a Royal Borough of Kensington and Chelsea medium risk that the Opera Holland Park income for 2014 season is not achieved.	• Regular financial monitoring.	3	4	Medium 12 New	Ian McNicol	August 2014
46	~~There is a Royal Borough of Kensington and Chelsea risk of insufficient resilience and workforce planning in the planning process for Notting Hill Carnival~~	• ~~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~~

Appendix 2 Bi-borough, Environment, Leisure and Resident Services risks

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
47	There is a risk that Hammersmith Sports Facility is not successfully delivered.	• Project Board meets regularly. • Awaiting steer from h&f new administration.	4	4	High 16	Ullash Karia	August 2014
48	There is a risk that the £56k predicted shortfall in cemeteries income targets will not be met.	• Regular contract meetings. • Working with Quadron to mitigate.	4	3	Medium 12	Ullash Karia	August 2014

Appendix 2	**Tri-borough, Libraries risks**						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
49	There is a medium risk of failure to realise Archives savings and inability to re-provide a service as part of Tri-borough.	• Regular meetings. • Monthly meetings with tri-borough and regular meetings with stake holder groups.	3	4	Medium 12	Mike Clarke Donna Pentalow	August 2013

Appendix 2	Bi-borough Transport and Technical Services risks						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
50	Adverse budget variances and key financial risks.	• Regular finance & trading accounts monitoring • Work with Planning to secure Community Infrastructure Levy (CIL) and section 106 funds Medium Term Financial Strategy (MTFS) planning process • Parking Control Board Recruitment approval process • Review adverse variances and report action plan to Departmental Management Team (DMT) • Planning meetings - monthly workload	3	4	Medium 12	Mark Jones	August 2014
51	Health and Safety breaches affecting staff and others	• Safety audit • Contractors managed • Construction, Design and Management (CDM) controls in place • Maintenance and inspection schemes underpin the engineering response to risk • Monthly compliance monitoring reports from The Link • ISO Certified Quality Assurance • Learning and Development Plans • Ongoing training programme • Established Bi-borough H&S Committee • Departmental Policy • Divisional risk assessments • Statutory responsibilities audit	3	4	Medium 12	T&TS DMT (Management Team), All Managers	August 2014

Appendix 2 **Bi-borough Transport and Technical Services risks**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
		• Guidance issued with respect to cross borough working and duty of care for both sets of employers • Corporate Health & Safety arrangements currently under review in the Bi-borough programme and protocol signed					

Appendix 2	RBKC Housing						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
52	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.	• 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

Appendix 2		h&f Housing					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
53	Changes in the welfare benefit system - impact on the HRA.	• Sent out DD forms to every tenant with the rent increase letter, improved direct debit set up on i-world, implementing the ability to set up DD's over the phone, DD campaign, • Housing management under occupation focus with 2 additional posts added to 13/14 budget to specifically address this risk	4	4	High 16 New	Kathleen Corbett	August 2014
54	Changes in the welfare benefit system - impact on Temporary Accommodation Expenditure.	• Adopted freedoms on the Localism Act to discharge the homelessness duty direct to the private sector, Housing Options have strengthened front of house to provide more tailored advice, assistance and homelessness prevention services. • The Council has amended the criteria for admittance to the Housing Register to exclude homeless households in long term settled accommodation. • Full membership of a West London Procurement framework with a panel of third party providers providing accommodation inside and outside London	4	4	High 16 New	Kathleen Corbett	August 2014

Appendix 2	h&f Housing						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
55	Consultation errors limiting income to £100 per leaseholder maximum for the duration of any contracts in excess of 12 months.	• Check lists drafted for clients to complete and final sign off by Head of Service. Review each dispute on its own merit and a decision reached on a case by case basis regarding a response to the challenge. All change of names and addresses to be updated once a week to ensure all leaseholders are consulted at their preferred address.	3	5	Medium 15 New	JdP	August 2014
56	Too many single point failures in the production of Service Charges.	• Instruct h&f Bridge Partnership as and when necessary	3	5	Medium 15 New	JdP	August 2014

Appendix 2		h&f Housing					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
57	Judicial review on cessation of service or regeneration scheme. Costs associated in supporting or defending a review and timescales in deferring a decision on a change to the service. Change to the council budgetary or decision process.	• Briefing session by the AD Legal Services and Opportunities Manager held February 2012. Adequacy of working papers and decision making progress, consultation, equalities assessments, MTFS, Budget Planning, Equalities Impact Assessment and Action Plan.	4	3	Medium 12 New	Kathleen Corbett	August 2014
58	Recruitment and retention problems - Inability to replace staff due to the limited ability to source temps exclusively via Pertemps who does not have the required candidates available.	• The only recruitment route available is via Pertemps and therefore there are no other option. However HR have been meeting with Pertemps Management to discuss lack of performance in this area.	4	3	Medium 12 New	Kathleen Corbett	August 2014

Appendix 2	h&f Housing						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
59	Welfare Reform /Local Housing Allowance Changes - increased demand.	• HB Assist and Rehouse UK linked with new prevention strategy.	4	4	High 16 New	Toby Graves	August 2014
60	Welfare Reform /Local Housing Allowance Changes - decreased supply	• Agreement for cabinet put incentive package of £750K in place.	4	4	High 16 New	Glendine Sheperd	August 2014

Appendix 2		**h&f Housing**					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
61	Risk associated to the departure of experienced regeneration staff as a result of the uncertainty of a number of regeneration projects being paused for review.	• Current controls include ensuring that all key business processes and history are documented. • Multiple relationships are established with key external partners, staff are cross-trained where possible (as per personal development plans and succession planning), the retention of other consultants and staff with significant history of experience in these regeneration projects.	4	3	Medium 12 New	Kathleen Corbett / Stephen Kirrage	August 2014
62	Delivery of specific regeneration at Earls Court. Planning consent.	• Current controls include ensuring that all key business processes and history are documented. • Multiple relationships are established with key external partners, staff are cross-trained where possible (as per personal development plans and succession planning), the retention of other consultants and staff with significant history of experience in these regeneration projects.	3	5	Medium 15 New	Head of Earls Court Regeneration (Subject to planning colleagues managing CAPCO application)	August 2014

Appendix 2		**h&f Housing**					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
63	Strategic - Start on site for Shepherds Bush Market	• Landowners meetings • Project boards. • Feedback from LBHF facilitated workgroups.	4	3	Medium 12 New	Head of Regeneration & Development	August 2014
64	MTFS savings not delivered	• Set up a programme board to plan how to make savings. Carry out fundamental reviews on temporary accommodation on home buy & economic development learning and skills.	4	3	Medium 12 New	Mike England	August 2014
65	WDP Legal Challenge	• Staff fully engaged in legal process. • Ongoing regular update meetings	4	3	Medium 12 New	Stephen Kirrage	August 2014

Tri-borough Information Management and Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
66	Service Continuity and Disaster Recovery (services are not considering IT in their resilience planning assuming that corporate IT is, and provide, the solution).	• 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	Ed Garcez	August 2014
67	Co-ordination and control of IT procurement across the three Councils.	• 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	Ed Garcez	August 2014
68	Information asset co-ordination across three Councils, Lifecycle (retention, management and disposal).	• 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	Ed Garcez	August 2014

Tri-borough Information Management and Technology

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
69	Variable Information asset risk appetite across three Councils.	• 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	Ed Garcez	August 2014
70	Information asset risk of statutory, regulatory or local policy non-compliance.	• Local policies exist for the management and control of information.	4	4	High 16	Ed Garcez	August 2014
71	Roles are not linked through the Human Resources systems to manage Starter, Movers and Leavers. It is devolved.	• A strategy is required to develop role based security for Starters, Movers and Leavers.	5	5	High 25	Ed Garcez	August 2014
72	Use of mobile devices risk appetite and tolerance.	• A strategy is required to develop a harmonised approach to device based security.	5	5	High 25	Ed Garcez	August 2014

Tri-borough Information Management and Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
73	Denial of service vulnerability as networks converge.	• Unmitigated. Risk has been recognised and is under consideration. • A report on Cyber threats is being prepared and taken to h&f Audit, Pensions and Standards Committee for consideration.	4	4	High 16	Ed Garcez	August 2014
74	Failure to manage Information following outsourcing. Assurance from service providers.	• Information sharing agreements are in place however compliance is not effectively undertaken.	4	4	High 16	Ed Garcez	August 2014
75	Tri-borough records management and control.	• Engagement with the Information Commissioners Office and other boroughs. • Tri-borough Information Management Board. • Tri-borough Information Management Strategy drafted and is to be reviewed by the Tri-borough Chief Information Officer prior to review by JMT and SMT	5	4	High 20	Ed Garcez	August 2014

Tri-borough Information Management and Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
76	IT functions across the 3 Councils are not operating as a single entity.	• Appointment made of a Tri-borough Chief Information Officer. • Corporate Services programme proposes to establish a new organisational structure following a target operating model.	5	4	High 20	Ed Garcez	August 2014

Risk movement.

Tri-borough Information Management and Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**

Risk exposure increased since last review.

Risk exposure decreased since last review.

No movement of risk since last review.

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

Appendix 3

The eight key steps to risk management

1. What are the risks?
Identify the factors that could undermine the successful delivery of the service or project. Involve teams in carrying out this exercise.

2. What is the likelihood?
Determine the likelihood of the risk occurring.

3. What would the impact be?
Assess the effect of the risk occurring and how serious would this be including an assessment of the financial implications.

4. What are the existing controls?
Identify what is already being done to control this risk.

5. What action should we take?
Consider what action can be taken to reduce the likelihood of the risk occurring or minimise the impact.

6. Are senior managers aware of the situation?
Ensure that details of risks identified are fed into the Department and Strategic Risk Register and that the Department Management team is kept informed of any significant risks and the action being taken to manage them.

7. What effect has the action had?
Ensure that the actions agreed are followed through.
Monitor whether they have been successful in mitigating the risks and take corrective action as necessary.

8. Have the risks changed?
Keep the position under review. Identify any risks and take appropriate action to deal with them. Keep any risks on the agenda. Inform senior managers of any significant new or emerging risks.

Agenda Item 15

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

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Agenda Item 16

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Agenda Item 18

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Agenda Item 20

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